

NBER WORKING PAPER SERIES

THE EVOLUTION OF EMPLOYMENT RELATIONS  
IN U.S. AND JAPANESE MANUFACTURING FIRMS, 1900-1960:  
A COMPARATIVE HISTORICAL AND INSTITUTIONAL ANALYSIS

Chiaki Moriguchi

Working Paper 7939  
<http://www.nber.org/papers/w7939>

NATIONAL BUREAU OF ECONOMIC RESEARCH  
1050 Massachusetts Avenue  
Cambridge, MA 02138  
October 2000

I am deeply indebted to Avner Greif, Gavin Wright, John Pencavel, and Masahiko Aoki, for their thoughtful guidance and valuable comments. I am also grateful to Samuel Bowles, Tim Bresnahan, Susan Carter, Colin Camerer, Marcel Fafchamps, Takenori Inoki, Tetsuji Okazaki, John Roberts, Richard Sutch, Barry Weingast, and seminar participants at Stanford, UC-Berkeley, UC-Irvine, University of Southern California, Harvard University, Stockholm School of Economics, London Business School, McGill University, and Max Planck Institute for their helpful discussions. All remaining errors are mine. The views expressed are those of the author and not necessarily those of the National Bureau of Economic Research.

© 2000 by Chiaki Moriguchi. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credit, including © notice, is given to the source.

The Evolution of Employment Relations in U.S. and Japanese Manufacturing Firms, 1900-1960: A Comparative Historical and Institutional Analysis

Chiaki Moriguchi

NBER Working Paper No. 7939

October 2000

JEL No. N30, N40, N60

### **ABSTRACT**

This paper offers a comparative study of the evolution of employment systems in the U.S. and Japan, using a game-theoretic framework in which an employment system is viewed as an equilibrium outcome of the strategic interactions among management, labor, and government. The paper identifies parallel institutional developments in large manufacturing firms in the U.S. and Japan during the first three decades of this century. In both countries, employment relations evolved from ones governed by simple, short-term contracts with individual bargaining toward “employer paternalism” characterized by implicit, long-term contracts and company-wide employee representation. The paper then documents the subsequent processes of bifurcation. While Japan continued down the same path during the 1930s, the U.S. witnessed the breakdown of implicit contracts during the Great Depression, which eventually led to an endogenous change in the legal framework. The paper describes how the two institutional paths further diverged during WWII under wartime regulations, and explains why Japan’s trajectory did not converge to the American system despite the legal reforms in Japan under U.S. occupation. By the early 1960s, explicit, elaborate, and legally enforceable employment contracts and industrial unionism had developed in large U.S. manufacturing firms, whereas implicit, ambiguous, and self-enforcing employment contracts and enterprise unionism had emerged in their Japanese counterparts.

Chiaki Moriguchi

Morgan Hall 213

Harvard Business School

Boston, MA 02163

and NBER

cmoriguchi@hbs.edu

# Contents

|          |  |           |
|----------|--|-----------|
| <b>1</b> | <b>Introduction</b>  | <b>1</b>  |
| 1.1      | Motivation . . . . .   | 1         |
| 1.2      | Employment Systems as Multiple Equilibria . . . . .                                | 4         |
| 1.3      | A Dynamic Process of Equilibrium Selection . . . . .                               | 6         |
| <b>2</b> | <b>Employment Systems at the Beginning of the Twentieth Century</b>                | <b>8</b>  |
| 2.1      | Employment Relations in Manufacturing Firms in the U.S. and Japan . . . . .        | 8         |
| 2.2      | Early Labor Movements and Government Policies in the U.S. and Japan . . . . .      | 11        |
| <b>3</b> | <b>The Emergence and Development of Employer Paternalism</b>                       | <b>12</b> |
| 3.1      | Labor Problems and the Welfare Work Movement in the U.S. . . . .                   | 12        |
| 3.2      | Industrial Relations Programs and Works Councils in the U.S. . . . .               | 15        |
| 3.3      | Beliefs and Reputations for Employer Paternalism in the U.S. . . . .               | 18        |
| 3.4      | Corporate Welfare Programs and Factory Committees in Japan . . . . .               | 20        |
| <b>4</b> | <b>The Rise and Fall of Employer Paternalism under the Challenge of Depression</b> | <b>24</b> |
| 4.1      | The Penetration of Employer Paternalism in Japan . . . . .                         | 24        |
| 4.2      | The Impact of Employer Paternalism in Japan . . . . .                              | 27        |
| 4.3      | The Penetration of Employer Paternalism in the U.S. . . . .                        | 29        |
| 4.4      | The Great Depression and Broken Promises in the U.S. . . . .                       | 31        |
| <b>5</b> | <b>The Political Economy of Labor Legislation</b>                                  | <b>34</b> |
| 5.1      | From Hoover to Roosevelt: Early New Deal Labor Policy in the U.S. . . . .          | 34        |
| 5.2      | From Pro-Business to Pro-Union Labor Laws in the U.S. . . . .                      | 36        |
| 5.3      | From Implicit to Explicit Employment Contracts in the U.S. . . . .                 | 39        |
| 5.4      | Labor Legislation under Imperial Democracy in Japan . . . . .                      | 41        |
| 5.5      | The Formation of Pro-Paternalism Policies in Japan . . . . .                       | 44        |
| <b>6</b> | <b>Government Labor Regulations during W.W.II</b>                                  | <b>45</b> |
| 6.1      | Employment Stabilization and Wage Control in the U.S. . . . .                      | 46        |
| 6.2      | Labor-Management Relations during W.W.II in the U.S. . . . .                       | 47        |
| 6.3      | Mobility Control, Training, and Wage Regulations in Japan . . . . .                | 50        |
| 6.4      | Labor-Management Relations during W.W.II in Japan . . . . .                        | 53        |
| <b>7</b> | <b>The Postwar Establishment of Employment Systems</b>                             | <b>55</b> |
| 7.1      | The Establishment of Workplace Contractualism in the U.S. . . . .                  | 56        |
| 7.2      | Postwar Democratization under the U.S. Occupation in Japan . . . . .               | 59        |
| 7.3      | The Establishment of the Postwar Japanese Employment System . . . . .              | 61        |
| <b>8</b> | <b>Conclusion</b>  | <b>65</b> |

# 1 Introduction

## 1.1 Motivation

From a contractual point of view, the employment relations that emerged by the early 1960s in manufacturing firms in the United States and Japan represent two distinct cases.<sup>1</sup> In particular, the employment relations that developed in large, unionized American manufacturing establishments tended to be based on an explicit, elaborate, and legally enforceable collective agreement between an employer and the locals of craft/industrial unions. Employment practices concerning blue-collar workers in these establishments were characterized more in terms of narrow and well-defined job demarcations, finely graded wages linked explicitly to job grades, low investment in firm-specific human capital, promotions based on well-defined seniority rules combined with objective merit ratings, and limited, but contractually established, job security governed by seniority rules. Disputes over implementation and interpretation of a collective agreement were typically brought before a legal third party through a formal grievance mechanism.<sup>2</sup>

By contrast, the employment relations observed in large, unionized Japanese manufacturing firms tended to be based on an implicit (i.e., contingent on unverifiable variables) and ambiguous (i.e., leaving many contingencies unspecified) collective agreement between an employer and an enterprise union, which was self-enforced through long-term interactions and reputational concerns. Employment practices on the shopfloor in those firms tended to incorporate broadly and ambiguously defined jobs, high firm-specific human capital investment, periodic wage raises and promotions based (not only on seniority but) crucially on subjective performance evaluations, various non-wage benefits beyond the legal obligation, and implicit long-term employment guarantees for regular workers. Joint labor-management councils were widely used among manufacturing establishments in order to facilitate prior consultation, and most disputes over a collective agreement were settled internally and informally without appealing to a legal third party.

Given the distinctiveness of contemporary employment relations in American and Japanese

---

<sup>1</sup>The following observations are derived mainly from Aoki (1988); Evans (1971); Hanami (1979); Koike (1988); OECD (1993, Chapter 4); Shirai (1983); Tachibanaki (1992).

<sup>2</sup>As shown in a well-known study by Macaulay (1963), implicit contracts and long-term relations were also important in the U.S. manufacturing industry. Two remarks are in order. First, his work focuses primarily on interfirm contracts such as supplier-buyer relations, whereas the focus of this paper is employment contracts in large, unionized firms, to which the above characterization applies more aptly. Second, the above statement is comparative rather than absolute, in contrast to the Japanese counterparts.

manufacturing firms, one might conjecture that they have been different since the onset of industrialization. Yet, historical studies of labor relations in the respective countries indicate that, contrary to the commonly held view, employment relations in large manufacturing establishments at the beginning of this century were *similarly* characterized by high job turnover, low work commitment, and highly competitive labor markets.<sup>3</sup> Why, then, did distinct employment relations eventually evolve in Japan despite the conscious effort of the Japanese government to adopt western institutions and technologies during the early stage of industrialization? Even more intriguing, during the 1910s and the 1920s, employment relations in major American manufacturing firms apparently developed toward “employer paternalism,” which aimed at stable workforces, company-wide employee representation, and cooperative labor-management relations.<sup>4</sup> As Figure 1 shows, the average turnover rate of manufacturing workers in the U.S. was comparable to that in Japan during the late 1920s and 1930s, in contrast to the postwar period during which the two numbers exhibited a significant difference. A further puzzle then arises: could American manufacturing firms have developed employment relations similar to those observed in Japan today, and if they could have, what prevented them from doing so?

These questions motivate a comparative analysis of the evolution of employment relations in American and Japanese manufacturing firms, yet, to my knowledge, there are few studies that explicitly employ a comparative approach.<sup>5</sup> Among the existing literature that refers to the origins of the labor relations in the U.S. and Japan, three dominant views have emerged.

The first view argues that the distinctiveness reflects inherent differences in culture, tradition, and social customs between the two societies derived from the pre-industrial era.<sup>6</sup> This view, the cultural thesis, implicitly assumes that intrinsic values or dispositions unique to each society, such as individualism or collectivism, remained *invariant* over time. The distinctive nature of the two sets of employment relations was, thus, claimed to be pre-determined by those values, and the argument often suggests economic inefficiency of the resulting institutions.

The second view, the historical contingency thesis, attributes a discontinuous change of institutional development to a unique historical event such as war or depression.<sup>7</sup> It hypothesizes

---

<sup>3</sup>E.g., Jacoby (1985, Chapter 1); Gordon (1985, Chapter 1).

<sup>4</sup>E.g., Brody (1980, Chapter 2). The similarity between the employment relations in the U.S. and Japan in the 1920s was emphasized by Chūma (1987).

<sup>5</sup>Notable exceptions are Chūma (1987) and Jacoby (1993).

<sup>6</sup>E.g., Abegglen (1958); Okouchi (1972); Hayami (1996).

<sup>7</sup>E.g., Brody (1980, Chapter 2); Lichtenstein (1982); Baron, Dobbin & Jennings (1986); Okazaki (1993); Okazaki & Okuno-Fujiwara (1997).

that a critical branching point was the result of an event or an actor *exogenous* to private agents (i.e., employers and workers) in the economy. In particular, the analysis typically treats government intervention triggered by these events as exogenous, and presumes compliance of private agents to the government without examining private incentives to do so.<sup>8</sup>

The third view, the economic rationality thesis, claims that the institutional diversity is a result of the rational responses of private agents to specific economic conditions (e.g., endowments, technologies, market demands) due largely to the different timing of industrialization.<sup>9</sup> This view implicitly assumes the exogeneity of technology and other economic conditions. In contrast to the culturalist view, it generally points to “technological determinism” that is free from cultural and social constraints, emphasizing the universal applicability and economic rationality of the observed institutions under given economic conditions.

The common approach underlying these three views is to identify the exogenous factors (e.g., culture, government intervention, or technology) that had a *predominant* and *unilateral* impact on the development of employment relations in the respective countries.<sup>10</sup> However, none of these views in isolation provides a consistent explanation for the historical developments of employment relations in both the U.S. and Japan from the beginning of this century to the postwar period. On the one hand, the cultural thesis cannot explain both employer paternalism in the 1910s *and* the antagonistic labor-management relations observed in the 1950s in the U.S.; nor can it explain the remarkable transformation of work norms among production workers that Japan went through during the first half of this century. The historical contingency thesis, on the other hand, can explain why the Great Depression and New Deal labor legislation shifted the institutional trajectory of the U.S., but not why the serious depression and drastic labor law reforms in postwar Japan did *not* change Japan’s trajectory. Finally, the economic rationality thesis can account for simplified job definitions and low human capital investment in American firms from the viewpoint of mass production technology; however, it fails to explain why ambiguous job definitions and high human capital investment persisted in Japanese firms after the 1950s when mass production technology was enthusiastically adopted from the U.S. Thus, our

---

<sup>8</sup>For critical evaluations on the exogeneity of the state, see Tomlins (1985); Finegold & Skocpol (1995).

<sup>9</sup>E.g., Jacoby (1993); Taira (1970); Dore (1973); Koike (1977); Kōshiro (1983).

<sup>10</sup>Needless to say, the classification of the dominant views offered here is much simplified to highlight their main points: most existing studies take a delicate blend of the respective views and, to various degrees, acknowledge the complexity and richness of history. In particular, important exceptions are the works by Gordon (1985) and Jacoby (1985), emphasizing the interplay among management, labor, and the government in describing the evolution of the employment relations, respectively, in Japan and in the U.S.

challenge is to develop a theory that produces a consistent account for the long-run evolution of employment relations in these two countries. To overcome some of the limitations of the above views, this paper provides a new conceptual framework by bringing a comparative perspective and game-theoretic insights to a historical analysis.<sup>11</sup>

## 1.2 Employment Systems as Multiple Equilibria

In this paper, we examine employment relations in private firms within the broader context of an *employment system*, in which these firm-level employment practices (e.g., employment contracts, job design, wages and compensations, promotion schemes, corporate training programs) are inseparably interrelated with economy-wide labor institutions (e.g., labor markets, trade unions, labor laws, state welfare programs, social norms). More generally, we conceptualize an “employment game” with three players: management, labor, and government. An employment system is then viewed as an *equilibrium outcome* of the game, consisting of a set of mutual best responses of the three players and the beliefs that support those responses. In other words, government actions are endogenously determined, reflecting government objectives, strategic interplay with private agents, and preexisting economic and social conditions. Using this conceptual framework, we empirically investigate the co-evolution of firm-level employment relations and economy-wide labor institutions.

The recent applications of game theory to the studies of economic institutions have brought new insights in understanding contemporary employment systems in the U.S. and Japan by viewing them as two different equilibria.<sup>12</sup> At the firm level, repeated strategic interactions between an employer and a worker shape employment relations contingent on production technology, labor market conditions, and government labor policy. The recent literature of incomplete contract theory indicates that, in the presence of *non-contractable* variables intrinsic to the employer-employee relationship, two qualitatively different contractual arrangements may result.<sup>13</sup> An *explicit contract equilibrium* is based on an explicit and legally enforceable employment contract and players’ beliefs that the interests of labor and management are inherently in conflict. By contrast, an *implicit contract equilibrium* relies on an implicit and long-term

---

<sup>11</sup>For more general theoretical framework and empirical methodology concerning historical and comparative institutional analysis, see Greif (forthcoming).

<sup>12</sup>See Aoki (1988); Aoki (1993); Abe (1994); Carmichael (1984); Kanemoto & MacLeod (1989); MacLeod & Malcomson (1988); Okuno (1987); Prendergast (1993).

<sup>13</sup>See MacLeod & Malcomson (1989); Baker, Gibbons & Murphy (1994).

employment contract that is self-enforced through a reputation mechanism and players' beliefs that cooperation between labor and management is mutually beneficial.

At the economy level, the government sets labor laws and provides social welfare given its objectives, affecting the strategy sets and payoffs of management and labor. At the same time, firm-level employment relations impact government payoffs through changing industrial production, the income distribution among constituencies, and the demand for social welfare. In addition, the presence of unverifiable variables in private employment relations affects enforcement costs of government regulations. The strategic interactions between private agents and the government give rise to equilibrium employment systems, where the presence of strategic interdependencies among players often leads to a *multiplicity* of such systems.<sup>14</sup> From this point of view, the employment systems that had emerged by the early 1960s in the U.S. and Japan were examples of two different equilibria, each of which constituted a set of mutually reinforcing institutions, as described below.<sup>15</sup>

In the U.S. employment system, explicit and elaborate employment contracts in large manufacturing firms were reinforced by the well-developed legal enforcement mechanism provided by the state; at the same time, as more firms in the economy relied on explicit contracts, the state's return from providing a legal system to enforce such contracts became higher. High job turnover among American workers was complementary to the existence of active labor markets and unemployment insurance, both of which increased workers' outside options. Government incentives to provide unemployment insurance, in turn, were greater when more workers re-entered the labor markets. Moreover, there was a prevailing belief among American employers that mid-career job changers were those who possessed more experience or high ability and were seeking a higher wage. This belief encouraged more employers to hire from the labor markets, which induced more workers to participate.

By contrast, in the Japanese employment system, implicit and ambiguous employment contracts in major manufacturing firms were complemented by joint labor-management consultation and enterprise unions, which provided internal enforcement mechanisms. The commitment to long-term employment was reinforced by the absence of competitive labor markets, which reduced the outside options for both employers and employees. At the same time, the practice of a

---

<sup>14</sup>These strategic interdependencies are partly characterized by strategic complementarity. See Milgrom & Roberts (1994).

<sup>15</sup>The following observations are derived mainly from Cole (1971); Gordon (1982); Mincer & Higuchi (1988); Lincoln & Kalleberg (1990); Topel & Ward (1992).



long-term employment relationship discouraged the development of labor markets for mid-career job changers. The investment in firm-specific human capital increased the value of long-term commitment, while neither employer nor worker would have engaged in firm-specific investment without such commitment. The modest level of social welfare benefits provided by the state enhanced the employers' returns from and the workers' appreciation of corporate welfare programs, while the generous corporate welfare benefits, in turn, reduced the public demand for state welfare programs. Finally, there was a widely-held belief that a mid-career job switch implied a lack of loyalty and a loss of firm-specific human capital. This belief further discouraged both employers and workers from looking into the labor markets for better hiring or working opportunities.

### 1.3 A Dynamic Process of Equilibrium Selection

Having characterized employment systems in the U.S. and Japan in the 1960s as two distinct equilibria, to study the evolution of employment systems is to understand a *dynamic process of equilibrium selection*. Unfortunately, classical game and contract theories shed little light on the dynamic process of equilibrium selection in the presence of multiple equilibria. Generally, the theories suggest that, provided the adjustment cost is small and there is no problem of coordination, an economy can switch from one equilibrium to another at once, implying that outcomes are *ahistorical*. Some theories indicate that, even if the adjustment cost is high, if agents in the economy make their investment decisions under perfect foresight, then coordination of expectations may determine an equilibrium *regardless* of initial conditions or history.<sup>16</sup> In conducting a historical analysis, this paper points to two empirically important key factors that creates a role for history in the process of equilibrium selection.

The first factor is the existence of *unanticipated events* that exogenously change parameters of the game or the nature of the strategic environment in which the players interact. We assume that ex ante the players know neither the timing nor magnitude of an event. Once the event is observed, however, it is assumed that the players respond rationally to a new environment. The second factor is the existence of what we call *institutional capital* — including not only physical capital, but also human capital, reputations, coordination, organizational knowledge, corporate norms, and legal expertise — that accumulates over time and, thus, is not instantaneously adjustable. We assume that institutional capital accumulates endogenously, as the players play

---

<sup>16</sup>See Matsuyama (1991); Krugman (1991).

particular equilibrium strategies, in a way that reinforces and supports the current equilibrium. Incorporating these two factors, this paper advances the following simple hypothesis in exploring the dynamic process of equilibrium selection (see Diagram 1).

There are initial conditions in the economy characterized by parameters of the game and institutional capital that are determined by prior history. When an unforeseen event hits the economy and changes the parameters, that induces endogenous strategic responses by management, labor, and government. Importantly, the players derive their best responses contingent on existing institutional capital that was formed *without* anticipating the event. As institutional capital accumulated in the past shapes and constrains today's decisions, it creates path dependence. As a particular equilibrium is realized in the economy, there is accumulation of institutional capital associated with this equilibrium. This institutional capital, in turn, forms new initial conditions for the next unforeseen event, upon which further institutional development will be built.

What is crucial in determining the direction of institutional development is the relative size of the two factors, i.e., the unanticipated shock and the institutional capital. There is a continuity in the institutional trajectory due to the cumulative nature of institutional capital. As the players accumulate knowledge and skills that reinforce and stabilize existing institutional structure, an employment system tends to converge to a given equilibrium. This is what we call the *self-reinforcing process* of institutional development. Institutional change, however, can arise from an unanticipated shock, which tends to trigger a shift in the strategic responses of the players. When the size of a shock is sufficiently large relative to the level of institutional capital, the institutional trajectory may shift its course, diverging towards a new equilibrium. This is what we call the *process of bifurcation*. A temporary shock may have a lasting impact on subsequent institutional development by initiating an endogenous process that amplifies the initial effect of the shock through capital accumulation.

Based on the above hypothesis, this paper empirically explores the dynamic process of equilibrium selection by tracing crucial historical developments in the U.S. and Japan from the beginning of this century to the early 1960s. It studies the following sequence of historical events: the First World War, the Great Depression, the Second World War, and the postwar U.S. Occupation of Japan. We investigate the initial conditions reflecting institutional development prior to each event, the nature of the unanticipated shock, the endogenous responses of the players, the outcome of the strategic interactions, and changes in the nature and the level

of institutional capital.

The findings of this paper emphasize the dynamics and complexity of the historical processes that eventually brought about distinctive employment systems in the U.S. and Japan. *Strategic interdependency* created a multiplicity of possible employment systems, while the *role of history* selected a particular system among other possibilities. The paper, therefore, contributes to the literature of institutional diversity and path dependence by providing an empirical investigation and indicating a promising line of theoretical exploration.

## 2 Employment Systems at the Beginning of the Twentieth Century

### 2.1 Employment Relations in Manufacturing Firms in the U.S. and Japan

By the mid-nineteenth century, the factory system had become a dominant production mode in most U.S. manufacturing industries. Factory workers frequently moved from one job to another in search of higher wages, better working conditions, or just a change of environment. Unskilled workers were particularly likely to quit, but skilled workers were also highly mobile, relying on their own skills and remaining unattached to a particular workplace. Employment duration was extremely short, due not only to voluntary separation, but also to regular dismissals by employers in response to cyclical and seasonal demand fluctuations. Consequently, job turnover increased sharply when business boomed due to a large number of quits, and remained quite high when business contracted due to a large number of layoffs. In most manufacturing factories, foremen exercised considerable discretion over managing production and employment, including hiring, firing, job assignments, and wage determination. In order to meet production goals, foremen often resorted to a “drive system” in which workers were induced to work harder by the threat of discharge or other unfavorable treatment by the foremen. In other words, the level of work effort was controlled primarily by coercion and close monitoring by foremen. In summary, employment relations for most American manufacturing workers were “unstable, unpredictable, and frequently unjust.”<sup>17</sup>

Drawing upon English legal conventions, an employment contract in the U.S. originally did not allow a worker to quit before fulfilling the contract term, and breach of contract could result

---

<sup>17</sup>Brissenden & Frankel (1920); Jacoby (1985), p.23.

in criminal prosecution. When a contract did not specify a definite term, a term was presumed to be one year. By the 1890s, however, the “employment-at-will” principle — according to which either employer or worker could terminate the contract at any moment without notice before the term matured — had been widely established in the U.S. Even though an employment contract specified a one-year term, a suit to recover damages for breach of contract by laborers was an empty remedy. According to a contemporary economist, “[the employer] protects himself by making contracts which he also can terminate at any time by discharging the workman without notice. Thus the labor contract becomes, in effect, a new contract every day and every hour. It is a continuous process of wage bargaining. It carries no effective rights and duties for the future and is as insecure as it is free.”<sup>18</sup>

In Japan, since the Meiji Restoration in 1868, industrialization had taken place at a rapid pace. Factory production was adopted along with other Western institutions of capitalism. Although quantitative evidence is thin, a variety of descriptive evidence suggests that high job turnover was a characteristic of Japanese manufacturing workers, for both males and females, in the early period of industrialization. The nation-wide factory survey, *Shokkō Jijō* (The Condition of Factory Workers), published in 1903 by the Ministry of Agriculture and Commerce, reported: “Workers in heavy industry are less mobile than workers in the textile industry, yet their mobility is much higher than that in Western countries. There are many workmen who change their workplaces one after another; especially when the economy prospers and workers are in short supply, they will readily switch to another factory seduced by a slight difference in wages, and when the economy recesses, they will move to large factories.”<sup>19</sup> It was not only unskilled workers migrating from villages who were highly mobile. It was the norm for craftsmen to accumulate greater skills through traveling widely and changing workshops. These skilled workers tended to be proud of being independent and self-reliant. Accordingly, tenure of manufacturing workers was extremely short; even in large establishments employing more than 1,000 workers, approximately half of the workforce stayed less than one year.<sup>20</sup> A contemporary Japanese engineer who had worked for an American company remarked in 1901 that, in Japan, factory workers with some education had a strong tendency not to stay in one job but to try

---

<sup>18</sup>Jacoby (1982), pp.103–110; Wright (1996), pp.7–8; Commons & Andrews (1936), p.505.

<sup>19</sup>Female workers were well-known for their extremely high job turnover and short tenure. For example, the annual turnover rate in two major textile factories in 1902 were 192% and 120%. *Nōshōmushō* (1903), p.62, pp.77–80, and p.231.

<sup>20</sup>In 1902, the proportion of workers with tenure of less than one year was; 50% in Mitsubishi Shipyards employing 5,066 workers, 63% in Ōsaka Iron Works employing 1,492 workers and 48% in Kure Naval Shipyards employing 4,982 workers (*Nōshōmushō* (1903), pp.230–1).

out various jobs, in contrast to factory workers in the U.S. He further observed that American workers were generally more loyal and diligent in carrying out their work obligations, compared to Japanese factory workers who were prone to shirk whenever they could and, thus, required constant supervision.<sup>21</sup> Therefore, the behavior of Japanese production workers observed in the early stage of industrialization offers some evidence that contradicts the cultural thesis, which emphasizes the diligence and loyalty of Japanese workers derived from Confucian traditions.

Given the high mobility of workers, employers recruited workers whenever necessary and determined wages based on skills and general experience. In large factories in heavy industry, a skilled craftsman called *oyakata* (craftsman) held full responsibility for hiring and firing, job design and assignments, training, and wage determinations on the shopfloor. An *oyakata* closely supervised his subordinate workers in their daily lives as well as in their job performance. When a new worker entered a factory, after a short evaluation period (one week or less) during which the worker performed several tasks, a wage rate was determined corresponding to his skill level. Little wage distinction was made between a continuous worker and a mid-career entrant provided their skill levels were equal, reflecting the existence of a highly fluid labor market. There were even professional middlemen who helped get workers for one firm from a rival firm. Labor poaching (*shokkōsōdatsu*) among establishments within an industry was an unwelcome but common practice.<sup>22</sup>

The Japanese Civil Code allowed an employment contract to stipulate a binding employment term up to five years. Given the high labor mobility of the period, however, a typical employment contract was very simple, specifying no fixed term of employment, under which employment could be terminated at any time upon consent of both parties. Some large manufacturing firms offered a fixed-term employment contract of three to five years, giving special status and benefits to highly skilled workers in an effort to retain them. The contract often included a compensation clause in case a worker initiated a breach of contract.<sup>23</sup> Despite the binding terms and compensation clause, many workers quit before completion of the term using every pretext — from their own injuries and sickness to the death of their family members — or simply departed without notice. Even those young apprentices who had been trained in a company for some years often ran off to another factory for higher wages; they were observed to have “no sense

---

<sup>21</sup>Nōshōmushō (1903), pp.574–6.

<sup>22</sup>Nōshōmushō (1897), p.56; Gordon (1985), pp.36–7; Hyōdo (1971), pp.80–4; Nishinarita (1988), pp.23–6; Sumiya (1966), p.198; Foxwell (1901), pp.110–1.

<sup>23</sup>Foxwell (1901), p.109; Fukushima (1988), p.85 and p.168; Nōshōmushō (1897), p.56; Nōshōmushō (1903), p.231.

of morality.” Even though binding contracts were legally available, contemporary management saw them as something that could not be counted on. A government official also observed: “the contract provision is seemingly assured, yet it is effectively void; neither employers think of strictly enforcing it nor employees have intention of obeying it from the beginning.”<sup>24</sup> In other words, the evidence indicates that there was a *de facto* employment-at-will principle in Japan at the beginning of this century.

## 2.2 Early Labor Movements and Government Policies in the U.S. and Japan

In comparison to European countries, both the U.S. and Japan had much weaker traditions of trade unionism. In the U.S., it was not until 1886, when the American Federation of Labor (AFL) was formed, that craft unionism took root. The federal and state governments showed little sympathy toward organized labor. In fact, associations of workers often met with criminal prosecution for conspiracy until about 1890. After 1890, labor injunctions were the most common action against organized labor in the U.S., where federal and state courts repeatedly applied antitrust laws against workers’ collective actions such as boycotts, strikes, and picketing. The government often allowed employers to use a private military force or directly assisted employers during labor disputes to protect the employers’ property rights.<sup>25</sup> Even though AFL membership grew steadily, gaining support from skilled workers and reaching half a million by 1900, a vast majority of American factory workers were unorganized, and the employers’ method of dealing with workers was almost exclusively *individual* wage bargaining.

The first organized labor movement in Japan surged in the 1890s, leading to the formation of the Ironworkers Union (*Tekkō Kumiai*), a *craft union* made up of independent and highly-skilled workers in heavy industry who frequently moved between firms. The Ironworkers Union aimed at propagating craft unionism to other trades under the influence of the AFL, although the movement failed to take root under employer repression. The Japanese government also took a definite position to repress labor disputes, arguing that a strike would cause not only a loss for an employer, but also a loss *for society*, hurting the national economy and disrupting international trade.<sup>26</sup> In 1900, the Imperial Diet passed the Peace Police Law (*Chian Keisatsu Hō*), whose Article 17 authorized the intervention of a police force in labor disputes and practi-

---

<sup>24</sup>Nōshōmushō (1903), pp.395–6 and pp.571–5; Nōshōmushō (1897), p.58; Foxwell (1901), p.111.

<sup>25</sup>Commons & Andrews (1936), p.383; Berman (1930), pp.99–110.

<sup>26</sup>Hyōdo (1971), pp.149–52; Sumiya (1966), pp.45–55; NRUS (1962), pp.74–6.

cally prohibited workers from engaging in any collective activities.<sup>27</sup> After this enactment, most existing unions were pressured to dissolve themselves under the unfavorable political climate.

In summary, both in the U.S. and Japan, employment relations in large manufacturing firms at the beginning of this century were characterized by simple and short-term employment contracts, high labor turnover, a low level of mutual trust, and decentralized labor control by immediate supervisors with often coercive means of enforcement. In both countries, labor markets were fluid and competitive, and wages were determined according to the general skills and experience of workers. Organized labor in the U.S. and Japan similarly met heavy repression by both the government and employers; thus, individual wage bargaining was the dominant method of dealing with manufacturing workers in the U.S. and the exclusive method of dealing with factory workers in Japan.

### 3 The Emergence and Development of Employer Paternalism

This section documents how the changes in economic, social, and political conditions during the first two decades of the twentieth century prompted management in large manufacturing firms both in the U.S. and Japan to develop *employer paternalism* that aimed at inducing high work effort, firm-specific skill development, and reliability and loyalty of their workers.

#### 3.1 Labor Problems and the Welfare Work Movement in the U.S.

By the turn of the twentieth century, capital had become highly concentrated in major industrial firms in the U.S., and the size of manufacturing plants had expanded dramatically.<sup>28</sup> As the number of workers per establishment and the complexity of production organization increased, coordination of workers in the production process became essential in utilizing capital to its full capacity.<sup>29</sup> At the same time, as the cost of production interruption became higher, management was increasingly concerned with employer-employee relations and the prevention of labor disputes.

In the second decade of this century, the existence of “labor problems,” which referred to

---

<sup>27</sup>Rōdōshō (1961*a*), pp.104–16. Although Article 17 did not outlaw unions or strikes *per se*, it was used primarily and repeatedly to repress the labor movement until 1925.

<sup>28</sup>Manufacturing employment grew from 2.7 million in 1880 to 4.5 million in 1900, and to 8.4 million in 1920. By 1900, 1,063 plants employed 500 to 1,000 workers, and 443 plants employed more than 1,000 workers (Nelson (1995), p.5).

<sup>29</sup>Chandler (1977), pp.240–4.

high turnover, high absenteeism, and low morale of workers, began to receive wide managerial attention in the U.S.<sup>30</sup> As Figure 2 shows, the annual turnover rate of manufacturing workers regularly exceeded 100 percent during the 1910s, and it was identified as a major factor hindering productivity. High absenteeism and low industrial morale of factory workers were also widely publicized. An economist of the time warned that the real cost of turnover was not simply the cost of recruiting and training workers to fill vacancies; it also included the deterioration of workplace morale due to instability and the loss of productivity due to workers' inadequate skills.<sup>31</sup> Employers in large establishments began to see the potential benefit of fostering a stable workforce and industrial morale on the shopfloor.

At the same time, stimulated by British social legislation, progressive social reformers and labor leaders in the U.S. began to campaign for the introduction of social insurance and old-age pensions. An increasing number of state governments started to enact workers' compensation laws during the 1910s.<sup>32</sup> In search of solutions to the labor problems and in order to preempt further state regulation, a group of progressive employers engaged in a *welfare work movement*, which consisted of a voluntary effort by management to improve working conditions. Well-known proponents of welfare work in the manufacturing industry were AT&T, Du Pont, Proctor & Gamble, General Electric, Westinghouse Electric, Ford, General Motors, Goodyear Tire & Rubber, Eastman Kodak, International Harvester, Standard Oil of New Jersey, Bethlehem Steel, and U.S. Steel, among other firms.<sup>33</sup> A study by the Bureau of Labor Statistics in 1916 defined welfare work as "anything for the comfort and improvement, intellectual or social, of the employees, over and above wages paid, which is not a necessity of the industry nor required by law." Welfare programs proposed by big businesses indeed encompassed a variety of activities. First, to improve basic working conditions in the factory environment, safety aids, shower rooms, cafeterias, and drinking fountains were provided. Second, to enhance harmony and cultivate loyalty, company magazines, company outings, educational lectures, athletic clubs and other cultural activities were organized. Third, various pecuniary and non-pecuniary benefits attached to *employment status* or *length of service* were offered, including seniority bonuses, mutual associations with death and disability benefits, pension plans, saving plans, discount purchase, and company housing. Financial, medical and legal assistance in emergencies and

---

<sup>30</sup>Jacoby (1985), pp.116–7.

<sup>31</sup>Slichter (1919).

<sup>32</sup>Skocpol (1995), pp.73–5; Fishback & Kantor (1996); Fishback & Kantor (1998).

<sup>33</sup>Jacoby (1997a), pp.20–30.



consultation on employees' personal problems were also provided at the company's expense.<sup>34</sup> Lastly, large companies established private corporation schools — independent from public vocational schools or union apprenticeship programs — to train their workers.<sup>35</sup>

From a contractual viewpoint, welfare work was an implicit, discretionary, and long-term employment contract designed and offered unilaterally by management. The benefits and rewards were contingent on unverifiable variables, such as effort, attitude, reliability, and loyalty of workers, or on non-contractable variables such as length of service.<sup>36</sup> In providing the welfare programs, management introduced a set of qualifications restricting workers' eligibility. Welfare plans often contained a clause stipulating "proper behavior," or if not explicitly written, there was still an implicit premise. Enrollment in welfare programs was not a right for every worker, but a privilege granted to those who were selected. Management retained its authority and discretion in deciding whether to qualify or disqualify a worker. Moreover, since the welfare plans were beyond legal obligations and initiated unilaterally by the company, management could discontinue them at any time with *legal impunity*.

When Ford introduced its well-known profit-sharing plan "five-dollar day" in 1913, the Sociological Department of the company took responsibility for investigating each worker's living conditions, personal character, saving behavior, and work attendance to check his eligibility. Similarly, U.S. Steel offered retirement benefits to employees who had worked for the company for twenty years, *except* in the case of employee misconduct or for other cause "sufficient in the judgment of management." In the majority of pension plans, management retained "the exclusive right to grant, withhold, reduce or terminate the allowance in individual cases, or to modify or abandon the plan altogether."<sup>37</sup>

The early movement of welfare work was promoted by a minority of prosperous and progressive employers who emphasized the social obligation of big business in taking care of its employees. AFL President Samuel Gompers criticized the welfare work movement as "enveloped with an atmosphere of charity and patronage that is most repugnant to virile, self-reliant workers."<sup>38</sup> Most workers were not convinced of management's benevolence or goodwill, while most employ-

---

<sup>34</sup>U.S. Department of Labor, Bureau of Labor Statistics (1919), p.8; Slichter (1929), p.423.

<sup>35</sup>In 1918, the National Association of Corporation Schools had more than 140 member firms (Jacoby (1985), p.68).

<sup>36</sup>Length of service was not contractable, even though its was verifiable, in the presence of the employment-at-will principle.

<sup>37</sup>Raff & Summers (1987); Stone (1974), p.50; NICB (1939*d*), p.21; U.S. Department of Labor, Bureau of Labor Statistics (1919), p.109.

<sup>38</sup>Gompers (1913), p.1041.

ers were not certain about the economic profitability of welfare work. Moreover, even though management could offer implicit employment contracts, there was no enforcement mechanism for making those contracts *self-enforcing*.

During the First World War, departing from its hands-off policy, the federal government intervened in allocating human and material resources in order to achieve maximum wartime production. Wartime labor regulation had three main effects on employment relations in the U.S. First, it promoted labor-management cooperation and introduced an employee representation plan within an establishment. Second, it elevated the status of organized labor and publicly recognized the AFL as the representative of labor. Third, it improved wages and working conditions of factory workers.

As the war proceeded, the number of work stoppages surged, causing serious disruption of wartime production. From the standpoint that any industrial disputes were against the public interest, the federal government created the War Labor Board to mediate and prevent labor disputes. The WLB recognized the equal rights of employers and employees to organize and bargain collectively, and promoted the establishment of minimum wages and working conditions in the war industries. Moreover, to facilitate the resolution of labor disputes at the establishment level, the WLB introduced *shop committees* modeled on works councils in Britain, which consisted of representatives of management and employees. In the essential war industries, the WLB ordered the creation of shop committees in more than 125 establishments. Employers who had previously dealt with individual workers were thus compelled to bargain with the shop committee representatives elected by workers, although not necessarily with the independent union representatives. Organized labor partially endorsed shop committees in the hope that the movement would evolve toward trade unionism, while many employers were “fearing exactly this result.”<sup>39</sup>

Consequently, under wartime regulation, American labor won substantial gains in union membership, wages and other employment conditions. As soon as peace returned in November 1918, however, employers demanded a reversal of labor’s gains. In particular, they immediately eliminated most of the shop committees created under the WLB awards.

---

<sup>39</sup>U.S. Department of Labor, Bureau of Labor Statistics (1920); Commons, Lescohier & Brandeis (1935), pp.341–6; Bernstein (1950), pp.19–20.

### 3.2 Industrial Relations Programs and Works Councils in the U.S.

Between 1916 and 1920, the number of labor disputes soared and union membership almost doubled. The Russian Revolution in 1917 and the formation of the American Communist Party in 1919 caused a “red scare” among American employers. Large-scale general strikes broke out in 1919, and “the employers’ alarm was accentuated by the belief that American labor was in danger of becoming radical.”<sup>40</sup> In addition, reflecting the economic boom stimulated by the war, the average annual turnover rate of manufacturing workers exceeded 100 percent in 1916, 1917, 1918, and 1920 (see Figure 2).

Consequently, more and more employers recognized the importance of cultivating the loyalty and satisfaction of workers in order to circumvent labor disputes, reduce turnover, and preempt the formation of unions. In 1920, the Special Conference Committee, a secret committee formed by prominent business leaders, acknowledged that “maintenance of harmonious and helpful relationships throughout the organization ranks in importance with production, distribution, finance, and other major functions of management.”<sup>41</sup> Other employers declared that the profitability of their operation depended upon uninterrupted production and that the most certain way to prevent the “economic waste of labor controversies” was to “build up within a plant a *reputation* for fair dealing and for consideration of the interest of employees.”<sup>42</sup>

Employer paternalism, initiated as welfare work, developed into a more formal and comprehensive set of practices known as “industrial relations programs” after the First World War. Large manufacturing establishments began to combine welfare programs with *centralized personnel management*, which systematized welfare programs and restricted foremen’s abuse of power, and *employee representation plans*, which allowed employees to elect their representatives within an establishment and participate in the improvement of working conditions.

Corporate welfare programs were expanded both in variety and scope during the 1920s. Health and life insurance, pensions, dismissal compensations, paid vacations, profit sharing, and stock ownership plans were increasingly introduced for production workers in large establishments. To receive those benefits, management required workers to be loyal and *continuously employed* for a specified period of time. A typical clause in pension plans, for example, read: “If an employee, after leaving the service, voluntarily or by participation in a strike, shall be

---

<sup>40</sup>Slichter (1929), p.398.

<sup>41</sup>“Report of the Special Conference Committee,” in 1920, cited in Nelson (1982), p.345. The existence of the SCC was not revealed in public until the La Follette Hearings in 1937.

<sup>42</sup>NICB (1931), p.13; emphasis added.

reemployed, he shall be considered in his relation to the Pension System as a new employee.”<sup>43</sup> Corporate welfare plans were increasingly formalized in the 1920s with fixed rules of eligibility and administration. The essence of corporate welfare programs, however, was their implicit and discretionary contractual nature. Some employers promised not to reduce a pension once it had been granted, although “that promise rested on the *integrity* of the company alone.”<sup>44</sup> At the same time, an increasing number of large companies began to centralize personnel management. Careful screening in hiring became more important in order to select loyal and meritorious workers; in particular, a so-called “yellow-dog contract,” an employment contract which required a worker to sign a statement to neither join nor organize a union while employed, became a common management practice.<sup>45</sup> Personnel management conducted exit interviews to study causes of separation and kept labor turnover records. Management also began to encourage the development of firm-specific human capital. In order to provide workers with better career prospects, management increasingly developed a policy of *internal promotion* by merit. An increasing number of employers provided on-the-job training for blue-collar workers and training courses for foremen.<sup>46</sup>

In addition to extensive welfare programs and centralized personnel management, major employers took the initiative to set up *works councils*. A works council was a form of employee representation within an individual establishment, by which employer and employees would consult and cooperate in improving the employees’ welfare and resolving potential disagreements. As noted above, employee representation plans were widely introduced by the federal government to encourage industrial democracy during the war, but a majority of the plans were eliminated after the war. When the unionization threat and high labor turnover pressed management, however, works councils were *voluntarily adopted* by a considerable number of firms. Between 1919 and 1922, 317 firms adopted works councils, including the well-known examples of International Harvester and Goodyear Tire & Rubber. In 1922, there were 385 firms with employee representation plans covering 725 establishments and 690,000 workers (see Table 1).

A typical works council consisted of an equal number of management and employee representatives with the latter elected by and among themselves. In all but a few works councils, the

---

<sup>43</sup>Brandes (1970), pp.105–7.

<sup>44</sup>Commons et al. (1935), pp.388–9; emphasis added.

<sup>45</sup>The Supreme Court validated yellow-dog contracts in 1917 in the famous case of *Hitchman Coal & Coke v. Mitchell* (245 U.S. 229). This decision had an enormous impact on diffusing such contracts among anti-union employers.

<sup>46</sup>NICB (1931), p.54; Slichter (1929), p.417. For its limitation, see Jacoby (1985), pp.194–5.

workers' representatives held merely *advisory power*, while management retained authority over final decisions and veto power. In many instances, a plan was dominated by management: a membership meeting was little more than an announcement of company policies, and its impact was inconsequential. In some instances, however, works councils had a sizable impact on the shopfloor management. Some employers reported significant improvements in workplace conditions and morale after introducing employee representation. Some works councils served to curb foremen's discretionary actions by introducing grievance mechanisms.<sup>47</sup> Workplace safety and productivity growth were found to be positively correlated with the existence of works councils.<sup>48</sup> There were also cases in which employees' suggestions on workplace organization and machine improvement led to an increase in productivity and an improvement in product quality. Finally, some works councils helped managers and workers to cooperate in a period of recession and realized work-sharing and wage reduction without provoking labor disputes.<sup>49</sup>

Contract theory suggests that an employee representation plan can play an important role in enforcing an implicit contract. In order to provide management with an incentive to honor its implicit promise, employees should be able, first, to monitor management's action and, second, to exercise coordinated sanctions when an employer reneges on a promise. With respect to the former, formalization of welfare programs, grievance procedures, participation of employee representatives in administration, and information sharing with management all enhanced the employees' monitoring ability. With respect to the latter, while individual ability to inflict punishment on management was severely limited in a large establishment, an employee representation plan enabled employees to take plant-wide coordinated actions such as sabotage, slowdown, and strike. Furthermore, if an employee representation plan could improve labor productivity and, thus, increase economic returns from cooperation, then, other things being equal, management would have a greater incentive to honor an implicit contract.

### **3.3 Beliefs and Reputations for Employer Paternalism in the U.S.**

During the 1920s, there were two alternative views of employer paternalism that divided opinions of employers, workers, and government officials in the U.S. One view was that the industrial

---

<sup>47</sup>E.g., at Bethlehem Steel, over 65% of 2,316 grievance cases brought by the works council were settled in favor of the workers. See Slichter (1929), p.413; Fairris (1995), pp.512-3.

<sup>48</sup>Fairris (1995) identifies positive relationships between works councils, reduced workplace injury, and productivity growth during the 1920s.

<sup>49</sup>Nelson (1982), p.346-50; NICB (1922); Ozanne (1967), pp.133-5.

relations program would bring high productivity, industrial peace, and improvement of workers' welfare through their share in labor-management cooperation. The other view claimed that employer paternalism was a disguised form of management's domination in order to "divide and conquer" workers and thereby maintain an unequal distribution of wealth between capital and labor.

From a game-theoretic viewpoint, both views have justification, since each view corresponds to beliefs that support a particular equilibrium under repeated interactions; the former beliefs are consistent with a cooperative equilibrium, the latter with an adversarial equilibrium. It is important to observe that managerial discretion, essential to employer paternalism, was a double-edged sword. On the one hand, it enabled management to attain high labor productivity by selectively rewarding workers for their effort, skill, and loyalty. On the other hand, it created distrust among workers that management would renege and appropriate the returns from cooperation. Corporate welfare programs could not be legally enforced due to their contingency on unverifiable variables; thus, they required internal enforcement based on long-term interactions and reputation mechanisms.

The importance of reputation was, in fact, recognized by contemporary management. The National Industrial Conference Board (NICB), a research board backed by major employers' associations, contended that farsighted management should value industrial relations programs, as they could improve relations with consumers and local communities that would impact product sales and recruitability of potential employees. The NICB further observed that "a company may still exercise its discretion in adopting a policy for dealing with employees, but when minimum requirements are fixed by law the state will enforce compliance with its regulations, and beyond such minimum requirements *public opinion may exercise compulsion.*"<sup>50</sup>

To build goodwill with the public, progressive employers in the U.S. widely promoted the ideology of employer paternalism via public speeches and the press during the twenties. To employees, management repeatedly declared that the interests of an employer and employees were mutual and that management cared for the happiness of workers. To shareholders, the proponents of welfare paternalism emphasized high economic returns from corporate welfare programs, as they would bring the labor force and capital equipment to the "greatest joint productive possibilities." They further claimed that an individual worker represented a definite investment opportunity, and appropriate human capital investment would "yield a fair return"

---

<sup>50</sup>NICB (1931), pp.15-8; emphasis added.

to employers.<sup>51</sup>

Despite the employers' campaign, many workers suspected that employers had hidden intentions behind their benevolence. Some were afraid of becoming dependent on employers and losing economic independence, which would make their positions more vulnerable. Most unionists believed that the employers' sole objective was to undermine unionization efforts and weaken labor's bargaining power; works councils, or "company unions" in their terminology, were portrayed as management-sponsored counterfeit organizations designed to displace real unions.<sup>52</sup> To establish a good reputation with workers and the public, progressive employers had to prove themselves trustworthy by their behavior; that is, by keeping their commitment in subsequent periods.

### 3.4 Corporate Welfare Programs and Factory Committees in Japan

In Japan, high inflation triggered by the Russo-Japanese War (1904–05) gave rise to a sudden upsurge of labor disputes in 1907.<sup>53</sup> The public blamed the unfair distribution of wealth between capital and labor, and the inhumane working conditions suffered by factory workers became widely publicized. The unprecedented scale of labor unrest led both government and business leaders to recognize the importance of labor-management relations. The government launched factory legislation in 1909, aiming at establishing minimum working conditions in manufacturing factories. Major employers ran a vigorous campaign against such legislation. They argued that the traditional paternalism in Japan could be "naturally" extended to the employer-employee relationship, where the employer's mercy (*jikei*) should be reciprocated by the loyalty and devotion of workers. A prominent manager at Mitsubishi, who was an early proponent of employer paternalism, proclaimed that company welfare was more desirable than state legislation since "once an order of the government comes in effect, there is no kindness but a conflict of rights and duties [in labor-management relations] and work itself would die out."<sup>54</sup> Although these statements by management were more rhetorical than substantive, they capture the essence of employer paternalism based on *reciprocal trust* and *implicit promises*, in contrast to government regulations based on legalism.

---

<sup>51</sup>Brody (1980), p.51 and p.61; NICB (1931) p.15 and p.104.

<sup>52</sup>Gompers (1913); Gompers (1922).

<sup>53</sup>In 1906 there were 13 strikes and lockouts joined by 2,307 workers; in 1907, there were 60 strikes and lockouts joined by 11,483 workers (NRUS (1959), p.442).

<sup>54</sup>Gordon (1985), p.66; an article in *Tōkyō Economic Journal* (June 8, 1907) by Heigorō Shōda, cited in Hyōdo (1971), p.292.

Stimulated by the upsurge of labor disputes and the government's move toward social legislation, major employers promoted voluntary activities in the 1910s to improve the welfare of their employees. Large establishments such as Mitsubishi Shipyards, Uraga Dock Company, and Shibaura Engineering Work created a mutual-aid society that provided blue-collar workers with various benefits, such as sickness, injury, and death benefits covering incidents both on and off work. Most of these benefits in large private factories *exceeded* the amount and coverage required by the Factory Law, which was enacted in 1911 and enforced eventually in 1916. A shortage of manufacturing workers during the Russo-Japanese War prompted the government to set up vocational schools in order to systematically foster skilled workers. Private companies, such as Shibaura Engineering Work and Ishikawajima Shipyards, began to send their workers to public vocational schools at the companies' expense.<sup>55</sup>

The economic boom of the First World War brought about a rapid expansion of industrial production in Japan. The number of male production workers in manufacturing establishments increased dramatically between 1914 and 1919. Reflecting an acute labor shortage in heavy industry, skilled workers were recruited or poached between factories, and the turnover rate of workers increased sharply in 1916–18.<sup>56</sup> Toward the end of the decade, the process of mechanization advanced, and large private firms expanded their production scale substantially.<sup>57</sup>

Despite the economic boom and labor shortage, high inflation and stagnant wages worsened the living standards of Japanese workers during 1917–19.<sup>58</sup> The number of labor disputes reached an unprecedented level (see Table 2 and Figure 3), and the number of unions increased sharply toward the end of the 1910s.<sup>59</sup> In particular, the Japanese Federation of Labor, *Sōdōmei*, was formed in 1919 based on existing craft unions. The newly formed unions forcefully demanded legal recognition and the right to bargain collectively.

As industrialization took off successfully in Japan, international recognition and high industrial growth became the government's top priority. Responding to the foundation of the International Labor Organization abroad and the surge of demand for collective bargaining at

---

<sup>55</sup>Hyōdo (1971), p.226 and p.284; Tamura (1984), p.91; Gordon (1985), p.64.

<sup>56</sup>Hyōdo (1971), p.329. According to Gordon, the annual turnover rate in factories was roughly around 70 to 90%, some exceeding 100% (Gordon (1985), pp.87–9 and p.137).

<sup>57</sup>In 1914–18, the number of factories with 1,000 or more workers increased from 85 to 160 and the percentage of workers employed in those factories grew from 17% to 23% (Rōdōshō (1961*a*), p.117).

<sup>58</sup>Real wages declined considerably in 1917–19. In particular, the price of rice shot up, causing the Rice Revolt which spread across the country in 1918. Private companies, on the other hand, paid out high dividends to stockholders during the war boom, which infuriated workers (Nakamura (1993), p.96).

<sup>59</sup>There were 107 trade unions in 1918, 187 unions in 1919, and 273 unions in 1920 (NRUS (1959), p.424).



home, the Japanese government acknowledged in 1919 that it would not prevent “moderate” labor unions from being established.<sup>60</sup> In the same year, the government set up an independent committee, *Kyōchōkai*, in order to promote “harmonious labor-management relations which were of primary importance for industrial growth and peace of society.”<sup>61</sup> *Kyōchōkai* proposed the introduction of a “factory committee (*kōjō inkai*),” modeled on employee representation plans in Britain and the U.S. The government encouraged employers to voluntarily establish factory committees in recognition of a need for some labor organization. The number of labor disputes over the right to collective bargaining peaked in 1921, involving major manufacturing establishments in heavy industry. Management firmly refused to recognize independent unions, but compromised by establishing factory committees under its own initiative. Union leaders initially supported the establishment of factory committees as a step towards the realization of collective bargaining. As a result, more than a hundred private and state-owned companies established factory committees by 1924 (see Table 3). In adopting factory committees, however, management recognized the bargaining right exclusively with a group of its employees, while excluding labor unions from the bargaining table. Furthermore, management tried to limit the subjects of discussion to the enhancement of the workers’ welfare and productivity, excluding wages, hours, and other working conditions. Union leaders soon came to perceive the factory committee as an attempt to replace unions and pre-empt the labor movement.<sup>62</sup>

After the First World War, Japanese business leaders sponsored various voluntary corporate welfare programs, as shown in Table 4. In addition to a dining room, medical clinic, company housing, discount purchases for daily necessities, and recreational and educational facilities for the workers and their families, an increasing number of employers provided non-wage benefits, such as death, sickness, and injury benefits exceeding legal requirements, life insurance, family allowances, and saving plans. Large companies introduced attendance, seniority, and biannual bonuses for blue-collar workers. The bonuses were given to workers whom management deemed diligent, loyal, and decent-mannered. Retirement benefits were provided to workers who retired due to aging or sickness, who were dismissed by a company for business reasons, or who quit with the company’s approval. The amounts of the benefits were differentiated according to *length of service*, *reason for separation*, and *family considerations*. Some companies also introduced

---

<sup>60</sup>A statement by Home Minister Tokonami in 1919 (*Rōdōshō* (1961*a*), p.128).

<sup>61</sup>*Rōdōshō* (1961*a*), pp.153–7.

<sup>62</sup>Sumiya (1966), pp.110–3 and pp.130-1; *Kyōchōkai* (1930), pp.11–2; Sumiya (1966), ; Garon (1988), p.170.

mandatory retirement.<sup>63</sup> A periodic pay raise (*teiki shōkyū*) every three to six months was instituted in some large factories; the amount of the pay increase and the number of workers awarded the raise were based on the worker's skill, diligence and merit, *under managerial discretion*. As a result, basic wages in large factories tended to increase with years of service.<sup>64</sup>

As the mechanization of production proceeded and the volume of production increased, a job category was divided into specific tasks within an establishment, and the skills of production workers became increasingly specialized. Management invested in training and education to foster loyal and reliable “in-house” workers. By the end of the 1910s, instead of using public vocational schools, many large firms introduced company training programs for young workers. To retain those who received training at the company's expense, management designed apprenticeship contracts with various incentives. The Uraga Dock Company, for example, introduced an apprentice contract that specified a three- to five-year training period with periodic wage increases and a compulsory saving plan, which would return the savings plus interest only if the apprentice completed the training *and* stayed with Uraga for five years afterwards.<sup>65</sup> Furthermore, management sought more direct control of work organization and labor management. In large firms, *oyakata* (craftsmasters) were increasingly expelled or appointed as foremen and placed within a firm's managerial hierarchy. In an effort to centralize personnel management, major establishments created labor or personnel sections.<sup>66</sup>

Management promoted harmonious and cooperative relationships between an employer and employees within a factory under the ideology of employer paternalism (*keiei kazoku shugi*). The management of Mitsubishi Nagasaki Shipyards claimed in 1921 that “fundamentally, there is no special distinction between management and our workers. . . [W]e consider ourselves as a unity of employees, of one large family.”<sup>67</sup> Japanese management repeatedly emphasized natural continuity between the Confucian tradition and employer paternalism; it was a conscious reintroduction of “tradition” to a modern corporation, through which the management tried to *coordinate* the beliefs of workers.

Beginning in the late 1910s, employer paternalism based on corporate welfare programs, centralized labor management, and factory committees increasingly prevailed in large manu-

---

<sup>63</sup>Kyōchōkai (1924), p.187; .

<sup>64</sup>Kyōchōkai (1924); Hyōdo (1971), p.327 and p.444; Shōwa Dōjin-kai (1960), p.275; Hazama (1978), p 521; Sumiya (1966), p.135.

<sup>65</sup>Hazama (1978), p.512; Gordon (1985), pp.103–4.

<sup>66</sup>Shōwa Dōjin-kai (1960), p.274.

<sup>67</sup>Nishinarita (1988), p.204.

facturing establishments in Japan. Despite the effort of employers, a majority of production workers, especially those who had skills, remained highly mobile and self-reliant. More than half of the apprentices enrolled in in-house training programs in large factories left their companies after, if not during, the training period for better wage offers. As long as workers remained mobile, management had to keep hiring senior workers from the labor market in order to retain enough skilled workers, contradicting its policy to value loyalty. And as long as there was a demand in the labor market, workers kept moving among firms for better employment opportunities. Employers, too, behaved opportunistically at various times, arbitrarily eliminating bonuses or periodic pay raises and occasionally confiscating employees' savings.<sup>68</sup>

In summary, when a small number of progressive employers in the economy initiated employer paternalism, there were still strong incentives to renege on an implicit contract for both workers and employers. As soon as one side deviated from an implicit promise, it was the best response for the other side to deviate as well. It was not a simple task for employers and workers to coordinate their actions and build mutual trust. Therefore, both in the U.S. and in Japan, employer paternalism, initiated by a minority of employers in the late 1910s, required further investment in reputational and other institutional capital if it was to prevail.

## 4 The Rise and Fall of Employer Paternalism under the Challenge of Depression

When a business recession leads to deterioration in the financial condition of firms, employers have a stronger incentive to repudiate their implicit promises. A trade-off lies between the long-run benefit from maintaining a good reputation and the short-run cost of keeping the promises in the midst of financial distress. It is more likely that management will repudiate an implicit contract if a recession is expected to be deeper and longer. In particular, when a recession increases the likelihood of bankruptcy of the firm, the long-run return from maintaining its reputation is accordingly discounted. In contrast, if a recession is expected to be temporary, it may be rational for employers to honor their promises and “go out of their way” to help their employees despite the adverse financial circumstances. The following section examines the impact of exogenous changes in macroeconomic conditions on employer paternalism in the respective countries.

---

<sup>68</sup>Hazama (1978), p.512; Hyōdo (1971), pp.231–2; Gordon (1985), p.96 and pp.103-5.

#### 4.1 The Penetration of Employer Paternalism in Japan

The Japanese economy was troubled by successive negative economic shocks during the 1920s. To enumerate, there were the post-WWI recession of 1920, the Washington Disarmament Treaty in 1922 with its serious effect on heavy industry, the Kantō Great Earthquake in 1923, the Financial Crisis of 1927, and the Great Depression of 1929–32. The impact of each economic shock, however, was relatively moderate and of short duration. In particular, as Table 5 shows, Japan's experience of the Great Depression was by far the mildest among industrialized countries. Industrial production fell from the peak to the trough by 8 percent, but recovered within three years. Consequently, for the proponents of employer paternalism, the twenties could be seen as a period of learning the payoffs of off-the-equilibrium paths. While going through frequent but short economic downturns, employers in large manufacturing companies learned the cost of repudiating promises and the value of reputation, and they gradually developed a consensus with workers on the standards and rules governing corporate paternalism.

In the early 1920s, most employers were willing to fire workers whenever business declined, just as most workers were willing to quit whenever business prospered. Many employers reduced or eliminated bonuses and suspended periodic pay raises in a recession. After the Disarmament Treaty in 1922, major companies in heavy industry, including the proponents of welfare paternalism, went through a drastic rationalization of labor management, which involved wage reductions and mass dismissals.<sup>69</sup> It is important to note that workers *protested* against such management behavior by organizing public demonstrations and strikes. Independent unions in large companies fought fiercely against wage cuts and layoffs. When business deteriorated, the major demands of labor disputes centered on the establishment of a formal retirement allowance plan, an increased amount of severance pay, opposition to wage reductions and dismissals, and reinstatement of the dismissed workers.<sup>70</sup> The government also informally and repeatedly urged employers not to dismiss a large number of workers at once, for fear of the social disorder that might result from mass unemployment. Toward the late 1920s, local police frequently intervened to prevent labor disputes. More often than not, local police mediated in an anti-dismissal labor dispute in favor of workers, settling for higher dismissal compensations. Kyōchōkai also played an active role in mediating major labor disputes, in which labor's demands were incorporated to a considerable extent. Gradually, workers' protests and informal government pressure against

---

<sup>69</sup>Shōwa Dōjin-kai (1960), pp.278–80; Nishinarita (1988)); Gordon (1985), p.147; Odaka (1984), p.203.

<sup>70</sup>Gordon (1985), pp.145–6; NRUS (1959), pp.468–9.

dismissal made major employers circumvent layoffs by other means, such as reduction of working hours, relocation of workers, and creation of relief work within a company.<sup>71</sup> In addition, management of large companies developed institutional innovations during the 1920s in an effort to maintain their reputations for paternalism, while surviving the economic downturns. Among them were a *voluntary retirement system* and a *temporary-worker system*, both of which came to be known as part of the so-called “Japanese employment practices” in the postwar period.

When a recession forced employers to reduce their workforce, they carefully designed a procedure for dismissal. Large factories proposed augmented dismissal compensation and asked for workers who would voluntarily retire (*kibō taishoku*) until the number of necessary dismissals was reached. The word “voluntary” meant that workers were consulted in advance and that dismissals were the result of consent rather than unilateral imposition. In addition, the sum of dismissal compensation was nontrivial. In the early 1920s, many large firms expanded and formalized the existing retirement allowance plans (*taishoku teate seido*). For example, Mitsubishi Shipyards introduced a new plan fully funded by the employer in 1920. The amount of the benefit increased with *length of service* in the case of mandatory retirement at age fifty or earlier retirement caused by sickness or injury. If retirement was initiated *by the worker* for private reasons, then the worker received only 20 to 50 percent of the full benefit, depending on the years of service. If retirement was initiated *by the employer* for business reasons (i.e., voluntary retirement), a special increase was *added* to the full benefit. Table 6 shows the average retirement allowance plans for machinery and metal workers in firms with more than 200 employees in 1932. Such retirement allowance plans prevailed in large establishments and then gradually spread among medium-sized firms toward the mid-1930s. The voluntary retirement system and retirement allowance plans were effective in moderating labor disputes associated with dismissals. During the anti-dismissal strikes, management often successfully persuaded workers to accept a retirement offer with a generous sum of money, and workers often *appreciated* such arrangements. In some companies, factory committees served to communicate managerial decisions, discuss retirement allowances, and cooperate in soliciting voluntary retirement.<sup>72</sup> A worker at the Mitsubishi Nagasaki Shipyard, who was dismissed after eighteen years of service, said: “I am grateful for the company for it had treated me well in many aspects. . . It is too bad that I was fired this time given that I have a big family and a little saving, but fortunately I

---

<sup>71</sup>Saguchi (1977), pp.211–6; Gordon (1987), pp.258–63; Yui & Daitō (1995), pp.296–300; Hazama (1978), pp.508–10; Gordon (1985), p.203.

<sup>72</sup>Hyōdo (1971), p.415; Gordon (1985), p.201; Nishinarita (1988), pp.183–92.

received an excessive amount of retirement allowance...”<sup>73</sup> As Table 7 shows, a majority of the employers who instituted a retirement allowance plan conformed to it during the depression despite the fact that it was an extra financial burden. For example, in 1931, the trough of the Great Depression, 35,000 workers, or 60 percent of those who were dismissed due to business reasons received allowances that amounted, on average, to six months’ worth of wages.

Another innovation of Japanese management was the temporary-worker system (*rinji-kō seido*). Starting in the early 1920s, large companies gradually changed the status of temporary workers. Before the change, a temporary worker would be promoted to a regular worker after a six-month trial period, provided his performance was satisfactory; after the change, the status of temporary workers was often fixed indefinitely.<sup>74</sup> Most employers provided a significantly lower level of wages and benefits to temporary workers than to regular workers, even though they performed similar tasks. In addition, temporary workers were denied employment security: it was an established policy to hire temporary workers first when business picked up and to fire temporary workers first when business slowed down. Contemporary government officials deemed the temporary-worker system as a necessary device that allowed industrialists to respond quickly to market conditions, while protecting regular workers from frequent employment adjustments. As a consequence of the change, the share of temporary workers in the total workforce in large establishments increased sharply after the Great Depression.<sup>75</sup>

By the early 1930s, an increasing number of skilled workers in large establishments began to rely upon and expect to receive company welfare, which constituted a significant portion of their rewards. A study in 1931 shows that workers received a variety of welfare benefits that amounted to 10 to 20 percent of their wages (see Table 8). To be sure, the private firms that provided welfare programs in the 1930s were still a minority in the economy, limited to those who were large and prosperous (see Table 9). For business leaders, it increasingly became their social responsibility, if not a social norm, to provide employment security to their regular workers. A prominent national employers association, *Zensanren*, issued a statement in 1934 that characterized labor-management relations in Japan as being based on moral obligations (*giri*) and warm human feelings (*ninjō*), as opposed to those based on legal rights and duties under western individualism. The statement proudly claimed that “the variety of welfare plans

---

<sup>73</sup>A chief of a metal casting section who voluntarily retired during the anti-dismissal dispute of 1925, quoted in Nishinarita (1988), p.191.

<sup>74</sup>Nishinarita (1988), p.52; Sumiya (1966), p.134; Hyōdo (1971), p.430; Odaka (1984), p.213.

<sup>75</sup>NRUS (1964), pp.123-48; Hyōdo (1971), p.432; Hazama (1978), p.498.

developed within the firms in our country is a stark representation of the spirit [of paternalism] and is provided by the employers even though there is no such law or order.”<sup>76</sup>

## 4.2 The Impact of Employer Paternalism in Japan

As employer paternalism began to penetrate large factories, there are some indications that it might have impacted workers' behavior. First, towards the late 1920s, the turnover rate of manufacturing workers exhibited a general tendency to decline (see Figure 5). In particular, the turnover rate of male manufacturing workers in large establishments declined significantly.<sup>77</sup> When Japan's aggressive military expansion after 1931 led the economy to recover from the Depression, any slack in the workforce was taken up, and heavy industry again faced a labor shortage in the mid-1930s. In spite of the labor shortage, however, the turnover rate in major factories remained relatively low, in contrast to the previous time of economic expansion in the late 1910s.<sup>78</sup> There was a small but growing number of stable workers, or “company men,” in those factories, who had been trained in-house and had worked for a single company.<sup>79</sup>

Another indication was that, during the 1920s, the trade union movement gradually subsided in every large manufacturing establishment. Although the number of unions increased steadily, and the level of labor disputes remained relatively high throughout the 1920s, the size of unions and the scale of disputes gradually declined. After 1930, the center of labor movement markedly shifted to small and medium-sized firms. Despite the unionization drive of Sōdōmei and Hyōgikai, a radical union formed under communism's influence, neither craft nor industrial unionism penetrated large establishments.<sup>80</sup> In many strikes organized by independent unions in large establishments during the early-1920s, employers fired the union leaders after the incidents and converted the unions into moderate and harmonious labor organizations. Ironically, the dismissals during the recessions often enabled management to keep loyal and company-trained workers while removing “radical elements” from a company, and thus consolidated harmony between management and the remaining workers.<sup>81</sup> In other words, dismissal constituted a credible punishment for non-loyal workers during a recession, which increased workers' incentive

---

<sup>76</sup>Morita (1958), pp.417–18.

<sup>77</sup>Hyōdo (1971, p.405) and Sumiya (1966, p.132) attribute the decline of turnover to corporate welfare policies; Gordon (1985) attributes it largely to business recessions.

<sup>78</sup>Odaka (1984), p.205; Nishinarita (1988), p.327.

<sup>79</sup>See Gordon (1985), p.160, for careful evaluation.

<sup>80</sup>Hashimoto (1984), p.332; Komatsu (1971), p.35.

<sup>81</sup>Sumiya (1966), p.157.

to take a cooperative action. Consequently, in 1933, only 10 percent of the workers in large factories with more than 500 employees belonged to unions. The total number of workers covered by factory committees or other associations in 1934 exceeded 640,000, in contrast to the total union membership of 380,000.<sup>82</sup>

In summary, from the early 1920s to the mid-1930s, corporate paternalism came to prevail among major Japanese manufacturing companies. Employers gradually learned a way to maintain their reputations during moderate economic downturns, and, by the time the Great Depression hit the economy in 1929, they had developed *institutional arrangements* that mitigated its impact on corporate welfarism. Consequently, major employers tended to honor their promises during the Depression, realizing that failing to do so would result not only in costly labor disputes, but also in a loss of reputation with the public and the government that would invite unwelcome pro-labor legislation. At the same time, workers learned to appreciate employment security and other company benefits during the recessions. Gradually, a consensus was formed over definitions and rules governing implicit contracts. As a result, paternalistic employers began to enjoy more loyal and reliable workforces and an accumulation of firm-specific human capital, while keeping trade unions away from their workplaces. The primary interest of workers in large factories began to shift, from establishing solidarity across the working class, to gaining membership and status in their own companies.<sup>83</sup> The Japanese government supported employer paternalism and harmonious labor-management relations from the viewpoint that they would achieve industrial peace, social stability, and greater industrial production. Government pressure against labor disputes and mass dismissals enhanced employers' incentive not to repudiate their promises. And as long as employer paternalism functioned, the government kept its stance against trade unions. As a result, the demand for legal recognition of unions did not materialize in prewar Japan, as we discuss later.

### 4.3 The Penetration of Employer Paternalism in the U.S.

In stark contrast to Japan, the 1920s in the U.S. were perceived as a “decade of prosperity.” Business leaders promoted corporate welfarism with optimism, which gradually penetrated the large firms toward the end of the 1920s.<sup>84</sup> Table 10 shows that, in 1929, a variety of industrial relations programs were seen predominantly in giant establishments with more than 1,000 workers

---

<sup>82</sup>Taira (1970), p.146; Garon (1988), p.170; Hashimoto (1984), pp.337–9.

<sup>83</sup>Gordon (1985), pp.251–3.

<sup>84</sup>David & Wright (1999).



and, to some extent, in large and medium-sized plants. Even though progressive employers still constituted a minority in the economy, just as in Japan during the same period, the following observations suggest that corporate paternalism might have generated some of the impact its proponents envisioned.

First, labor productivity in manufacturing grew at an annual rate of 5.6 percent between 1919–29 compared to 1.2 percent during the previous decade. Second, job turnover in manufacturing establishments declined significantly during the 1920s. As shown in Figure 2, when business recovered from the post-WWI recession in 1923, the annual turnover rate soared to 90 percent; however, by early 1929, it was less than 40 percent despite the continuing economic prosperity.<sup>85</sup> Third, although at a modest pace, the economic conditions of the working class improved steadily after the recession of 1921–22, and an increasing number of workers expected that they soon could share in the economic prosperity based on American corporatism.<sup>86</sup> Fourth, the labor movement subsided *despite* the period of prosperity. Union density in the manufacturing industry declined by 10 percent between 1920 and 1930. Employees of most major firms in mass production industries remained unorganized, even though they had been targeted by organizing campaigns of the AFL.<sup>87</sup> In an effort to expand its membership, the AFL itself then drastically turned to a policy of *union-management cooperation*, announcing that “more and more, organized labor is coming to believe that its best interests are promoted through concord rather than by conflict.”<sup>88</sup> In other words, given the prevailing societal view that aggressive trade unionism was harmful to economic prosperity, the AFL itself shifted its strategy from confrontation to cooperation. The new policy was, however, shortly proven to be fruitless as employers flatly rejected such cooperation. Lastly, the number of employee representation plans continued to grow, and in some instances, works councils were introduced at workers’ request. The number of employees covered by employee representation plans doubled between 1922 and 1928 (see Table 1). By the end of the 1920s, it was estimated that more than 1.2 million workers had signed yellow-dog contracts.<sup>89</sup>

The federal and state governments backed corporate paternalism. The labor movement was

---

<sup>85</sup>Fairris (1995), p.514; Sundstrom (1986), Chapter 3. For company-level evidence, see Owen (1995) and Whatley & Sedo (1997).

<sup>86</sup>The growth of per capita real income during the period of 1923–29 was 35% and that of the average manufacturing wage was 5% (Holt (1977)).

<sup>87</sup>Morris (1958), pp.573–4.

<sup>88</sup>The new AFL President, William Green, in 1925, cited in Bernstein (1960), p.97.

<sup>89</sup>NICB (1925); Commons et al. (1935), p.348; Bernstein (1960), pp.196–200.

repressed not only by means of labor injunctions, but also by interventions against strikers by federal troops, state militia, and local police. The open-shop movement promoted by business leaders to free the workplace from union membership requirements had the full support of the Republican government during the 1920s. In 1928, Republican candidate Herbert Hoover won the presidency, receiving wide support from both business and labor.<sup>90</sup> Hoover adopted a “voluntarist corporatism” approach, in which he viewed the interests of labor and capital as essentially harmonious, and encouraged employee representation plans for the mass of unorganized unskilled workers.<sup>91</sup>

To summarize, the 1920s was the first prolonged period of prosperity in which management appeared to have won its battle to confine unionism and gain trust from workers, the public, and the government through promoting corporate paternalism. In April 1929, a contemporary manager declared that “the end of the strike era is in sight, and the next five years will see an unparalleled gain in relationships of mutual understanding and goodwill between employee and employer.”<sup>92</sup>

#### 4.4 The Great Depression and Broken Promises in the U.S.

Beginning in October 1929, the Great Depression hit the American economy with unprecedented depth and duration (see Figure 4). For the first few years of the Depression, the proponents of corporate paternalism made a considerable effort to keep their promises under the expectation that the Depression would soon end. Before resorting to layoffs, many employers cut back salaries of executives and management, instituted extensive worksharing, and relocated workers.<sup>93</sup> Some companies introduced or augmented dismissal compensation when layoffs seemed inevitable. General Electric announced its celebrated private unemployment insurance plan in 1930. In early 1931, Eastman Kodak and others established the Rochester unemployment benefits plan. A main purpose of the plan, according to a Kodak manager, was to encourage greater effort by individual firms to “plan better, to spread work, and to adopt other means to prevent layoffs.”

Part of the employers’ efforts originated from their concern that “radical” legislation, such as state unemployment insurance law, might be enacted unless industry took positive action.

---

<sup>90</sup>Goldstein (1978), pp.183–91; Lichtman (1979); Andersen (1979). The AFL remained non-partisan in the 1928 election, and the United Mine Workers was in favor of Hoover.

<sup>91</sup>Fausold (1985), pp.119–20.

<sup>92</sup>*National Business* 17 (April 1929), p.90.

<sup>93</sup>By contrast, layoffs preceded salary reductions during the 1921 recession. Commons et al. (1935), p.329; Balderston (1933), p.261.

The Hoover administration endorsed these employers' private efforts. Immediately after the stock market crash, the President urged major business leaders not to reduce wages. He also promoted a national "share-the-work" movement and further encouraged employers to provide private relief in cases of laying off workers, while refusing to establish any public relief or state unemployment insurance.<sup>94</sup> By the end of 1931, the decline in industrial production reached almost 40 percent.

After the fall of 1931, the biggest companies, such as Ford and General Electric, announced wage reductions, renouncing their public promises. Numerous companies followed suit. As Table 11 shows, more than three-fourths of manufacturing firms surveyed cut hourly wages by March 1932. These wage cuts, however, were just "the first of a string of broken promises." A majority of large manufacturing companies reduced, inactivated, and sometimes entirely discontinued their industrial relations programs.<sup>95</sup> Table 12 shows the various programs discontinued by large firms, although the report does not include any revision or inactivation of the plans. Private unemployment insurance and pensions were cut back due to their insolvency.<sup>96</sup> Employee stock ownership backfired under the stock market crash. More than a hundred works councils were discontinued by 1932 (see Table 1), and many more became inactive after losing employers' financial support. In the same year, worksharing reduced working hours so severely that many workers were getting barely a subsistence level of payment, or what they called "starvation wages." Workers who initially cooperated with firms to institute worksharing increasingly found it arbitrarily and unfairly implemented by management.<sup>97</sup> Eventually, despite the earlier commitment to provide employment security in exchange for reduced wages and working hours, management launched massive layoffs.<sup>98</sup>

By July 1932, the trough of the Great Depression, the level of industrial production had fallen by 60 percent from July 1929. During the same period, manufacturing employment dropped 40 percent and the total wage bill decreased by 60 percent.<sup>99</sup> One-fourth of the labor force in the U.S. had become unemployed by 1933, and workers who were laid off *lost* their eligibility or claim

---

<sup>94</sup>Schatz (1983), p.59; Jacoby (1997a), p.72; Jacoby (1985), pp.213–16.

<sup>95</sup>NICB (1932); Jacoby (1985), p.218–20; Cohen (1990), p.240.

<sup>96</sup>GE's unemployment insurance fund went bankrupt in October 1931 (Schatz (1983), p.61). By 1933, not only promised benefits were cut, but also half of the 14 firms who initiated the Rochester unemployment benefits plan had left (Jacoby (1997a), p.73).

<sup>97</sup>Huberman (1997).

<sup>98</sup>For example, by 1933, GE cut back 59% of its employees and GM reduced its workforce by 50%. Schatz (1983), p.61; Brody (1980), p.73.

<sup>99</sup>Romer (1993), p.23; U.S. Department of Labor, Bureau of Labor Statistics (1935a), p.22.

to various benefits. While dismissals prevailed in the economy, in contrast to the case in Japan, only a small number of manufacturing companies had institutionalized dismissal compensation plans. In addition, the amount of severance pay for blue-collar workers was almost trivial, if there was any.<sup>100</sup> Furthermore, layoffs were often biased toward blue-collar workers and the procedure for deciding who would be laid off appeared to be arbitrary and unjust in the eyes of workers.<sup>101</sup>

As a consequence, workers' beliefs in their employer's goodwill were considerably undermined. Many workers were disillusioned by the loss of their savings and felt especially deceived when they had been advised or urged by their companies to enter stock ownership plans or pension arrangements.<sup>102</sup> When Ford laid off a large number of employees in 1933, one worker bitterly wrote to a union leader that he "had spent a lifetime helping to create a millionaire."<sup>103</sup> In the same year, a noted industrial relations scholar observed that "this depression had undone fifteen years or so of good personnel work" and predicted that "labor is going to look to legislation and not to personnel management for a solution of the unemployment problem."<sup>104</sup> An economist of the time remarked in the same year: "It is painfully apparent that the program within a given company can operate only within limits that are set by economic forces."<sup>105</sup>

In summary, reflecting the parallel institutional development during the 1920s, the initial responses of the progressive employers and the governments in the U.S. and Japan to the Great Depression in the respective countries were, to a remarkable extent, similar. In the U.S., however, the unprecedented severity of the Great Depression and the comparative lack of institutional arrangements eventually led the majority of American employers to repudiate their implicit contracts, willingly or unwillingly. Empirically, it is hard to distinguish the case in which management behaved opportunistically to take advantage of the situation from the case in which management was indeed sincere, yet was forced to repudiate under extreme economic conditions. A recent study by Jacoby (1997a) suggests that one could classify the proponents of corporate paternalism roughly into three types: 1) those who were fully committed, were but hit

---

<sup>100</sup>NICB (1939a); NICB (1939b); NICB (1939c); U.S. Department of Labor, Bureau of Labor Statistics (1932); NICB (1937).

<sup>101</sup>In the automobile industry, the number of blue-collar workers declined by 50% between 1929–33, while the equivalent figure for the white-collar was 25% (Bresnahan & Raff (1991)). In Chicago, 40 % of skilled and 57% of unskilled workers were unemployed in 1931, while only 7% of managers were unemployed (Cohen (1990), p.241).

<sup>102</sup>Balderston (1933), p.265; Cohen (1990), p.240.

<sup>103</sup>V. French to W. Green (1933) quoted in Brody (1980), p.77.

<sup>104</sup>An address by William Leiserson, printed in *Management Review* 22 (1933), pp.114-5.

<sup>105</sup>Balderston (1933), p.265.

so hard by the Depression that they breached the contracts; 2) those who were less committed and broke their promises during the Depression despite their rhetoric of paternalism; and 3) those who were fully committed and less affected by the Depression, and were able to keep their welfare programs relatively intact throughout the Depression.<sup>106</sup> And it was the first and second types that constituted a large majority in the U.S., while the third type dominated in Japan. As a consequence, in the U.S, nominal wage and working hours declined, non-wage benefits were cut back, and the probability of becoming unemployed rose sharply. The welfare of American workers, even for those who were still employed, declined significantly and a majority of workers lost their trust in management.<sup>107</sup> At this historical junction, however, management might have rebuilt its reputation, convincing workers and the public that the Great Depression was a truly exceptional and unanticipated event.

## 5 The Political Economy of Labor Legislation

This section shows how the change in employers' action caused by the Great Depression subsequently triggered an *endogenous* process of labor legislation, in which the U.S. government shifted its stance from voluntarist corporatism (1929–32) to the largely pro-business policy of the early New Deal (1933–35), and finally to a pro-labor policy after 1935. As a result, by the end of the 1930s, the U.S. witnessed the emergence of a new set of institutions characterized by a legal framework for collective bargaining, antagonistic union-management relations, and the provision of state welfare programs. From a comparative point of view, we then explore the political process of labor legislation in Japan during the same period. In contrast to the U.S., the Japanese government gradually developed labor policies that were complementary to employer paternalism.

---

<sup>106</sup>According to Jacoby (1997a), the first type includes GE, International Harvester, and Goodyear; the second type includes GM, Ford, and U.S. Steel; and the third type or “modern manors” includes P&G and Kodak.

<sup>107</sup>Due to a falling price level, the *real* hourly wage in the manufacturing industry increased by 10% between 1929–32, while the average weekly work hours declined more than 10% (U.S. Department of Commerce (1975)). Therefore, the income of manufacturing workers who maintained their jobs declined only moderately. However, even those employed lost various non-wage benefits and faced a high probability of losing their jobs. Those who became unemployed lost their income and received little unemployment compensation. In total, the expected utility of the average worker in the manufacturing industry declined considerably during the Depression.

## 5.1 From Hoover to Roosevelt: Early New Deal Labor Policy in the U.S.

During the early years of the Depression, an increasing number of pro-labor bills were introduced in Congress. President Hoover, however, vetoed a public unemployment agency bill and denied any need of federal unemployment insurance. In 1932, Hoover belatedly and reluctantly endorsed the Emergency Relief and Construction Act and the Norris-LaGuardia Act, both initiated by Congress. The Norris-LaGuardia Act declared full freedom for workers to organize and drastically limited the use of federal court injunctions against strikes, and prohibited most yellow-dog contracts. Despite its landmark importance, enactment of the law had little impact since its effectiveness was left uncertain depending on subsequent court interpretations.<sup>108</sup>

In November 1932, Franklin D. Roosevelt was elected as the Democratic President, defeating Hoover by a large margin, and the Democrats won a majority in Congress for the first time since 1918. Roosevelt's victory was critically dependent on the support he gained from business leaders.<sup>109</sup> Roosevelt's administration in 1932 was, thus, based primarily on a coalition of northern business and southern agriculture, which did *not* include labor.

In June 1933, the President introduced the most comprehensive plan of economic recovery, the National Industry Recovery Act. The NIRA was, in effect, *pro-business* legislation that authorized business to form cartels, packaged with a public works program and one section of labor provision that recognized the right of workers to bargain collectively. In the legislative process, employers had vigorously opposed the inclusion of the labor provision but eventually compromised, in exchange for obtaining a long-sought exemption from antitrust laws.<sup>110</sup> The labor provision, Section 7(a), recognized the right of employees to organize and bargain collectively through representatives of their own choosing; prohibited employers from interfering with that right; and outlawed yellow-dog contracts or any employment contract conditional on union affiliation or activities.

The ambiguous wording of Section 7(a) created various interpretations if not confusion. Labor leaders saw the NIRA as a Congressional sanction of organized labor for the first time in U.S. labor history. The labor movement surged immediately after the passage of the Act and organized workers began massive strikes demanding union recognition.<sup>111</sup> Management, on the

---

<sup>108</sup>Bernstein (1960), pp.397–8, pp.414–5 and pp.467–80; Fausold (1985), pp.122–3 and p.135.

<sup>109</sup>The Democrats relied on northern industrialists for financial support in the 1932 election as much as the Republicans did. Some progressive Republicans also supported Roosevelt. Finegold & Skocpol (1995), pp.45–47.

<sup>110</sup>Bernstein (1950), pp.34–8.

<sup>111</sup>Bernstein (1950), pp.38–41; Wallace, Rubin & Smith (1988), pp.17–8. The number of work stoppages doubled

other hand, claimed that Section 7(a) approved works councils as legitimate bargaining representatives and was unwilling to recognize trade unions. Within six months of the passage of the NIRA, at least four hundred employee representation plans were created under employers' initiative.<sup>112</sup> Thus Section 7(a) triggered a fierce rivalry between *trade unions* and *works councils*.

There were two contesting views of works councils in American society. A study by the National Industrial Conference Board (NICB) forcefully argued that the works council was an effective form of collective bargaining in which management dealt *directly and exclusively* with representatives of the workforce of each company in recognition that the matters of internal plant policy should not be the subject of outside interference. On the other hand, a study by the Bureau of Labor Statistics contended that most works councils were established by management *without* giving employees an option between a trade union or a works council and, in contrast to trade unions, they were entirely reliant upon management for finances, ineffective in handling grievances, and unable to bring any pressure upon the employer.<sup>113</sup> The reality of works councils was a delicate mix of the two. Newly formed works councils conformed more to the latter view, while those works councils which were established in the early 1920s and continued to operate during the Great Depression tended to have support from employees.<sup>114</sup> In fact, works councils received almost thirty percent of the total valid votes cast in representation elections held by the NLB between 1933 and 1935. The government attitude with respect to Section 7(a) was also internally divided between pro-business NRA officials who were in favor of works councils, and pro-labor NLB staff who supported trade unions.<sup>115</sup> Both trade unions and works councils drastically expanded their respective memberships during the period of the NIRA, as shown in Table 13. Union membership increased from 3.0 million in 1933 to 3.8 million in 1935, while the number of employees covered by works councils increased from 1.3 million in 1932 to over 2.5 million in 1935.<sup>116</sup>

Roosevelt's program of economic recovery created more chaos than order. By 1935, it was

---

from 841 in 1932 to 1,695 in 1933.

<sup>112</sup>NICB (1933*b*), p.9 and p.24; NICB (1934), p.4.

<sup>113</sup>NICB (1933*a*); U.S. Department of Labor, Bureau of Labor Statistics (1935*b*).

<sup>114</sup>For the cases of International Harvester and Western Electric, in which a majority of workers supported works councils, see Cohen (1990), p.351.

<sup>115</sup>Wolman (1936), pp.79–80; Finegold & Skocpol (1995), pp.124–5.

<sup>116</sup>No definite data is available for the total membership of works councils in 1935. Lyon (1935, p.524) estimated that it was between 2.5 million and 3 million at the end of 1934, and the research staff of Bernheim & Van Doren (1935, p.79) estimated that it was 2.5 million in April 1935.

increasingly clear to the eyes of the public that the Act contributed little to economic recovery.<sup>117</sup> Consequently, the NIRA produced two rather unintended outcomes: one was the failure to achieve economic recovery under employers' initiative and self-regulation, and the other was the unexpected success of organized labor stimulated by Section 7(a). The former led Roosevelt to abandon voluntarist corporatism, while the latter enabled him to form a political coalition with labor. To mark an end to the chaos, in May 1935 the Supreme Court reached its unanimous decision declaring the NIRA unconstitutional as it granted undue power to the President with vaguely defined objectives.<sup>118</sup>

## 5.2 From Pro-Business to Pro-Union Labor Laws in the U.S.

Continuing economic depression and an increasing political voice of organized labor led to unusual gains of the Democrats in Congress in the mid-term election of 1934 *after* the Democratic victory in 1932.<sup>119</sup> In response, Roosevelt's political position shifted markedly from an alliance with industrialists to one with organized labor, forming the so-called "New Deal Democratic Coalition." Against this political backdrop, the President launched a series of pro-labor laws in 1935.

Soon after the Supreme Court ruling against the NIRA, President Roosevelt signed the National Labor Relations Act (referred to as the Wagner Act) in July 1935, establishing a new legal framework for collective bargaining. The Act identified "the inequality of bargaining power between employees who do not possess full freedom of association or actual liberty of contract, and employers who are organized in the corporate or other forms of ownership association" as a factor that aggravated the Depression. The Wagner Act was not the mere reinstatement of the employees' rights recognized in the NIRA. The Act went further to obligate employers to bargain collectively and prohibit an employer from engaging in *unfair labor practices*, explicitly outlawing works councils initiated by management. The Act also created the National Labor Relations Board (NLRB) as an independent quasi-judicial board with *exclusive* legal enforcement power concerning labor relations. The Wagner Act posed a serious legal threat to employer paternalism. In addition to works councils, the NLRB identified corporate welfare programs containing discriminatory clauses against union members, as well as employee clubs and associations cre-

---

<sup>117</sup>Lyon (1935), pp.751–5; Weinstein (1980).

<sup>118</sup>*Schechter Poultry Corp. v. United States* (295 U.S. 495).

<sup>119</sup>Finegold & Skocpol (1995), pp.136-8.



ated by management to foster harmonious relations, as unfair labor practices.<sup>120</sup> Moreover, in the same year, the Roosevelt administration enacted the Social Security Act, which introduced compulsory state unemployment compensation and federal old-age pensions. The Social Security Act was the “radical legislation” business leaders feared. State provision of social security significantly reduced the returns from voluntary corporate welfare benefits offered by progressive employers.

Major employers immediately launched a vigorous campaign against the Wagner Act and Social Security Act, filing numerous legal challenges to their constitutionality. Bethlehem Steel conducted an extensive campaign to convince their employees and the public that, by eliminating company unions, the Act would “destroy harmonious relations between workers and management.” The NICB published an extensive survey on the industry relations programs practiced by employers and challenged the necessity of any government intervention in labor-management relations. The National Association of Manufacturing distributed a bulletin claiming that unfair labor practices did not apply to most manufacturing industries. Within its first year, the NLRB encountered more than eighty injunctions granted by the courts.<sup>121</sup>

Endorsed by Congress, in June 1936, the La Follette Committee began its Congressional investigations of employers’ infringements of civil liberties.<sup>122</sup> The Committee soon revealed that major business leaders, such as General Motors, had engaged in *anti-labor* practices (e.g., spying, arming, strikebreaking) during the NIRA period. In 1937, the Committee reported that “industrial espionage was found to be a common, almost universal, practice in American industry” and that it identified a strong correlation between the decline of labor unions and the increase in company expenditures on labor detective agents.<sup>123</sup> Further, the Committee found that employers had spent a huge budget on munitions for labor disputes, such as machine guns, pistols, and gas bombs to arm their strikebreakers and private police force, while labor had spent nothing.<sup>124</sup> In short, the La Follette Hearings presented concrete evidence of unlawful anti-labor practices commonly exercised by prominent business leaders. As a result, it served to justify the Wagner Act’s sweeping prohibition of unfair labor practices. The reputations of progressive

---

<sup>120</sup>Brandes (1970), p.144.

<sup>121</sup>Jacoby (1985), p.241; NICB (1936); Auerbach (1966), pp.53–55 and p.72.

<sup>122</sup>The NLRB actively cooperated in the La Follette Committee investigations by sending its staff and contributing necessary information (Auerbach (1966, p.85)).

<sup>123</sup>U.S. Senate, Committee on Education and Labor (1937*a*), p.2 and pp.22-5. The report found at least 3,871 spies serving approximately 2,500 firms between 1933–36.

<sup>124</sup>U.S. Senate, Committee on Education and Labor (1937*b*); U.S. Senate, Committee on Education and Labor (1939*a*); U.S. Senate, Committee on Education and Labor (1939*b*).

employers, which had been eroding since the early 1930s, collapsed.

In November 1935, the leader of the United Mine Workers, John Lewis, established the Committee of Industrial Organization (CIO) to promote industrial unionism among unskilled and semi-skilled workers in mass-production industries. The CIO unions widely introduced a radical tactic called a “sit-down strike,” which was effectively an illegal seizure of an employer’s private property. In 1937, the number of work stoppages more than doubled from the previous year, including nearly five hundred sit-down strikes and mobilizing almost two million workers. The contemporaneous developments in the La Follette Committee investigation, however, considerably moderated the public sentiment against the sit-down strikes.<sup>125</sup> The government rarely intervened in labor disputes against organized labor, despite its obvious militancy.<sup>126</sup> The La Follette Hearings also forced employers to give up the use of anti-union violence, contributing to favorable strike settlements for labor.<sup>127</sup> Despite employers’ strong opposition to industrial unionism, the CIO unionized major manufacturing industries, such as automobile, rubber, iron, steel, and electric machinery, after 1937. Union density, defined as the rate of trade union membership among non-agricultural employees, increased from 14.1 percent in 1936 to 18.7 percent in the single year of 1937.

In November 1936, Roosevelt won his second presidential election with overwhelming support from the working class and organized labor.<sup>128</sup> Immediately after his reelection, President Roosevelt pressured the Supreme Court, which had consistently ruled against the New Deal legislation, by proposing a reorganization of the Supreme Court. In 1937, the Supreme Court *validated* the constitutionality of the Wagner Act and the Social Security Act.<sup>129</sup>

The legal obstacles were, thus, finally cleared and the NLRB started to energetically pursue its goals. Between 1935 and 1941, the NLRB found some 1,200 cases of company unions in violation of the Act, ordering their disestablishment. In many cases, employers were compelled to dissolve company unions, while in a small number of cases, they were reorganized into “independent local unions,” which were single-employer unaffiliated unions financially independent

---

<sup>125</sup>Bernstein (1969), p.500; Auerbach (1966), pp.112–3.

<sup>126</sup>The National Guard was called out only three times out of 4,720 labor disputes in 1937 (Goldstein (1978), pp.228–9).

<sup>127</sup>Goldstein (1978), p.212.

<sup>128</sup>Roosevelt received 61% of the popular vote, gaining new support from northern white industrial workers and northern black workers. Financial support for the Democratic party came largely from Labor’s Non-Partisan League backed by the CIO, while the contributions from business fell substantially. Andersen (1979), pp.92-120; Cohen (1990), pp.252–260; Finegold & Skocpol (1995), p.47 and pp.136–138.

<sup>129</sup>Leuchtenburg (1995), pp.132–4 and pp.142–5.

of the employer.<sup>130</sup> A majority of company unions became CIO or AFL affiliates by the vote of employees under the unionization drive. Between 1935 and 1941, the AFL gained 2.0 million members and the CIO gained 2.7 million members. By the early 1940s, it was evident that works councils had lost the battle against trade unions.<sup>131</sup> In summary, the Wagner Act brought an end to labor-management relations based on employee representation plans in most manufacturing establishments. Instead, it laid a legal foundation for new industrial relations based on collective bargaining through trade unions organized across firms within industries.

### 5.3 From Implicit to Explicit Employment Contracts in the U.S.

The NIRA and the Wagner Act created a significant impact on employment relations in private companies. An NICB study reported that the share of large firms with trade union agreements increased from 12.6 percent in 1933 to 42.8 percent in 1939 (see Table 14).<sup>132</sup> The penetration of trade unions was driven by two main factors. First, there was the workers' distrust in their employers, induced first by the repudiation of implicit contracts and then by the result of the La Follette investigation, which seriously discredited corporate paternalism in the eyes of the public. Second, the Wagner Act provided legal protection of the workers' right to organize and severely restricted employers' strategies. Yellow-dog contracts and other discriminatory welfare plans contingent on union membership or activities were outlawed, which deprived employers of a legal means to keep employees from joining unions. Consequently, for many workers, it became a *dominant strategy* to join trade unions.

Most employers responded aggressively to trade unionism, with a belief that unions would not only demand higher wages, but also undermine cooperative employer-employee relationships within a company. The processes of union recognition in the late 1930s were, thus, extremely confrontational and violent. As a result, *antagonistic* labor-management relations, based on the view that the interests of employer and employees were essentially in conflict, took root in most unionized companies. Moreover, this adversarial relationship led to the subsequent development of an *explicit* and *legalistic* collective agreement, as follows.

A marked change in the employment policy of companies during the 1930s was the shift from implicit agreements to explicit rules. Toward the late 1930s, many companies started to

---

<sup>130</sup>Jacoby (1997a).

<sup>131</sup>Mills & Montgomery (1945), p.523 and pp.852-3; Freeman (1998), p.286; Jacoby (1997b).

<sup>132</sup>NICB (1940).

make their employment policies and work rules written and public. Previously, an employer would “flatly refuse to put his labor policies in writing on the grounds that if he did so he and his executives would be committed to make them effective.”<sup>133</sup> In other words, under employer paternalism, a company tended to keep its employment policy internal, and its details were governed by informal practices or implicit agreements between an employer and employees to retain flexibility and discretion. In contrast, under collective bargaining with unions, employers discovered the merit of explicit and detailed rules and policies in winning disputes with unions and protecting managerial prerogatives. For example, a number of major employers introduced job analysis and evaluation in order to rationalize wage rates. Management expected that a systematized wage structure based on an explicit and objective job analysis would forestall union complaints and establish a managerial prerogative in wage determination.<sup>134</sup> In the meantime, legal enforceability of collective agreements had been increasingly established by courts. For the first two decades of this century, collective agreements had generally been moral, rather than contractual, obligations. After the first ruling of the court in 1920 that reinstated a union contract that was violated by employers, however, the courts in various states came to recognize collective agreements as legally binding contracts.<sup>135</sup> Since the late 1920s, court injunctions had been frequently granted to compel the observance of collective agreements breached by employers or unions, although it was not until the Taft-Hartley Act in 1947 that legal enforceability of collective agreements was established by federal law.<sup>136</sup>

Union officials also found it advantageous to conclude an explicit collective agreement based on legal enforcement that would restrict managerial discretion. Unions helped management in setting up *third-party grievance arbitration* as the final step of a grievance procedure. Many unions demanded the establishment of the *seniority principle* as an objective and impersonal standard that would reduce foremen’s discretion regarding personnel matters.<sup>137</sup> As a result of collective bargaining, management increasingly accepted the seniority principle in layoffs and, to a lesser degree, in promotions and transfers. Nearly 70 percent of unionized firms established layoff-rehire systems under explicit and elaborately defined seniority rules. By the early 1940s, “industrial jurisprudence” emerged in unionized American firms, requiring management

---

<sup>133</sup>A contemporary manager cited in Jacoby (1985), p.250.

<sup>134</sup>NICB (1959); Jacoby (1985), pp.251–2.

<sup>135</sup>*Schlesinger v. Quinto*, (192 N.Y.S 564).

<sup>136</sup>Commons & Andrews (1936), pp.398–90; Millis & Brown (1950), pp.503–13.

<sup>137</sup>According to the seniority principle, workers were laid off in an inverse order of seniority and rehired in the order of the seniority, guaranteeing greater job security to those who held longer tenure.

to conform to the rules established by a collective agreement.<sup>138</sup>

Consequently, after the passage of the Wagner Act, employment relations in American manufacturing firms were increasingly characterized by collective bargaining between employer and trade unions, an explicit and elaborate employment contract relying on legal enforcement, centralized and bureaucratized labor management, and adversarial labor-management relations. Corporate paternalism declined toward the end of the 1930s, due to the prohibition of works councils and other employer-sponsored organizations, the unions' opposition to discretionary non-wage benefits, and the introduction of compulsory state welfare programs. These trends were further reinforced during the Second World War, leading to the establishment of the American employment system in the postwar era.

#### 5.4 Labor Legislation under Imperial Democracy in Japan

As we documented, government labor legislation in the U.S., triggered by the Great Depression, eventually led to a drastic transformation of employment relations in private manufacturing firms. From a comparative perspective, we explore, first, why legal recognition of trade unions did *not* take place in pre-war Japan, despite the fact that labor union bills were repeatedly submitted to the Diet, and, second, how government labor policies developed in a way that was *complementary* to corporate paternalism in Japan.

As the economy grew stronger, one of the primary concerns of the Japanese government was to gain international recognition among industrialized countries. Because Japan was repeatedly accused of “social dumping,” i.e., exporting cheap manufacturing goods at the expense of workers' conditions in domestic factories, the improvement of the working conditions became a government priority in the 1920s. As a result, progressive bureaucrats of the Home Ministry began to gain a voice within the government. Furthermore, since the early 1900s, the elective Lower Diet had significantly increased its political power vis-à-vis the non-elective, oligarchic Upper Diet. By the 1920s, two major political parties had emerged in the Lower Diet: the conservative, rural-based, and pro-business party, *Seiyūkai*, and the liberal, urban-based, and relatively pro-labor party, *Minseitō*. The Japanese government was run under a two-party political system from 1924 to 1931, during which the democratic movement culminated in Japan, even though it was under the imperial regime.<sup>139</sup>

---

<sup>138</sup>Brody (1993), p.180; Jacoby (1985), p.245; Slichter (1941).

<sup>139</sup>Gordon (1990); Ramseyer & Rosenbluth (1995).

The first labor union bill in Japan was introduced to the Diet in 1921, stimulated, in part, by the establishment of the International Labor Organization. The bill was aborted due primarily to a disagreement within the government between the pro-industrialist Agricultural and Commerce Ministry and the pro-labor Home Ministry. Reflecting their respective positions, the former emphasized a need to regulate and monitor unions, whereas the latter insisted on recognizing and protecting workers' right to organize.<sup>140</sup>

In 1925, the Diet passed a revised election law, introducing universal male suffrage that quadrupled the number of qualified voters (see Table 15), and repealed Article 17 of the Peace Police Law that had been applied against organized labor. In the same year, a liberal labor union bill was drafted by progressive bureaucrats of the Home Ministry. The bill gained support from labor leaders and intellectuals, while it invoked vigorous opposition from pro-business ministries and employers' associations. Among other points, employers were especially against the provisions that prohibited yellow-dog contracts and discriminatory discharges of union members. The bill was modified substantially in favor of employers during deliberation, incorporating restrictions on workers' right to strike, and then was submitted to the Diet. The revised bill, which invited strong opposition from both enraged labor unions and unsatisfied employers, was finally dropped in 1926.<sup>141</sup>

In the first election under universal male suffrage in 1928, Minseitō made a substantial gain in the Diet, reflecting a growing political voice of the working class. The liberal Minseitō cabinet formed in 1929 was, therefore, determined to pursue union legislation. The government commissioned the Social Bureau of the Home Ministry to draft a labor union bill. The so-called "Social Bureau draft" included provisions that exempted unions from liability for strike damages and outlawed yellow-dog contracts and other discriminatory treatment against union members. Yet, at the same time, it authorized local governments to alter union constitutions and dissolve unions if necessary. Employers' associations immediately organized a united front to campaign against the bill. The Japanese Industrial Club published a statement claiming that its enactment would legitimate and encourage militant unions influenced by socialism, and that it would endanger spontaneous labor organizations that had "greatly contributed to the establishment of mutual trust between labor and capital, the improvements in technology and efficiency, and the enhancement of the happiness and interests of workers." Home Ministry

---

<sup>140</sup>Rōdōshō (1961*a*), pp.130–41.

<sup>141</sup>Nishinarita (1988), p.331.

officials, on the other hand, argued that the vaunted employer paternalism in Japan rested entirely on the “whims of capitalists,” offering no solution to the mounting labor disputes in the society, and that true labor-capital harmony would result only when both sides were on an equal footing.<sup>142</sup>

The above discussions between Japanese employers and government officials in 1930 exhibit a striking similarity to the debate between American management and labor officials during the legislative process of the NIRA in 1933. Furthermore, in response to the Great Depression, the Japanese government introduced the Important Industry Control Ordinance, which implemented cartelization of business under government supervision in 1931, the same year when the union bill was submitted to the Diet. In other words, the U.S. and Japan came to similar political crossroads in the early 1930s, at which the two countries parted ways. In contrast to the U.S., where the cartel provision failed and the labor provision successfully stimulated organized labor, in Japan, the cartel legislation was more or less successful and the union legislation was eventually blocked, as described below.

As the government prepared to submit the labor union bill to the Diet, the industrialists’ offensive further intensified, leading to the formation of *Zensanren*, the Association of National Industrial Groups, under which all the employers’ associations were united in opposition to union legislation. Employers argued that, in the midst of the current economic depression, legal recognition of unions would provoke even more labor disputes and create grave consequences for industrial development. The government was finally compelled to amend the Social Bureau draft, and a revised draft was submitted to the Diet in 1931. The bill was approved by the Lower Diet, but was shelved by the Upper Diet where industrialists had stronger influence.<sup>143</sup> Any further attempt at union legislation by a ruling party was dropped after the defeat of the bill in 1931, the year in which the Manchurian Incident broke out and political power effectively fell into the hands of the military. Subsequently, the union movement rapidly subsided in Japan.

In summary, management scored a political victory in convincing the public and the government that recognition of organized labor would destroy industrial harmony and impede industrial production. In contrast to the solidarity of industrialists, labor unions were unable to overcome internal disunity and failed to obtain wide support from the working class in pursuing labor union legislation. Organized labor in Japan, thus, could not provide reliable political support

---

<sup>142</sup>Rōdōshō (1961*a*), p.434; Garon (1988), p.173.

<sup>143</sup>Garon (1988), Appendix 5; Rōdōshō (1961*a*), pp.439–58.

for the government as the AFL did in the legislative process during the New Deal period. At the same time, as a majority of Japanese employers maintained their corporate paternalism in the midst of the Depression, they had better reputations than American business leaders. As a result, in Japan, big business gained further political voice, whereas organized labor gradually lost its political influence. This led further to the formation of pro-paternalism labor policies in the mid-1930s.

## 5.5 The Formation of Pro-Paternalism Policies in Japan

During the period of so-called “imperial democracy” in the 1920s, the Japanese government initiated a series of pro-labor measures that substantially upgraded the previous legal requirements of working conditions and non-wage benefits.<sup>144</sup> For the proponents of employer paternalism, this posed a serious threat to the viability of their corporate welfare programs. During the legislative process, employers’ associations and local chambers of commerce lobbied strongly against these measures. As a result, most of the legal requirements were set significantly *lower* than the existing welfare practices in large companies, preserving incentives for major employers to continue their programs, while stabilizing the workers’ welfare by creating some legal minimum. Government labor policies also played a role in institutionalizing existing corporate welfare programs and propagated them to smaller-sized firms in the economy.

The above aspect of labor policies can be best seen in the Retirement Allowance Fund Law enacted in 1936. The law was first discussed in 1932, as unemployment became a serious social concern during the Depression. Zensanren, the largest employers’ association, immediately opposed the introduction of unemployment insurance and, instead, emphasized the unique existence of retirement allowance plans developed by Japanese employers to foster “warm and moral” labor-capital relations. Given this view, as well as the lack of a budget and experience in implementing national unemployment insurance, the government drafted a law that incorporated an aspect of unemployment insurance into the existing retirement allowance plans. The Retirement Allowance Fund Law of 1936 required every firm with fifty or more employees to set up funds for a retirement allowance and established a minimum amount of allowance depending on the *length of service* and the *reason for separation*. During the legislative process, a clause which guaranteed that all workers would receive their full allowance regardless of the reason for separation was eliminated due to the strong opposition of business leaders. Employers also won a

---

<sup>144</sup>Yokoyama & Tada (1991), pp.46–7.



provision allowing companies with existing retirement funds of sufficient scope to continue their previous plans with *little* modification. Nevertheless, the Law extended the existing plans to cover workers with shorter lengths of service. In particular, since poorly compensated temporary workers had become a serious social problem in the mid-1930s, the Law required an employer to pay a retirement allowance for every worker with service longer than six months, *regardless* of his employment status.<sup>145</sup> In short, the Retirement Allowance Fund Law was “an ingenious variant of unemployment compensation [...] that did not simply rely on the dubious benevolence of employer, but did explicitly link a worker’s ‘entitlement’ to unemployment benefits to the *quality of his service to a particular employer*.”<sup>146</sup> Thus, in contrast to the Social Security Act of 1935 in the U.S., unemployment benefits in Japan developed in a way that reinforced existing corporate practices. Consequently, government labor policies in the U.S. and Japan evolved in different directions in the 1930s.

## 6 Government Labor Regulations during W.W.II

The Second World War (1939-45) induced enormous government intervention in both the U.S. and Japan. The respective governments introduced sweeping labor regulations that were powerfully enforced, not only by legal methods, but also by coercive measures under wartime emergency. Even though the government exercised its supreme power during the war, two main factors bound government actions. First, in designing regulatory policy, the government was constrained by the existing institutional capital in the economy (e.g., technology, legal framework, informal practices, reputations) that reflected past development. Second, in enforcing any regulation, the government was subject to the strategic responses of private agents who often possessed private information and tried to evade laws that were against their interests. Consequently, not only did the government tend to develop labor regulation modeled on prevailing private employment practices, but regulations that were not compatible with existing practices also turned out to be less effective. As a result, even though the U.S. and Japanese governments pursued similar objectives during the war — maximum industrial production and minimum labor disputes — labor regulations in the respective countries differed considerably in important aspects, reflecting their distinctive institutional developments prior to the war.

---

<sup>145</sup>Saguchi (1977), pp.222–3; Rōdōshō (1961*a*), pp.310–323; NRUS (1964), pp.280–328.

<sup>146</sup>Gordon (1987), pp.268–9; emphasis added.

## 6.1 Employment Stabilization and Wage Control in the U.S.

The massive government spending on defense production stimulated tremendous economic growth in the U.S. (see Figure 4). As the booming economy and the military draft gave rise to a serious labor shortage during 1942–45, the federal government launched a series of far-reaching labor regulations and established powerful agencies for their planning and implementation.

Beginning in 1941, the federal government implemented *employment stability plans* to restrict labor mobility. The plans promoted intra-industry standardization of employment conditions and work arrangements to reduce labor poaching and wage inflation. Employers in manufacturing plants were urged to define job titles according to standardized classifications and to use standardized methods of job analysis and evaluation. For effective and easy job training, the government promoted *job simplification* and urged employers to create promotion lines, which enabled employees to acquire necessary skills by progressing up job ladders. In addition, the government created national training programs, such as the Training Within Industry (TWI) for foremen, contributing to the diffusion of standardized shopfloor management across the industry. Furthermore, government wage control programs compelled employers to systematize and rationalize their wage determination. Wage negotiations between unions and management under the regulation led to the establishment of explicit links between wage rates and job titles among many manufacturing firms. As the Fair Standards Act of 1942 obligated employers to record the wages and hours of every employee, management was also urged to create a personnel department in order to compile job classifications, turnover records, promotion plans, and wage rules. Consequently, systematized personnel policies — centralized employment, standardized job analysis, merit ratings and seniority provisions in promotions and layoffs — which had been increasingly adopted by large firms since the 1920s, spread dramatically during the war among medium- and small-sized firms under government supervision (see Table 16).<sup>147</sup>

In addition to the employment stability plans, the federal government launched direct control of labor mobility. In 1942, workers departing from jobs in high-priority industries were required to obtain a “certificate of separation,” while employers in those industries were directed not to dismiss employees without government approval. Although there was no provision specifying a legal means of enforcement, the government used various methods to exert pressure on workers and employers to compel conformity. For example, a worker who failed to obtain a certificate was

---

<sup>147</sup>Jacoby (1985), pp.261–9; Warne (1945), p.79; Baron et al. (1986).

subject to modification or cancellation of draft deferment or other employment privileges, while an employer who disobeyed the instructions lost subsequent government contracts. Mobility control was soon extended to other manufacturing industries. Although it is hard to measure the exact effect of government mobility control, the data show that the average annual turnover rates of manufacturing workers remained extremely high, sometimes exceeding 100 percent, during 1942–45 (see Figure 2). The high turnover was due, in part, to the mobilization of labor from low-priority to high-priority industries and, to a lesser extent, the military draft. Much of the turnover, however, was initiated by workers *despite* the government regulation.<sup>148</sup>

In the meantime, wage regulation triggered a revival of corporate welfare benefits in manufacturing companies, since management could adopt relatively generous non-wage benefits without government approval. During the war, welfare plans — such as group insurance, pensions, profit sharing, paid vacation, family allowances, and medical services — flourished as employers attempted to reduce turnover and raise labor productivity under the extremely tight labor market and stringent wage control.<sup>149</sup> It is important to note, however, that trade unions soon demanded establishment of these benefits as a *contractual right* and tried to expand the scope of collective bargaining beyond wages and hours. A legal battle between management and unions subsequently ensued and was eventually settled in the postwar period, as described later.

## 6.2 Labor-Management Relations during W.W.II in the U.S.

In regulating labor-management relations during the war, federal government intervention was motivated by two main concerns: preventing industrial disputes and increasing production efficiency. The War Labor Board and the War Production Board respectively instituted various measures in achieving these goals.

As wartime inflation and long working hours pressed production workers in the U.S., the number of labor disputes increased sharply in 1941. To prevent costly production interruptions due to disputes, President Roosevelt set up the War Labor Board consisting of representatives from business, labor, and the government. The WLB compelled resistant employers to recognize trade unions as bargaining representatives, while urging unions to cooperate with employers in the war effort. The WLB also granted union security provisions (e.g., the maintenance of membership, union shop, dues check-off) that stabilized unions's membership and financial

---

<sup>148</sup>U.S. Department of Labor, Bureau of Labor Statistics (1942), pp.714–5; Warne (1945), pp.48–9.

<sup>149</sup>NICB (1947); Jacoby (1985), pp.266–7; Warne (1945), p.80.

structure. Under government pressure, union membership grew substantially during the war, and the number of workers covered by collective agreements rose from 30 percent in 1941 to 48 percent in 1945. In exchange, the WLB demanded a “no-strike pledge” and responsible unionism from union leaders. The board was particularly concerned about an increasing number of strikes initiated by rank and file workers without union authorization. Although the WLB had no legal enforcement power, it cultivated national sentiment against wartime strikes and used cancellation of contract provisions to punish union noncompliance. Later, the War Labor Disputes Act of 1943 empowered the President to seize private plants of strategic importance and forbade strikes at government-owned plants. The number of labor disputes declined in 1942, but increased again toward the end of the war. As Table 17 shows, however, the average duration of work stoppages remained short throughout the war, indicating some effect of the regulatory measures.<sup>150</sup>

For prompt settlement of disagreements over the interpretation of collective agreements, the WLB encouraged management and labor to establish a formal grievance system with third-party arbitration. Under the no-strike pledge, unions were obliged to take unsettled grievances first to private arbitration, then to state mediation, and eventually to federal ruling. At the same time, the WLB granted a set of managerial prerogatives, which neither required a union’s prior consent nor were subject to union grievances. As a result, wartime measures tended to encourage an explicit, well-specified, and elaborately-written collective agreement that was enforceable by a legal third party. Gradually, government officials, personnel managers, and union representatives accumulated legal expertise in negotiating contracts and handling disputes during the war, creating a “common law” of labor-management relations that laid the foundations for American industrial relations in the postwar period.<sup>151</sup>

The federal government also intervened in labor-management relations to enhance plant efficiency. In 1942, confronted with a serious production situation, the War Production Board advocated the introduction of a *joint labor-management production committee* at every manufacturing plant. The stated objective of the joint production committee was to raise plant productivity through labor-management cooperation. In particular, management was encouraged to involve labor in production planning, share information, and incorporate workers’ suggestions to improve production processes. Initially, both management and unions expressed “fears and distrust” over the WPB plan. Management was afraid that organized labor would take

---

<sup>150</sup>Seidman (1953), pp.91-108; Harris (1982), pp.50-7 and pp.131-9; Warne (1945), pp.69-71 and pp.111-7.

<sup>151</sup>Harris (1982), pp.49-50.

over managerial prerogatives through participating in production. Union leaders suspected that management would turn the joint production committees into “company unions” in unorganized plants, or would use them to dominate trade unions in organized plants. To gain the consent of both parties, the WPB had to declare that joint production committees should not interfere with the existing collective bargaining procedures or grievance machinery. After cautious inquiry, AFL and CIO executives endorsed the plan. Management then followed.<sup>152</sup>

The joint production committee quickly spread, at least on the official record, under patriotic enthusiasm. Table 18 shows that, at its peak in 1944, there were 4,835 registered production committees covering more than seven million workers, or roughly 40 percent of the workforce in manufacturing and mining. However, closer examination reveals that more than half of the registered committees were perfunctory, engaging only in war activities such as patriotic rallies or not functioning at all. Fewer than one fifth of the joint production committees dealt with production and personnel problems. Successful committees nevertheless reported an increase in production, reduction of costs, improvement of industrial relations, and better worker morale.<sup>153</sup> The establishment of joint production committees left little impact on postwar employment relations. A majority of employers concluded that engineering and personnel staffs were more reliable than production workers in solving problems. Many unions claimed that, despite their efforts and concessions during the war, there had been no change in their status as production partners. Within a few years after the war, 90 percent of the committees were eliminated.<sup>154</sup>

In summary, the introduction of establishment-level joint committees by the government turned out to be largely ineffective. Given the existing collective bargaining framework, vested interests of employers and unions, and persistent mutual distrust between the two, even the powerful leadership of the wartime government failed to coordinate management and labor and bring about their cooperation.

### **6.3 Mobility Control, Training, and Wage Regulations in Japan**

In 1937, the Japanese invasion of China led to the outbreak of the Sino-Japanese War. In June 1938, the National General Mobilization Law provided the military government with the supreme power to mobilize material resources and manpower under centralized economic planning. The

---

<sup>152</sup>De Schweinitz (1949), pp.15–9.

<sup>153</sup>De Schweinitz (1949), pp.41–81; Warne (1945), p.238.

<sup>154</sup>Out of the 3,000 plants in which production committees had existed in July 1945, only 287 plants were reported to be active in January 1948. De Schweinitz (1949), pp.7-8 and pp.30–5.

government regulations extended from mobility and wage controls to labor-management relations in private firms.

The Second World War (1939–45) demanded a dramatic expansion of heavy industry, while also drafting the most-needed adult male workers into a military force. The labor shortage intensified toward the end of the 1930s, and turnover of workers began to surge.<sup>155</sup> Starting in 1939, the Japanese government launched a series of regulations to restrict labor mobility and to control labor allocation. The government set up the National Registration System, which required workers who possessed special skills to be registered with the government. The Employee Hiring Control Ordinance of 1939 prohibited workers in heavy industry from changing jobs without the permission of local governments, but had little effect in reducing turnover. The Employee Turnover Prevention Ordinance of 1940 then prohibited employers from hiring technicians and production workers in military-related industries. The two ordinances were largely ineffective, as both employers and workers kept engaging in illegal hiring and job switching, finding loopholes in the regulations. In 1942, the government replaced them with a stricter measure, the Labor Adjustment Ordinance, which forbade employment, dismissal, and voluntary separation of workers in important industries without government permission. This Ordinance finally succeeded in suppressing job turnover.<sup>156</sup> According to government officials, however, these compulsory measures often gave rise to discontents, complaints, workplace tensions, lower morale and productivity, and organized and unorganized slowdowns in manufacturing establishments.<sup>157</sup>

In stark contrast to the U.S., where mass production technology, job simplification and standardization, and utilization of unskilled and semi-skilled workers were vigorously pursued, manufacturing firms in wartime Japan kept relying on general-purpose machinery and broadly-trained, multi-skilled workers. In fact, to increase the supply of skilled workers, the government encouraged *corporate training* based on the practices adopted by large establishments since the late 1910s. The Skilled Employees Training Ordinance of 1939 required employers to provide three-year training programs within a company to foster “skilled mainstay workers (*chūken jukuren-kō*).”<sup>158</sup> The effect of compulsory training programs was, at best, mixed. The government tried to impose a standard training program combined with moral education and military drills, which considerably undermined the flexibility and practicality of corporate training. Em-

---

<sup>155</sup>The annual turnover rate of factory workers increased from 45.6% in 1937, to 47.4% in 1938, and to 55.2% in 1939 (Ōhara Shakai Mondai Kenkyūsho (1964), p.41).

<sup>156</sup>Ōhara Shakai Mondai Kenkyūsho (1964), pp.9–10 and pp.56–7; Gordon (1985), p.265 and pp.271–3.

<sup>157</sup>Police Bureau of the Home Ministry (1940), cited in Gordon (1985), pp.317–8.

<sup>158</sup>Sumiya (1971), p.233 and pp.293–4. In 1940, there were about 1,500 firms training 53,000 workers.

employers often secretly simplified or shortened training in order to allocate more workers to production, rather than to training supervision. In some instances, one-third of the workers enrolled in the programs reportedly quit their firms before completing the three-year training period. In 1943, recognizing the extraordinary labor shortage, the government drastically shortened the required training period from three years to one year.<sup>159</sup> After 1944, effective training was no longer feasible, as labor conscription brought a large number of inexperienced workers to the war factories. In a small number of large firms, such as the Hitachi Engineering Works and Tōshiba Electronics, however, corporate training and technical education continued throughout the war, preserving their highly skilled employees and technicians and contributing to the postwar growth of the companies.<sup>160</sup>

Early in the war, there was little systematic effort to protect skilled workers from the military draft, due largely to a coordination failure between military and civil officials. Consequently, a significant portion of skilled male workers were drafted by the early 1940s. The government belatedly gave deferment or moratorium to the indispensable workers and technicians in high-priority industries in 1942. Even after 1942, however, many skilled workers were reportedly drafted.<sup>161</sup> Meanwhile, the shortage of skilled workers in conjunction with a shortage of raw materials greatly hindered Japan's war production. In 1941, the government introduced the National Conscription System, in which male workers in peace-time industries were conscripted and sent to war factories designated by the government. The government also seized private factories of strategic importance and "froze" the existing workers to those factories. Workers expressed their strong antipathy toward labor conscription coerced by the government.<sup>162</sup> In addition, the government subsequently mobilized students, young females, foreign workers, prisoners of war, and civilian criminals as substitutes for male skilled workers. As a result, the composition of the workforce changed drastically (see Table 19): at the end of the war, two-thirds of the total labor force in Japan were either conscripted or mobilized workers, and the percentage of skilled workers to all production workers declined from 34 percent in 1941 to 22 percent in 1945. A manager at the time remarked that, even though government labor mobilization prevented a decrease in the total number of workers, the decline in the quality of skill was "more than imaginable." The difficulty of integrating conscripted workers into the existing work force and motivating

---

<sup>159</sup>Gordon (1985), p.265; Sumiya (1971), pp.301-2; Cohen (1949), p.275; Saguchi (1991), p.234.

<sup>160</sup>Sumiya (1971), pp.322-7 and pp.329-33.

<sup>161</sup>Cohen (1949), p.271 and pp.303-4.

<sup>162</sup>Almost 2 million workers were conscripted by March 1944, and during 1941-45, 5,219 private firms were seized by the government. Cohen (1949), p.319.

them gravely concerned employers.<sup>163</sup> In 1943, government officials reported frequent incidents of “disguised” disputes, such as negligence at work, escape, absenteeism, illegal job switching, moonlighting, group violence, destruction of equipment, and producing defective goods. During the war, labor productivity suffered greatly due to extremely high absenteeism, high rates of defective products, and high accident rates.<sup>164</sup>

The Japanese government, like the U.S. government, implemented stringent wage regulations. In 1939, the Wage Control Ordinance put a ceiling on the starting wages of male workers in strategic sectors in order to prevent labor poaching and wage inflation. Since the Ordinance fixed wages in important industries to levels lower than in other industries, it caused workers to move from the important industries, contrary to the government’s intention. The Revised Wage Control Ordinance of 1940 then established maximum, minimum, and average hourly wages in virtually all industries corresponding to age, sex, occupation and region. Employers hiring more than ten regular workers were obliged to set wage rules and submit them to the local employment offices.<sup>165</sup> In 1942, the Essential Establishments Labor Control Ordinance authorized the government to intervene in firm-level personnel management in important industries. Government officials were sent to manufacturing establishments to supervise every aspect of personnel management, including hiring and firing, working conditions, wages and benefits, educational and recreational facilities, and job allocation. Employers were required to file written work rules and wage policies with the Welfare Ministry for its approval and to comply with its orders for any alteration. The Welfare Ministry set “model wage rules” to which companies were compelled to conform. The rules specifically stipulated a semiannual wage increase for *every* worker with over six months of service and regulated an average rate of increase, as well as a range of permissible increases. As a consequence, the Ordinance obligated management to give pay raises to virtually all employees according to their seniority, while allowing limited consideration of such components as skill and diligence in determining the amount of the raise. The Ordinance also required firms to appoint a personnel director and to centralize personnel management. As the application of the Essential Establishments Ordinance was extended to the rest of the economy in 1943, seniority-based wages and centralized personnel management were widely diffused among manufacturing firms.<sup>166</sup>

---

<sup>163</sup>Cohen (1949), p.203 and p.304; Gordon (1985), p.318.

<sup>164</sup>Sakurabayashi (1985), p.13; Ōhara Shakai Mondai Kenkyūsho (1964), pp.43-5; Rōdōshō (1961*a*), pp.1126-7; Gordon (1985), pp.315-7.

<sup>165</sup>Rōdōshō (1961*a*), p.768 and pp.807-9; Ōhara Shakai Mondai Kenkyūsho (1964), p.6.

<sup>166</sup>Rōdōshō (1961*a*), pp.1200; Ōhara Shakai Mondai Kenkyūsho (1964), p.73; Shōwa Dōjin-kai (1960), pp.285.



The Japanese government imposed fewer restrictions on fringe benefits, often exempting them from wage control. To motivate workers and improve their productivity under low wages, management relied on various allowances and welfare benefits. Consequently, similar to the U.S. case, corporate welfare programs proliferated under wartime regulation. Attendance bonuses, overtime pay, retirement allowances, family and other special allowances diffused from large to medium- and small-sized firms. Companies also provided their employees with benefits in kind, housing, and facilities for safety, sanitation, medical treatment, day-care, and recreation.<sup>167</sup> The difference from the U.S. was that, in the absence of trade unions, the welfare programs of the Japanese firms continued to be unilateral and discretionary “gifts” from the employer to the employees under the spirit of paternalism. Non-wage benefits made up a greater part of the compensations during the war and were received by Japanese workers with appreciation, under the extreme shortage of goods for basic needs.

#### 6.4 Labor-Management Relations during W.W.II in Japan

As in the U.S., Japan’s wartime government promoted industrial harmony in order to increase production efficiency and eliminate labor disputes. Surprised by a surge of labor disputes in 1937, the government sought to regulate labor-management relations.<sup>168</sup> To preempt government intervention, Zensanren, the largest employers’ association, initiated a patriotic campaign, advocating “unity of labor and capital” in pursuing industrial service to the nation. With the government’s endorsement, this movement led to the creation of the Federation of Industrial Patriotic Society, *Sampō*. Under state authority, the *Sampō* organization spread quickly throughout the country. Within three years, 4.8 million or 70 percent of workers were covered by *Sampō*.<sup>169</sup> The government urged employers to set up *Sampō* councils (*Sampō kondankai*) and practice joint employer-employee consultation concerning the improvement of productivity and the welfare of workers. In many cases, employers converted their existing factory committees into *Sampō* branches. Despite the government pressure, most employers were reluctant to encourage employee participation in management; instead, they emphasized patriotic education and discipline to increase labor productivity.

In 1939, the *Sampō* branches were placed under direct control of the Police Bureau of the

---

<sup>167</sup>Gordon (1985), pp.290–4.

<sup>168</sup>Both the number of workers involved and the man-days lost in disputes doubled in 1937 from the previous year (NRUS (1959), IV-18).

<sup>169</sup>Sakurabayashi (1985), p.3; NRUS (1959), pp.438–9.

Home Ministry. At this point, the government shifted its stance from tolerating moderate unions to the displacement of unions by Sampō, and began to suppress labor disputes with police intervention.<sup>170</sup> The existing unions, including Sōdōmei, were forced to dissolve by 1941. Consequently, the number of labor disputes declined after 1939, recording the lowest number in 1941. However, it again rose sharply in 1943 *despite* the government control (see Figure 3). Moreover, the suppression of disputes by force led the frustrated workers to engage in various forms of workplace resistance such as sabotage, slowdown, and absenteeism, as noted above. As the Pacific War began in 1941, the objective of Sampō was focused on boosting war production. The Sampō branch was reorganized into the “Production Corps,” or a subdivision of the military organization. The production workers were organized into small groups called the “five-member team,” in which joint responsibility and peer monitoring concerning work effort, absenteeism, and turnover among the team members were imposed. Toward the end of the war, the welfare of workers was greatly sacrificed for higher production.<sup>171</sup>

The Sampō left a complex legacy to postwar labor relations in Japan. Under the ideology of “enterprise as one family (*jigyō ikka*),” membership in a Sampō branch encompassed all the employees within a company, from managers to rank-and-file, from white-collar to blue-collar, from regular to temporary, and from male to female workers. The conspicuous status differences between the white-collar and blue-collar workers during the prewar period were, in theory, removed under patriotic egalitarianism.<sup>172</sup> The government repeatedly demanded that employers respect and trust their production workers. In reality, however, the treatment of blue-collar and white-collar staff often remained fundamentally different. Nevertheless, the Sampō movement during the war raised workers’ expectations for better treatment and improved status, leading to an outburst of the labor movement in the immediate postwar period in Japan.<sup>173</sup>

The implications of Sampō organizations for the formation of enterprise unions in the postwar period remain to be a contentious issue among historians. In Sampō councils, many employers and workers experienced joint labor-management consultation for the first time. Yet, as noted above, the activities of councils in practice were limited, by the employers’ resistance and the later emphasis on production enhancement. The Sampō’s contribution was, thus, largely confined to the distribution of food and other goods under wartime allocations and

---

<sup>170</sup>Sakurabayashi (1985), pp.9-10; Saguchi (1991), pp.203–8.

<sup>171</sup>Sakurabayashi (1985), pp.11–4.

<sup>172</sup>In contrast, in the factory committees in the prewar period, blue-collar workers were organized separately from white-collar workers. Sumiya (1966), p.182.

<sup>173</sup>Gordon (1985), pp.310–3.

rationing, promotion of corporate welfare programs, and sponsorship of cultural activities and moral education.<sup>174</sup> Sampō nevertheless helped to create solidarity among employees in the same workshop and to foster their “sense of belonging” to the company, which might have laid an organizational foundation for postwar enterprise unions. In a few instances, *direct* continuation — either in membership or properties — can be traced from a prewar factory committee to a Sampō branch, and to a postwar enterprise union.<sup>175</sup> In some cases, Sampō indirectly contributed to the postwar formation of enterprise unions through consolidating shopfloor organization, fostering workers’ identities as firm members, and introducing a concept of egalitarianism among employees.<sup>176</sup>

In summary, wartime labor regulation in the U.S. and Japan tended to *reinforce* the existing practices in large private firms in the respective countries and diffuse these practices to the rest of the economy. At the same time, the legal and administrative expertise gained by government agencies, as well as the organizational skills, knowledge, and experience acquired by employers and workers during the war, formed an important part of the institutional capital in the two countries, which was handed down to the postwar period.

## 7 The Postwar Establishment of Employment Systems

Returning to normalcy after the long period of extreme conditions under the Great Depression and W.W.II, American business leaders tried to hold back organized labor and to reestablish managerial prerogatives. Employers’ counteroffensive, however, essentially took place *within* the framework of collective bargaining developed since the New Deal, institutionalizing adversarial labor-management relations and legalistic employment contracts that covered extensive subjects and detailed contingencies. In other words, the postwar establishment of the U.S. employment system was largely a natural continuation of the prior institutional trajectory.

By contrast, Japan experienced a major external shock of the century — the postwar depression and the drastic political and economic reforms brought by the U.S. occupation. However, the shock, which was comparable to the Great Depression followed by the New Deal reforms in the U.S., did *not* deflect Japan’s trajectory toward the American path. Building on the institutional capital accumulated over the past three decades, Japanese labor, management, and

---

<sup>174</sup>Gordon (1985), pp.308–9.

<sup>175</sup>Sakurabayashi (1985), Section 4.

<sup>176</sup>See Yamamoto (1991, pp.44–6) for the case study of the Tōshiba Sampō council.

the government essentially re-introduced the employment system based on implicit contracts, company-wide unions, and cooperative labor-management relations, with some important modifications.

## 7.1 The Establishment of Workplace Contractualism in the U.S.

American labor gained substantial power during the Second World War. Trade union membership increased from 7 million to 13 million, and union membership among non-agricultural employees increased by 10 percent between 1940–46. Moreover, unions were firmly entrenched with contractual rights and guarantees awarded by the WLB.<sup>177</sup> Not only employers, but also Congress, which was led by the Republicans who won a majority in the 1946 election, were determined to discourage organized labor and to protect managerial prerogatives from the unions' thrust. As a result, the number of labor disputes rose sharply in 1946, involving nearly 5 million workers (see Table 17). Most employers viewed the trade union as a “group of agitators” antagonistic to management, and considered collective bargaining with unions as an unwanted, though unavoidable, problem. If there was any consensus between business and labor leaders, it was to draw an explicit legal boundary between managerial prerogatives and the union's bargaining rights.<sup>178</sup>

In 1947, Congress passed the Labor Management Relations Act (referred to as the Taft-Hartley Act), which substantially amended the Wagner Act in favor of business, aiming at rebalancing the bargaining power between capital and labor. The pro-business provisions of the Taft-Hartley Act included specification of unfair labor practices by unions; denial of the right of supervisory employees to organize and bargain collectively; restrictions on the scope of legitimate strikes; and prohibition of political contribution by unions. In addition, the Red Purge stormed through the country in 1949–50 and compelled CIO officials to expel eleven national unions on the grounds of communist control. After this political moderation of the CIO, the two major trade unions, the AFL and the CIO, merged in 1955, ending their twenty years of rivalry.

As a consequence of collective bargaining, major manufacturing companies and the AFL-CIO unions developed highly explicit and extremely elaborate collective agreements in the postwar period. Well-defined job classifications, wage rates based on standardized job evaluations, se-

---

<sup>177</sup>74% of large manufacturing companies had union contracts containing one or more union security provisions (NICB (1947, p.8)).

<sup>178</sup>Harris (1982), p.101 and p.127.

niority provisions in layoffs and promotions, and a formal grievance procedure, all of which were widely promoted during the war, became the primary subjects of most union contracts. When U.S. Steel edited its new job classification manual in 1947, the total number of job titles was more than 20,000, and each of the titles was further divided into 30 wage-rate categories.<sup>179</sup> Along with rigid and well-defined job boundaries, workers developed a concept of *job right*, which could not be infringed on by management, supervisors, or fellow workers. Unions vigorously pursued seniority provisions in layoffs, transfers, and promotions as a means of protecting the job security of loyal union members. Consequently, American manufacturing workers obtained partial but contractual employment security based on the job right that increased with seniority. Reflecting these changes, the turnover rates of American manufacturing workers were lower and more stable in the postwar period, compared to the prewar period (see Figure 2).

In order to contain union intrusion in personnel issues, employers attempted to introduce *merit rating* to determine whether employees were suited to the jobs to which they were entitled by their seniority. Unions often objected to merit rating based on a supervisor's *subjective* evaluation, claiming that it would reintroduce discriminatory treatment and undermine the seniority principle. Under union pressure, foremen and supervisors began to use standardized and objective methods of merit rating, in which their evaluations were further checked by the grievance system.<sup>180</sup> By contrast, management maintained its prerogatives over business decisions, production schedules, and the size and timing of layoffs.

Having received generous non-wage benefits during the war, unions fought to win their bargaining rights on welfare benefits and expand their contractual rights. Although management insisted that the size and provision of non-wage benefits were exclusively under managerial discretion, with the Supreme Court decision of 1949, welfare benefits were also brought *within* the scope of collective bargaining. Hence, management lost its unilateral control and discretion over non-wage benefits.<sup>181</sup> Once they were explicitly written into a collective agreement, welfare benefits became an *entitlement* attached to a worker's job title and seniority. Consequently, the Court decision marked an end to implicit and discretionary welfare programs pertaining to blue-collar workers in major unionized manufacturing firms.

However, there were a very small number of companies, such as Du Pont, Eastman Kodak, and Proctor & Gamble, that had maintained their corporate welfare programs and relatively co-

---

<sup>179</sup>Stone (1974), p.67.

<sup>180</sup>NICB (1938), p.18; NICB (1951), pp.14–5; Harris (1982), p.166.

<sup>181</sup>Slichter, Healy & Livernash (1960), p.375; Munts (1967), pp.9–12 and p.83.

operative labor-management relations since the early 1920s to the postwar period. As exceptions that prove the rule, those were the companies that had suffered only mildly from the Depression and kept their commitment to corporate paternalism during the 1930s, and had remained non-union throughout the postwar period.<sup>182</sup> In most American manufacturing firms, discretionary corporate welfare plans were for white-collar employees, and bonuses, profit sharing, and stock ownership plans were limited mostly to executives, middle management, and supervisory employees, in sharp contrast to the case in Japan.<sup>183</sup>

In summary, persistent distrust continued to characterize labor-management relations in U.S. manufacturing establishments. Under the assumption that the interests of labor and management were in conflict, it was optimal for employers and unions to advance explicit and detailed employment contracts contingent on objective and verifiable variables. Thus, *Workplace contractualism* became a unique characteristic of American employment relations in major unionized manufacturing establishments by the early 1960s.

The efficiency implications of workplace contractualism are complex and should be evaluated as part of the whole system. In the postwar golden age, American manufacturing companies did achieve the highest productivity among industrialized countries. Union members enjoyed persistently higher wages than nonunion workers.<sup>184</sup> This success resulted, in part, from the American employment system, which combined advanced mass production technology, a high degree of job standardization, explicit and detailed employment contracts, and well-established collective bargaining methods supported by a sophisticated legal system. It was not until the 1970s that the rigidity of workplace contractualism and the animosity of union-management relations in American manufacturing firms became a serious concern, and so-called Japanese employment relations began to receive attention as a potential alternative to the American model.

## 7.2 Postwar Democratization under the U.S. Occupation in Japan

Japan went through the greatest political and economic reorganization since the Meiji Restoration after the Second World War. Immediately after Japan's surrender in August 1945, the nation was placed under the indirect governance of the Supreme Commander for the Allied

---

<sup>182</sup>Jacoby (1997a).

<sup>183</sup>NICB (1962).

<sup>184</sup>Lewis (1963); Pencavel & Hartsog (1984).

Powers (SCAP), which forcefully implemented demilitarization and democratization of Japan. In particular, SCAP ordered the dissolution of the powerful family concerns, *Zaibatsu*, purge of the high executives of major corporations for their war responsibilities, disbandment of the Sampō organizations, and encouragement of the unionization of labor. The wartime labor regulations based on the National General Mobilization Law of 1938 were abolished by the end of 1945.<sup>185</sup>

In response to the SCAP order, the Japanese government immediately set up a special committee for labor union legislation. Thus, unlike the Japanese constitution that was first drafted in English by SCAP staff, the trade union law was drafted by the Japanese committee members who had intimate knowledge of domestic labor relations and prewar union bills. When the final draft was submitted for approval, SCAP made little modification due to its early hands-off policy, as well as to the lack of labor law experts on its initial staff.<sup>186</sup> The Trade Union Law of 1945 provided Japanese workers with the right to bargain collectively for the first time in Japanese labor history. In contrast to the Wagner Act of 1935 in the U.S., however, the Japanese Trade Union Law took a *favorable* stance toward “harmonious unions” initiated by employers. In particular, it specified no unfair labor practices by employers; prohibited only “major” assistance to a union by an employer; and did not obligate an employer to bargain with a union.<sup>187</sup> In other words, in its spirit, the Law was closer to the NIRA Section 7(a) than to the Wagner Act.<sup>188</sup>

Even before the promulgation of the Trade Union Law, there was an explosion of the labor movement led by Japanese workers under the slogan of “democratization of management.” As Figure 6 shows, by the end of 1945, more than 500 unions were formed involving 380,000 employees. In most cases, workers spontaneously formed what they called “employee unions (*jūgyōin kumiai*),” organizing themselves within an establishment or factory, encompassing both white-collar and blue-collar workers. Factory and establishment-level unions in the same company subsequently joined to form an “enterprise union (*kigyō-betsu kumiai*)”.<sup>189</sup> By 1948, 6.5 million workers, or 53 percent of total employees, were organized, and 84 percent of them belonged to

---

<sup>185</sup>Rōdōshō (1961*b*), pp.175–88.

<sup>186</sup>Rōdōshō (1961*b*), pp.193–5; Endō (1989), pp.19–61.

<sup>187</sup>Rōdōshō (1961*b*), p.199, pp.202–7.

<sup>188</sup>The Trade Union Law was later revised in 1949. Incorporating aspects of the Wagner and Taft-Hartley Acts, it defined unfair labor practices by employers; prohibited employers’ financial support to unions; and excluded supervisors from union members. In practice, however, these clauses often remained unobserved in Japanese companies. See Takemae (1982), pp.289–91.

<sup>189</sup>Rōdōshō (1961*b*), p.257.

enterprise unions (see Table 6). The prewar labor leaders immediately initiated the movement to unite enterprise unions into a national federation. In 1946, *Sōdōmei* was reestablished after five years of discontinuation. In the same year, the communist leaders, who were released by SCAP after long-term imprisonments, created the Congress of Industrial Unions, *Sambetsu*, and vigorously promoted industrial unionism. The number of labor disputes surged, and workers fought for union recognition, wage increases, a purge of top managers, and labor's participation in management. Workers grew aggressive and often resorted to collective violence and menace against their managers during the disputes. In particular, under the influence of *Sambetsu* leaders, enterprise unions in major companies implemented "production control (*seisan kanri*)," a Japanese equivalent of the sit-down strike, in which employees occupied production facilities and operated them by themselves (see Table 20).<sup>190</sup> SCAP and the Japanese government were alarmed by the unexpected radicalization of labor.

While management was unable to fight back in the midst of economic disorder and political turmoil, many unions won extremely favorable collective agreements, achieving the long-sought abolishment of status discrimination between white-collar and blue-collar workers, direct participation in management, generous wage increases, and various corporate welfare benefits. The collective agreements of the immediate postwar period in Japan differed in several notable ways from their American counterparts. First, most unions, affiliated with national federations or not, concluded independent collective agreements at the enterprise level. Second, a typical collective agreement obligated management to consult with and gain consent of the union in virtually all personnel matters *without* specifying detailed rules *ex ante*.<sup>191</sup> Moreover, a typical collective agreement included *no* elaborate provision concerning wages, bonuses, or benefits.<sup>192</sup> In other words, it was not the primary concern of union members to establish explicit contractual rights. Third, more than half of the collective agreements included a provision to establish a powerful "joint council (*keiei kyōgikai*)" as machinery for realizing the employees' participation in management.<sup>193</sup> Fourth, many unions won a union shop provision that required every regular employee of a company to be a union member, and in exchange, management typically included a clause requiring every union member to be an employee of the company, excluding outside unionists from interfering with employer-employees relations. Lastly, the collective agreements

---

<sup>190</sup>Yamamoto (1991), pp.65–8.

<sup>191</sup>Ministry of Labor (1953), "A Survey on Collective Agreements and Observation of the Agreements."

<sup>192</sup>Rōdōshō (1961*b*), pp.472–500.

<sup>193</sup>Gordon (1985), p.345; Endō (1989), p.152.



often included a provision of automatic and indefinite extension of the agreements.

To summarize, despite the new labor law that established collective bargaining methods and legal enforcement mechanisms, Japanese workers *spontaneously* reintroduced an implicit, ambiguous contract and a company-wide union. For many employees in large firms, given firm-specific human capital, organizational knowledge, and employer-employee relations built over the past three decades, choosing an implicit and discretionary contract might have remained optimal. It is important to note that, departing from prewar practices, manufacturing workers forcefully demanded the equal treatment of all employees, participation in management, and the establishment of a joint consultation system in order to improve their bargaining power, status, and welfare in their companies. Labor's initial victory, however, was soon challenged by management's counteroffensive, as we see below.

### 7.3 The Establishment of the Postwar Japanese Employment System

In 1947, with the advent of the Cold War between the U.S. and the Soviet Union, Japan's economic recovery and political stabilization became SCAP's first priority. Labor policy accordingly shifted from unconditional encouragement of unionization to discouragement of the radical labor movement. In February 1947, SCAP ordered to call off the nation-wide general strike. In July, the Ordinance 201 deprived employees of public enterprises of the right to bargain collectively. Stimulated by the shift in SCAP policy, management began to organize its counteroffensive against labor. In 1948, the former members of Zensanren formed the Federation of Japanese Employers Association, *Nikkeiren*, involving virtually all major employers in the economy.<sup>194</sup> Organized labor was thus put into a defensive position after its tremendous gain during the immediate postwar period.

Furthermore, in 1949, the SCAP implemented a drastic deflationary policy, the Dodge Line, intending to bring the Japanese economy under a free market mechanism. In the immediate postwar years, the government had kept tight market control and had heavily subsidized private manufacturing companies, which enabled large firms to hoard workers and pay the relatively high wages their unions demanded. As generous government subsidies were suddenly terminated, employers were compelled to take up drastic rationalization plans. Like the Great Depression, the postwar recession posed a serious challenge to Japanese business leaders' commitment to corporate paternalism. Japanese union leaders also learned the hard lesson that their unrestrained

---

<sup>194</sup>Rōdōshō (1961*b*), pp.27–30; Endō (1989), pp.210–22; Takemae (1982), p.279.

demand during the recession might hurt the companies themselves.<sup>195</sup> It was, in part, the sudden economic boom induced by the Korean War (1950–53) that mitigated the potential impact of the Dodge Line. More importantly, however, the institutional capital and organizational arrangements developed since the early 1920s helped major employers to maintain their reputations and reestablish cooperative labor-management relations with their unions, as described below.

The announcement of the rationalization programs by employers provoked the strong protest of unions. Thus, the most violent and prolonged labor disputes in Japanese labor history took place between 1949 and 1954, involving major manufacturing companies, such as Tōshiba, Hitachi, and Nissan.<sup>196</sup> Enterprise unions led by radical leaders went on strike, demanding complete withdrawal of dismissals. In response, employers instituted a voluntary retirement system and proposed augmented retirement allowance plans (see Table 22). In almost all the major strikes during 1949–54, unions eventually lost. In the process of a prolonged strike, radical leaders gradually lost support from rank-and-file members, leading to the formation of so-called “second union (*dai-ni kumiai*).” Management concluded an agreement with the second union and solicited voluntary retirement, while dismissing radical union leaders. After the strike, the second union typically became a new enterprise union of the company. In exchange for their cooperation with employers in rationalization plans and productivity improvement, those unions demanded a fair share of the pie and participation in management in the form of joint consultation.<sup>197</sup> Consequently, *enterprise unionism*, which was characterized by its exclusive membership of regular employees, joint consultation, and labor-management cooperation, had prevailed in most large manufacturing companies in Japan by the end of the 1950s. Thus, the organizational basis and center of the union activities were once more contained *within* the boundaries of a company. As we see below, enterprise unionism was further combined with implicit and ambiguous collective agreements, extensive corporate welfare programs, and employment security, constituting the “Japanese-style” industrial relations.

In the 1950s, massive collective learning from the U.S. took place in Japan. Under the financial support of the U.S. government, hundreds of study teams were sent to learn modern technology and management methods developed by American manufacturing firms. Mass-production technology, scientific management, total quality control, job evaluation methods,

---

<sup>195</sup>Rōdōshō (1961*b*), pp.441-4; Okazaki (1993).

<sup>196</sup>Rōdōshō (1961*b*), pp.503-4.

<sup>197</sup>Yamamoto (1991), pp.336-8.

grievance mechanisms, and training for foremen, among other things, were “imported” to major Japanese manufacturing firms with great enthusiasm. Japanese firms, however, did *not* convert their production methods or employment relations to the American model. What happened instead was selective adoption and substantial modification of American technology and practices.<sup>198</sup> It is well known that Japanese firms developed flexible mass production systems and quality circles based on American practices. However, other personnel practices, such as job evaluations and a layoff system, never diffused as they were found incompatible with existing employment practices. The adoption of formal grievance procedures was also encouraged by the Japanese government, but both management and labor tended to prefer voluntary resolution through joint consultation without involving a third party. Even if union contracts contained a grievance arbitration clause, in reality, arbitration was hardly exercised.<sup>199</sup>

Furthermore, collective agreements concluded or revised in the 1950s in Japan remained implicit and ambiguous. The so-called “consultation clause” and “meet-and-confer clause,” in which seemingly relevant contingencies were left unspecified, were commonly and frequently included in union contracts. As a result, the courts often found a collective agreement “too general and too vague” to be legally enforced. In stark contrast to explicit and substantive provisions in collective agreements in the U.S., only general and procedural provisions were stipulated in Japan, retaining considerable ambiguity and flexibility in their interpretations.<sup>200</sup> In place of legal enforcement, employers and enterprise unions in large Japanese manufacturing firms developed internal enforcement mechanisms based on long-term relations, reputational concerns, and joint labor-management consultation.

In the 1950s, corporate welfarism spread widely and became a main characteristic of Japanese-style management. As Tables 23 and 24 show, biannual bonuses, housing and family allowances, health insurance and pensions, retirement benefits, and medical, athletic and recreational facilities were widely adopted by manufacturing companies. Personnel policies, such as corporate training programs and internal promotion based on both seniority and supervisors’ subjective evaluations, were fully extended to regular blue-collar workers in large manufacturing companies. After the costly anti-dismissal strikes in the early 1950s, employers once more recognized the importance of employment security for regular employees. Thus, the practice of long-term employment, which had been advanced by a small number of firms since the 1930s, spread among

---

<sup>198</sup>Cole (1979); Sunaga & Nonaka (1995); Fujimoto (1994); Udagawa (1995).

<sup>199</sup>Rōdōshō (1961*b*), pp.480–500; Gould (1982), pp.11–2; Shirai (1983), p.207.

<sup>200</sup>Shirai (1983), Chapter 8, in particular, pp.187–90.

large and medium-sized firms in the economy. As a consequence, the turnover rate of manufacturing workers in Japan remained one of the lowest among industrialized countries throughout the postwar period (see Figure 5).

Contrary to popular belief, there has been *no* statutory law that legally guaranteed employment security in Japan. The Japanese Civil Code provided that, under an employment contract with no fixed term, either party could terminate the contract at any time with a two-week advance notice.<sup>201</sup> The Labor Standard Law of 1947 obligated employers to pay the equivalent of thirty days' average wages when dismissing an employee, reflecting the acknowledged importance of employment security in society.<sup>202</sup> Besides those restrictions, the laws, in principle, maintained the employers' right to dismiss employees. No explicit guarantee of employment security was found in any collective agreement either, except for a clause which required employer's prior consultation with a union. Thus, contractually, American workers were provided with better employment security defined by the seniority rule, compared to Japanese workers.

However, by the early 1960s, it became an *established practice* for Japanese employers to circumvent dismissals for business reasons by any means, resorting to reduction in working hours, intraplant and interplant transfers of regular workers, temporary leaves with pay, separation of temporary and outside workers, suspension of new recruitment, and voluntary retirement of regular workers (see Tables 25 and 26).<sup>203</sup> In parallel development, the courts gradually accumulated case laws that restricted the right of dismissal by requiring employers to provide "just cause." In particular, judicial decisions established standard requirements employers should satisfy before resorting to dismissals for business reasons.<sup>204</sup>

In summary, the contents and interpretations of labor laws developed in a *complementary* manner to the prevailing practices and expectations in society. In turn, by providing clarity and authority, the law legitimized the practices and consolidated the expectations as social norms. By the early 1960s, a distinct and stable employment system emerged in Japan, in which employment relations in private firms were reinforced by legal systems, labor markets, state welfare policies, education systems, and norms in society.

To evaluate the welfare implications of the Japanese employment system requires a delicate analysis. On the one hand, it enabled firms to foster a highly-committed workforce and produce

---

<sup>201</sup>Civil Code, Article 627(1).

<sup>202</sup>Labor Standard Law, Article 20.

<sup>203</sup>Tsuda (1968).

<sup>204</sup>Sugeno (1992), pp.395–408).

high-quality products. The flexibility of union contracts allowed management to introduce new technologies and design flexible mass production systems. On the other hand, the long-term and closed relationships between management and enterprise unions were often collusive, subject to the criticism of “crony capitalism.” While long-term employment practices gave stability and security to employees in large firms, their rigidity might be a source of inefficiency in a more vibrant economy. Needless to say, the duality of labor markets — the difference between regular and temporary workers in their economic status — has been a recurrent social problem in Japan. In other words, in comparing the employment systems in the U.S. and Japan as a whole, neither is superior to the other. It is only in a specific dimension in a particular environment that one can draw a meaningful efficiency comparison. Each aspect of an employment system is an integral part of the whole, tightly knitted into other institutions in forming a stable system. The difference between the employment systems in the U.S. and Japan, thus, tended to persist, even in the face of growing international technology transfers and competition.

## 8 Conclusion

The purpose of this paper was to explore the origins of the distinctive employment systems that emerged by the early 1960s in the U.S. and Japan, and to develop a theory which provides a consistent explanation for the institutional developments for both countries since the beginning of this century. For this purpose, the paper studied the co-evolution of private employment relations and government labor policies, from the viewpoint that an employment system is an equilibrium outcome of the strategic interactions among management, labor, and the government. By tracing the institutional trajectories in the two countries, the paper empirically examined the dynamic process of equilibrium selection. The main findings and interpretations provided by our comparative historical analysis can be summarized as follows.

At the beginning of the twentieth century, in spite of the underlying differences between the two countries’ cultural traditions, political regimes, and the stages of industrialization, employment relations in large American and Japanese manufacturing firms were similar in the following aspects. Employment contracts were simple, short-term, and individualized, and “employment-at-will” was a prevailing principle in both societies. There were highly competitive labor markets in which wages were determined by general skills and experience. Production workers, skilled or unskilled, frequently moved among factories seeking higher wages and better working conditions. Employers, in response, invested little in training their employees and resorted to dismissal

whenever business conditions deteriorated. Personnel management was delegated to supervisors on the shopfloor, who relied on close monitoring and often coercive methods to induce work effort. As a result, in both countries, employment relations in manufacturing establishments were characterized by individualized wage bargaining, high job turnover, low work commitment, and a low level of mutual trust.

Starting from these similar conditions at the beginning of the century, the institutional paths of the two countries evolved in parallel over the subsequent three decades. In particular, the unanticipated shock of the First World War gave rise to similar economic, political, and social conditions in the U.S. and Japan. In response to expanding firm size, surging labor movements, and increasing demand for social legislation, business leaders in both countries began to seek higher labor productivity, industrial harmony, and improvement in their workers' welfare. Major manufacturing companies gradually developed "employer paternalism," based on implicit, long-term employment contracts, corporate welfare programs, and company-wide employee representation.

During the 1920s, employer paternalism appeared to have penetrated large manufacturing establishments in the U.S. and Japan. In both countries, progressive employers gradually accumulated experience and gained trust from their employees, the public, and the government. A difference existed, however, in the underlying macroeconomic environments in which employer paternalism functioned. Japanese employers and workers in the manufacturing industry went through frequent but small economic shocks and developed common understanding and institutional arrangements that helped mitigate the impact of these shocks on their employment relations. In contrast, American employers and workers promoted corporate welfarism under the prosperity and optimism of the twenties without being seriously challenged.

When the Depression unexpectedly hit the respective economies in 1929, the initial responses of employers, workers, and the governments in the U.S. and Japan exhibited important similarities, reflecting the parallel institutional developments up to this period. As the Great Depression deepened further, however, a majority of major American employers repudiated their implicit contracts, which led to a decline in workers' welfare, dissemination of firm-specific human capital, and depreciation of employers' reputations. In contrast, the shorter duration of the Depression and the better institutional arrangements developed during the 1920s in Japan prevented employers from resorting to such major repudiation.

In the early 1930s, both the U.S. and Japanese governments attempted to introduce carteliza-

tion of business and labor union legislation in response to the economic and social conditions brought about by the Depression. The respective legislative efforts, however, resulted in contrasting outcomes. In the U.S., economic recovery through business cartelization failed, while labor unions gained legal recognition and increased their membership and political voice. In Japan, union legislation was blocked, while business gained more political voice as the economy recovered. These outcomes further led to distinct sets of labor laws and social welfare policies in the two countries in the late 1930s. The Japanese government developed labor policies that were complementary to corporate paternalism, while the U.S. government introduced a new legal framework of collective bargaining that seriously undermined the viability of employer paternalism. Subsequently, American employers and unions developed collective agreements based on the assumption of adversarial labor-management relations.

Consequently, in the late 1930s, two distinctive sets of employment relations were taking shape in major manufacturing firms in the respective countries. Employment relations in the U.S. were based on explicit and legally enforceable employment contracts between employers and trade unions, whereas employment relations in Japan were based on implicit and long-term employment contracts enforced through reputation mechanisms and establishment-wide employee representation.

The grave shock of the Second World War induced the U.S. and Japanese governments to undertake powerful labor regulations to achieve the greatest wartime production. Both governments designed regulations built largely on the prevailing employment practices and legal frameworks developed prior to the war. In addition, the strategic reactions and selective compliance of private agents made regulations that were compatible with existing employment relations more effective. Consequently, wartime government regulations contributed greatly to the consolidation and diffusion of existing employment practices in both countries. As a result, the emerging difference between the employment systems in the U.S. and Japan in the late 1930s was reinforced during the Second World War, leading to further divergence of the two institutional paths.

While the U.S. continued down the same path into the postwar period, Japan experienced a major shock — the postwar U.S. occupation — which brought about drastic legal, political, and economic reforms. Reflecting the institutional capital — such as firm-specific human capital, mutual trust, and administrative expertise — accumulated throughout the prewar and wartime periods, however, Japanese workers and employers re-introduced employment relations based on

implicit, long-term employment contracts and company-wide unions under a new legal framework, with some important modifications. In particular, blue-collar workers achieved a higher economic and social status within firms during the process of democratization.

Consequently, by the early 1960s, two distinctive types of employment relations emerged in large, unionized manufacturing firms in the two countries. American-style industrial relations were characterized by workplace contractualism based on explicit and elaborate collective agreements and adversarial union-management relationships, whereas implicit, ambiguous, and long-term collective agreements and cooperative and consultative union-management relationships characterized Japanese-style industrial relations. These distinctive types of employment relations were complemented by labor markets, labor laws, state welfare policies, and social norms in the two countries that had co-evolved since the late 1930s.

In contrast to the traditional monocausal explanations, the comparative historical analysis advanced in this paper has highlighted the dynamics and complexity of historical processes that eventually led to the distinctive employment systems of the U.S. and Japan. It is true that significant differences existed between the cultural traditions, political regimes, and timing of industrialization in the two countries; it is not the intention of the paper to dismiss or disregard these differences. However, the analysis reveals that, despite these differences, institutional developments in the two countries often exhibited remarkable similarities in important aspects, pointing to the possibility that a priori these differences *per se* might not have dictated the final outcomes. The historical trajectories in both the U.S. and Japan could have taken very different courses, depending delicately on the magnitude, timing, and sequence of unforeseen historical events.

The paper's analysis ended at the 1960s on the premise that these historical processes were largely complete as of that time. The two employment systems, however, have continued to evolve, and many recent experiences in the U.S. and Japan indicate that the employment systems we observed in the 1960s were yet another historical phase that did not persist unchanged. We believe, however, that the conceptual framework and the comparative historical analysis advanced in this paper will provide a point of departure from which further study of the evolution of employment systems in the two countries can follow.



## References

- Abe, Y. (1994), 'Specific capital, adverse selection, and turnover: A comparison of the United States and Japan', *Journal of The Japanese and International Economies* **8**, 272–292.
- Abegglen, J. (1958), *The Japanese Factory*, The Free Press.
- Andersen, K. (1979), *The Creation of a Democratic Majority, 1928-1936*, University of Chicago Press.
- Aoki, M. (1988), *Information, Incentives, and Bargaining in the Japanese Economy*, Cambridge University Press.
- Aoki, M. (1993), Comparative advantage of organizational conventions and gain from diversity: Evolutionary game approach, mimeo, Stanford University.
- Auerbach, J. (1966), *Labor and Liberty: The La Follette Committee and the New Deal*, Bobbs-Merrill.
- Baker, G., Gibbons, R. & Murphy, K. J. (1994), 'Subjective performance measures in optimal incentive contracts', *Quarterly Journal of Economics* **109**, 1125–1156.
- Balderston, C. (1933), 'Recent trends in personnel management', *Management Review* **22**, 259–266.
- Baron, J., Dobbin, F. & Jennings, D. (1986), 'War and peace: the evolution of modern personnel administration in U.S. industry', *American Journal of Sociology* **92**, 350–383.
- Berman, E. (1930), *Labor and the Sherman Act*, Happer & Brothers.
- Bernheim, A. & Van Doren, D., eds (1935), *Labor and the Government*, Twentieth Century Fund; McGraw-Hill.
- Bernstein, I. (1950), *The New Deal Collective Bargaining Policy*, University of California Press.
- Bernstein, I. (1960), *The Lean Years: A History of the American Worker, 1920–1933*, Houghton Mifflin; Boston.
- Bernstein, I. (1969), *The Turbulent Years: A History of the American Worker, 1933–1941*, Houghton Mifflin; Boston.
- Brandes, S. (1970), *American Welfare Capitalism: 1880–1940*, University of Chicago Press.
- Bresnahan, T. & Raff, D. (1991), 'Intra-industry heterogeneity and the Great Depression: The American motor vehicle industry, 1929–1935', *Journal of Economic History* **51**, 317–331.
- Brissenden, P. & Frankel, E. (1920), 'Mobility of labor in American industry', *Monthly Labor Review* **10**, 1342–1362.
- Brody, D. (1980), *Workers in Industrial America*, Oxford University Press.
- Brody, D. (1993), Workplace contractualism in comparative perspective, in Lichtenstein & Harris, eds, 'Industrial Democracy in America', Cambridge University Press.
- Carmichael, L. (1984), 'Reputations in the labor market', *American Economic Review* **73**, 713–725.
- Chandler, A. (1977), *The Visible Hand: The Managerial Revolution in American Business*, Belknap.
- Chūma, H. (1987), 'Nihonteki koyō kankō no keizai gōrisei saikentō (Economic rationality of Japanese employment practices revisited)', *Keizai Kenkyū* **38**, 307–320.
- Cohen, J. (1949), *Japan's Economy in War and Reconstruction*, University of Minnesota Press.

- Cohen, L. (1990), *Making A New Deal: Industrial Workers in Chicago, 1919-1939*, Cambridge University Press.
- Cole, R. (1971), *Japanese Blue Collar—The Changing Tradition*, University of California Press.
- Cole, R. (1979), *Work, Mobility, and Participation*, University of California Press.
- Commons, J. R. & Andrews, J. (1936), *Principles of Labor Legislation*, fourth edn, Happer & Brothers.
- Commons, J. R., Lescoghier, D. & Brandeis, E., eds (1935), *History of Labor in the United States, 1896-1932*, MacMillan Company; New York.
- David, P. & Wright, G. (1999), 'Early twentieth century productivity growth dynamics: An inquiry into the economic history of "our ignorance"', Stanford Institute for Economic Policy Research, Discussion Paper No.98-3.
- De Schweinitz, D. (1949), *Labor and Management in a Common Enterprise*, Harvard University Press.
- Dore, R. (1973), *British Factory—Japanese Factory*, The Alden Press; Oxford.
- Endō, K. (1989), *Nihon Senryō to Rōshi-kankei Seisaku no Seiritsu (U.S. Occupation of Japan and the Establishment of Labor-Capital Relations Policies)*, Tōkyō Daigaku Shuppankai.
- Evans, R. (1971), *The Labor Economies of Japan and the United States*, Praeger Publishers.
- Fairris, D. (1995), 'From exit to voice in shopfloor governance: The case of company unions', *Business History Review* **69**, 494–529.
- Fausold, M. (1985), *The Presidency of Herbert C. Hoover*, University of Kansas Press.
- Finegold, K. & Skocpol, T. (1995), *State and Party in America's New Deal*, University of Wisconsin Press.
- Fishback, P. & Kantor, S. (1996), 'The durable experiment: State insurance of workers' compensation risk in the early twentieth century', *Journal of Economic History* **56**, 809–836.
- Fishback, P. & Kantor, S. (1998), 'The adoption of workers' compensation in the United States, 1900-1930', *Journal of Law and Economics*.
- Foxwell, E. (1901), 'The protection of labour in Japan', *Economic Journal* **6**, 106–124.
- Freeman, R. (1998), 'Spurts in union growth: Defining moments and social processes, in *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century*', University of Chicago Press.
- Fujimoto, T. (1994), 'On the origin and evolution of "Toyota" automobile production and development systems, mimeo, University of Tokyo.
- Fukushima, M. (1988), *Nihon Shihonshugi no Hattatsu to Shihō (The Development of Capitalism in Japan and Private Laws)*, Tōkyō Daigaku Shuppankai.
- Garon, S. (1988), *The State and Labor in Modern Japan*, University of California Press.
- Goldstein, R. (1978), *Political Repression in Modern America: From 1870 to the Present*, Schenkman Publishing Company.
- Gompers, S. (1913), 'Editorial', *American Federationist* **20**, 1035–45.
- Gompers, S. (1922), 'The company union fraud', *American Federationist* **29**, 888–889.

- Gordon, A. (1985), *The Evolution of Labor Relations in Japan: Heavy industry 1853–1955*, Harvard University Press.
- Gordon, A. (1987), ‘The right to work in Japan: Labor and the State in the Depression’, *Social Research* **52**, 247–272.
- Gordon, A. (1990), *Labor and Imperial Democracy in Prewar Japan*, University of California Press.
- Gordon, R. (1982), ‘Why U.S. wage and employment behavior differs from that in Britain and Japan’, *Economic Journal* **92**, 13–44.
- Gould, W. (1982), *Japan’s Reshaping of American Labor Law*, The MIT Press.
- Greif, A. (forthcoming), *Genoa and the Maghribi Traders: Historical and Comparative Institutional Analysis*, Cambridge University Press.
- Hanami, T. (1979), *Labor Relations in Japan Today*, Kōdansha International.
- Harris, H. (1982), *The Right to Manage: Industrial Relations Policies of American Business in the 1940s*, University of Wisconsin Press.
- Hashimoto, J. (1984), *Daikyōko-ka no Nihon Shihonshugi (Japanese Capitalism under the Great Depression)*, Tōkyō Daigaku Shuppankai.
- Hayami, Y. (1996), ‘Toward an East Asian model of economic development’. The paper for the International Economic Association Round Table Conference in Tokyo.
- Hazama, H. (1978), *Nihon Rōmu Kanri-shi Kenkyū (Historical Studies of Japanese Labor Management)*, Ochonomizu Shobō.
- Holt, C. (1977), ‘Who benefited for the prosperity of the twenties?’, *Explorations in Economic History* **14**, 277–289.
- Huberman, M. (1997), An economic and business history of worksharing: The Bell Canada and Volkswagen experience, mimeo., Département d’histoire, Université de Montréal.
- Hyōdo, T. (1971), *Nihon ni okeru Rōshi Kankei no Tenkai (The Evolution of Labor-Capital Relations in Japan)*, Tōkyō Daigaku Shuppankai.
- Jacoby, S. (1982), ‘The duration of indefinite contracts in the United States and England: An historical analysis’, *Comparative Labor Law* pp. 85–128.
- Jacoby, S. (1985), *Employing Bureaucracy: Managers, Unions, and the Transformation of Work in American Industry, 1900–1945*, Columbia University Press.
- Jacoby, S. (1993), Pacific ties: Industrial relations and employment systems in Japan and the United States since 1960, in Lichtenstein & Harris, eds, ‘*Industrial Democracy in America*’, Cambridge University Press.
- Jacoby, S. (1997a), *Modern Manors: Welfare Capitalism since the New Deal*, Princeton University Press.
- Jacoby, S. (1997b), ‘Unnatural extinction: The rise and fall of the local independent union, 1935–70’. The paper for the conference on Alternative Forms of Employee Representation.
- Kanemoto, Y. & MacLeod, B. (1989), ‘Optimal labor contract with non-contractible human capital’, *Journal of the Japanese and International Economies* **3**, 385–402.

- Koike, K. (1977), *Shokuba no Rōdō Kumiai to Sanka (Labor Unions on the Shopfloor and their Participation)*, Tōyō Keizai Shimpōsha.
- Koike, K. (1988), *Understanding Industrial Relations in Modern Japan*, MacMillan; London.
- Komatsu, R. (1971), *Kigyō-betsu Kumiai no Seisei (The Origins of Enterprise Unions)*, Ochanomizu Shobō.
- Kōshiro, K. (1983), *Nihon no Rōshi Kankei (Japanese Labor-Management Relations)*, Yūhikaku Sensyo.
- Krugman, P. (1991), 'History versus expectations', *Quarterly Journal of Economics* **106**, 651–667.
- Kyōchōkai (1924), *Hompō Sangyō Hukuri Shisetsu Gaiyō (An Overview of Industrial Welfare Facilities in Our Country)*, Kyōchōkai.
- Kyōchōkai (1930), *Wagakuni ni okeru Dantai Kōshō oyobi Dantai Kyōyaku (Collective Bargaining and Collective Agreements in Our Country)*, Kyōchōkai.
- Leuchtenburg, W. (1995), *The Supreme Court Reborn: The Constitutional Revolution in the Age of Roosevelt*, Oxford University Press.
- Lewis, G. (1963), *Unionism and Relative Wages in the United States: An Empirical Inquiry*, University of Chicago Press.
- Lichtenstein, N. (1982), 'Industrial democracy, contract unionism, and the National War Labor Board', *Labor Law Journal* **33**, 524–532.
- Lichtman, A. (1979), *Prejudice and The Old Politics: The Presidential Election of 1928*, University of North Carolina Press.
- Lincoln, J. & Kalleberg, A. (1990), *Culture, Control, and Commitment*, Cambridge University Press.
- Lyon, L., ed. (1935), *The National Recovery Administration: An Analysis and Appraisal*, Brookings Institution.
- Macaulay, S. (1963), 'Non-contractual relations in business: A preliminary study', *American Sociology Review* **28**, 55–67.
- MacLeod, B. & Malcomson, J. (1988), 'Reputation and hierarchy in dynamics models of employment', *Journal of Political Economy* **96**(4), 832–854.
- MacLeod, B. & Malcomson, J. (1989), 'Implicit contracts, incentive compatibility, and involuntary unemployment', *Econometrica* **57**(2), 447–480.
- Matsuyama, K. (1991), 'Increasing returns, industrialization, and indeterminacy of equilibrium', *Quarterly Journal of Economics* **106**, 617–650.
- Milgrom, P. & Roberts, J. (1994), 'Complementarities and systems', *Estudios Economicos* **9**, 3–42.
- Millis, H. & Brown, E. (1950), *From the Wagner Act to Taft-Hartley: A Study of National Labor Policy and Labor Relations*, University of Chicago Press.
- Mills, H. & Montgomery, R. (1945), *Organized Labor*, McGraw-Hill Book Company.
- Mincer, J. & Higuchi, Y. (1988), 'Wage structure and labor turnover in the United States and Japan', *Journal of the Japanese and International Economies* **2**, 97–133.
- Morita, Y. (1958), *Nihon Keieisha Dantai Hatten-shi (Historical Development of Employers' Associations in Japan)*, Nikkan Rōdō Tsūshinsha.

- Morris, J. (1958), 'The AFL in the 1920s: A strategy of defense', *Industrial and Labor Relations Review* **11**, 572–590.
- Munts, R. (1967), *Bargaining for Health: Labor Unions, Health Insurance, and Medical Care*, University of Wisconsin Press.
- Nakamura, T. (1993), *Nihon Keizai (The Japanese Economy)*, third edn, Tōkyō Daigaku Shuppankai.
- Nelson, D. (1982), 'The company union movement, 1900–1937: A reexamination', *Business History Review* **56**, 335–357.
- Nelson, D. (1995), *Managers and Workers: Origins of the Twentieth-Century Factory System in the U.S., 1880–1920*, second edn, University of Wisconsin Press.
- NICB (1922), *Research Report No.50: Experience with Works Councils in the United States*, National Industrial Conference Board; New York.
- NICB (1925), *Special Report No.32: The Growth of Works Councils in the United States*, National Industrial Conference Board; New York.
- NICB (1931), *Industrial Relations: Policies and Programs*, National Industrial Conference Board; New York.
- NICB (1932), *Salary and Wage Policy in the Depression*, National Industrial Conference Board; New York.
- NICB (1933a), *Collective Bargaining Through Employee Representation*, National Industrial Conference Board; New York.
- NICB (1933b), *Individual and Collective Bargaining under the N.I.R.A.*, National Industrial Conference Board; New York.
- NICB (1934), *Individual and Collective Bargaining in May, 1934*, National Industrial Conference Board; New York.
- NICB (1936), *What Employers Are Doing for Employees: A Survey of Voluntary Activities for Improvement of Working Conditions in American Business Concerns*, National Industrial Conference Board; New York.
- NICB (1937), *Studies in Personnel Policies No.1: Dismissal Compensation*, National Industrial Conference Board; New York.
- NICB (1938), *Studies in Personnel Policy No.78: Plans for Rating Employees*, National Industrial Conference Board; New York.
- NICB (1939a), *Studies in Personnel Policy No.10: Group Health Insurance Plans*, National Industrial Conference Board; New York.
- NICB (1939b), *Studies in Personnel Policy No.11: Company Non-Contributory Disability Benefit Plans*, National Industrial Conference Board; New York.
- NICB (1939c), *Studies in Personnel Policy No.13: Developments in Company Vacation Plans*, National Industrial Conference Board; New York.
- NICB (1939d), *Studies in Personnel Policy No.16: Company Pension Plans and the Social Security Act*, National Industrial Conference Board; New York.

- NICB (1940), *Studies in Personnel Policy No.20: Personnel Activities in American Business*, National Industrial Conference Board; New York.
- NICB (1947), *Studies in Personnel Policy No.86: Personnel Activities in American Business (Revised)*, National Industrial Conference Board; New York.
- NICB (1951), *Studies in Personnel Policy No.121: Appraisal of Job Performance*, National Industrial Conference Board; New York.
- NICB (1959), *Studies in Personnel Policy No.169: Statements of Personnel Policy*, National Industrial Conference Board; New York.
- NICB (1962), *Studies in Personnel Policies No.185: Prevalence of Bonus Plans in Manufacturing*, National Industrial Conference Board; New York.
- Nishinarita, Y. (1988), *Kindai Nihon Rōshi Kankei-shi no Kenkyū (A Historical Study of the Modern Japanese Labor-Capital Relations)*, Tōkyō Daigaku Shuppankai.
- Nōshōmushō (1897), *Kōjō oyobi Shokkō ni kansuru Tsūhei Ippan (General Obstacle Related to Factories and Factory Workers)*, Kōseikan. Originally published in 1897, reprinted in 1970.
- Nōshōmushō (1903), *Shokkō Jijō (The Condition of Factory Workers)*, Kōseikan. Originally published in 1903, reprinted in 1971.
- NRUS (1959), *Nihon Rōdō Undō Shiryō (Historical Data of the Labor Movement in Japan), vol.X: Statistics*, Nihon Rōdō Undō Shiryō Kankō Inkai.
- NRUS (1962), *Nihon Rōdō Undō Shiryō (Historical Data of the Labor Movement in Japan), vol.I*, Nihon Rōdō Undō Shiryō Kankō Inkai.
- NRUS (1964), *Nihon Rōdō Undō Shiryō (Historical Data of the Labor Movement in Japan), vol.VII*, Nihon Rōdō Undō Shiryō Kankō Inkai.
- Odaka, K. (1984), *Rōdō Shijō Bunseki (Labor Market Analysis)*, Iwanami Shoten.
- OECD (1993), *Employment Outlook*, Organization for Economic Cooperation and Development Publications; Paris.
- Ōhara Shakai Mondai Kenkyūsho (1964), *Taiheiyō Sensōka no Rōdōsha Jōtai (The Condition of Workers during the Pacific War)*, Tōyō Keizai Shimpōsha.
- Okazaki, T. (1993), 'The Japanese firm under the wartime planned economy', *Journal of the Japanese and International Economies* **7**, 175–203.
- Okazaki, T. & Okuno-Fujiwara, M. (1997), 'The evolution of economic systems: the case of Japan'. The paper for the International Economic Association Round Table Conference in Tokyo.
- Ōkouchi, K. (1972), *Rōshi Kankei-ron no Shiteki Hatten (Historical Development of the Theories of Labor-Management Relations)*, Yūhikaku.
- Okuno, M. (1987), 'Monitoring cost, agency relationship, and equilibrium modes of labor contract', *Journal of The Japanese and International Economies* **1**, 147–167.
- Owen, L. (1995), 'Worker turnover in the 1920s: What labor-supply arguments don't tell us', *Journal of Economic History* **55**, 822–841.
- Ozanne, R. (1967), *A Century of Labor-Management Relations at McCormick and International Harvester*, University of Wisconsin Press.

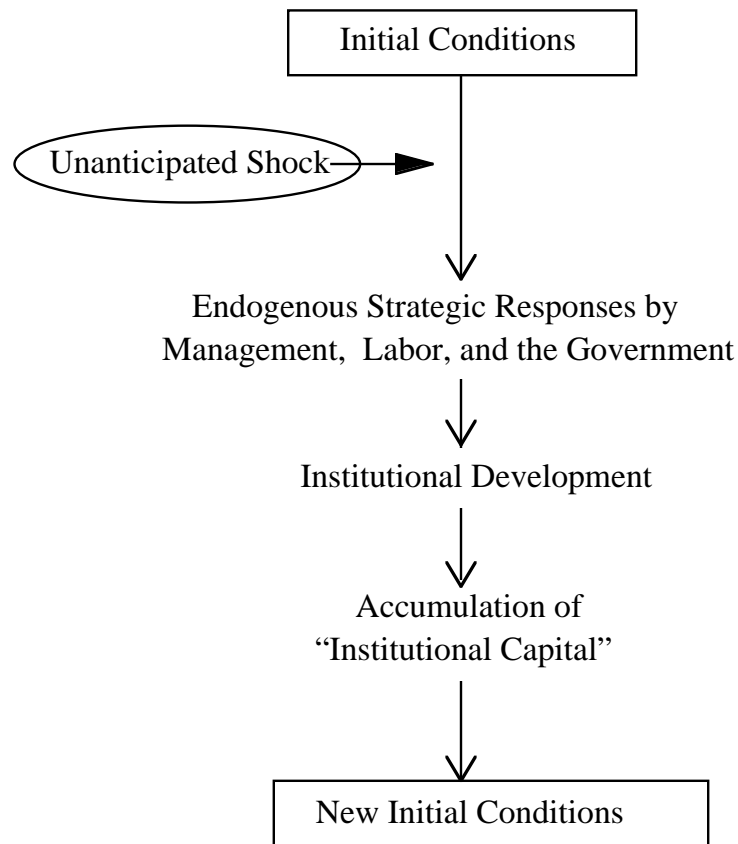
- Pencavel, J. & Hartsog, C. (1984), 'A reconsideration of the effects of unionism on relative wages and employment in the United States, 1920–1980', *Journal of Labor Economics* **2**, 193–232.
- Prendergast, C. (1993), 'The role of promotion in inducing specific human capital acquisition', *Quarterly Journal of Economics* **108**, 523–534.
- Raff, D. & Summers, L. (1987), 'Did Henry Ford pay efficiency wages?', *Journal of Labor Economics* **5**, S57–86.
- Ramseyer, M. & Rosenbluth, F. (1995), *The Politics of Oligarchy*, Cambridge University Press.
- Rōdōshō (1961a), *Rōdō Gyōsei-shi (History of Labor Administration), vol.I*, Rōdō Hōrei Kyōkai.
- Rōdōshō (1961b), *Rōdō Gyōsei-shi (History of Labor Administration), vol.II*, Rōdō Hōrei Kyōkai.
- Romer, C. (1993), 'The nation in Depression', *Journal of Economic Perspective* **7**, 19–39.
- Saguchi, K. (1991), *Nihon ni okeru Sangyō Minshu-shugi no Zentei (Premises of Industrial Democracy in Japan)*, Tōkyō Daigaku Shuppankai.
- Saguchi, T. (1977), *Nihon Shakai Hoken Seido Hatten-shi (Historical Development of the Social Insurance System in Japan)*, Keisō Shobō.
- Sakurabayashi, M. (1985), *Sangyō Hōkokukai no Soshiki to Kinō (Organizations and Functions of the Industrial Patriotic Society in Japan)*, Ochonomizu Shobō.
- Schatz, R. (1983), *The Electrical Workers: A History of Labor at General Electric and Westinghouse, 1923–60*, University of Illinois Press.
- Seidman, J. (1953), *American Labor from Defense to Reconversion*, University of Chicago Press.
- Shirai, T., ed. (1983), *Contemporary Industrial Relations in Japan*, University of Wisconsin Press.
- Shōwa Dōjin-kai, ed. (1960), *Wagakuni Chingin Kōzō no Shiteki Kōsatsu (Historical Investigation of Wage Structure in Our Country)*, Shiseidō.
- Skocpol, T. (1995), *Social Policy in the United States*, Princeton University Press.
- Slichter, S. (1919), *The Turnover of the Factory Labor*, D. Appleton; New York.
- Slichter, S. (1929), 'The current labor policies of American industries', *Quarterly Journal of Economics* **43**, 393–435.
- Slichter, S. (1941), *Union Policies and Industrial Management*, Brookings Institution.
- Slichter, S., Healy, J. & Livernash, R. (1960), *The Impact of Collective Bargaining on Management*, Brookings Institution.
- Stone, K. (1974), 'The origins of job structures in the steel industry', *Review of Radical Politics and Economics* **6**, 113–173.
- Sugeno, K. (1992), *Japanese Labor Law*, University of Washington Press.
- Sumiya, M. (1966), *Nihon Rōdō Undō-shi (History of Japanese Labor Movement)*, Yūshindō.
- Sumiya, M., ed. (1971), *Nihon Shokugyō Kunren Hattatsu-shi, vol.2 (Historical Development of Vocational Training in Japan)*, Nihon Rōdō Kyōkai.

- Sunaga, K. & Nonaka, I. (1995), Amerika keiei kanri gihō no Nihon he no dōnyu to henyō (introduction and alteration of the American management method), in *‘Nihonteki Keiei no Renzoku to Danzetsu (Continuity and Discontinuity of Japanese Management Practices)’*, Iwanami Shoten.
- Sundstrom, W. (1986), Studies in the Evolution of the Employment Relationship in American Manufacturing, 1880–1930, PhD thesis, Department of Economics, Stanford University.
- Tachibanaki, T., ed. (1992), *Satei, Syōshin, Chingin Kettei (Appraisal, Promotion, and Wage Determination)*, Yūhikaku.
- Taira, K. (1970), *Economic Development and the Labor Market in Japan*, Columbia University Press.
- Takemae, E. (1982), *Sengo Rōdō Kaikaku: GHQ Rōdō Seisaku-shi (The Postwar Labor Reform in Japan: A History of the SCAP Labor Policy)*, Tōkyō Daigaku Shuppankai.
- Tamura, Y. (1984), *Nihon Rōdōhō-shi Ron (Essays on Japanese Labor Law History)*, Ochanomizu Shobō.
- Tomlins, C. (1985), *The State and the Unions: Labor Relations, Law and the Organized Labor Movement in America, 1880–1960*, Cambridge University Press.
- Topel, R. & Ward, M. (1992), ‘Job mobility and the careers of young men’, *Quarterly Journal of Economics* **107**, 439–479.
- Tsuda, M. (1968), *Nenkō-teki rōshi kankei ron (Seniority-based labor-management relations)*, Mineruva Syobō.
- Udagawa, M. (1995), ‘The development of production management at the Toyota Motor Corporation’, *Business History* **37**, 107–119.
- U.S. Department of Commerce (1975), *Historical Statistics of the United States, Colonial Times to 1970*, Washington, D.C., Government Print Office.
- U.S. Department of Labor, Bureau of Labor Statistics (1919), ‘Bulletin No.250: Welfare Work for Employees in Industrial Establishments in the United States’.
- U.S. Department of Labor, Bureau of Labor Statistics (1920), ‘Bulletin No.287: National War Labor Board’.
- U.S. Department of Labor, Bureau of Labor Statistics (1932), ‘Hiring and separation methods in American factories’, *Monthly Labor Review* **35**, 1005–1017.
- U.S. Department of Labor, Bureau of Labor Statistics (1935a), ‘Bulletin No.650: Revised Index of Factory Employment and Payrolls, 1919 to 1933’.
- U.S. Department of Labor, Bureau of Labor Statistics (1935b), ‘Bulletin No.634: Extent and Characteristics of Company Unions’.
- U.S. Department of Labor, Bureau of Labor Statistics (1942), ‘Wartime policies’, *Monthly Labor Review* **55**, 714–717.
- U.S. Senate, Committee on Education and Labor (1937a), *Industrial Espionage*, Report No.46, Part 3: 75th Congress, 2nd Session.
- U.S. Senate, Committee on Education and Labor (1937b), *Strikebreaking Services*, Report No.6, Part 1: 76th Congress, 1st Session.
- U.S. Senate, Committee on Education and Labor (1939a), *Industrial Munitions*, Report No.6, Part 3: 76th Congress, 1st Session.

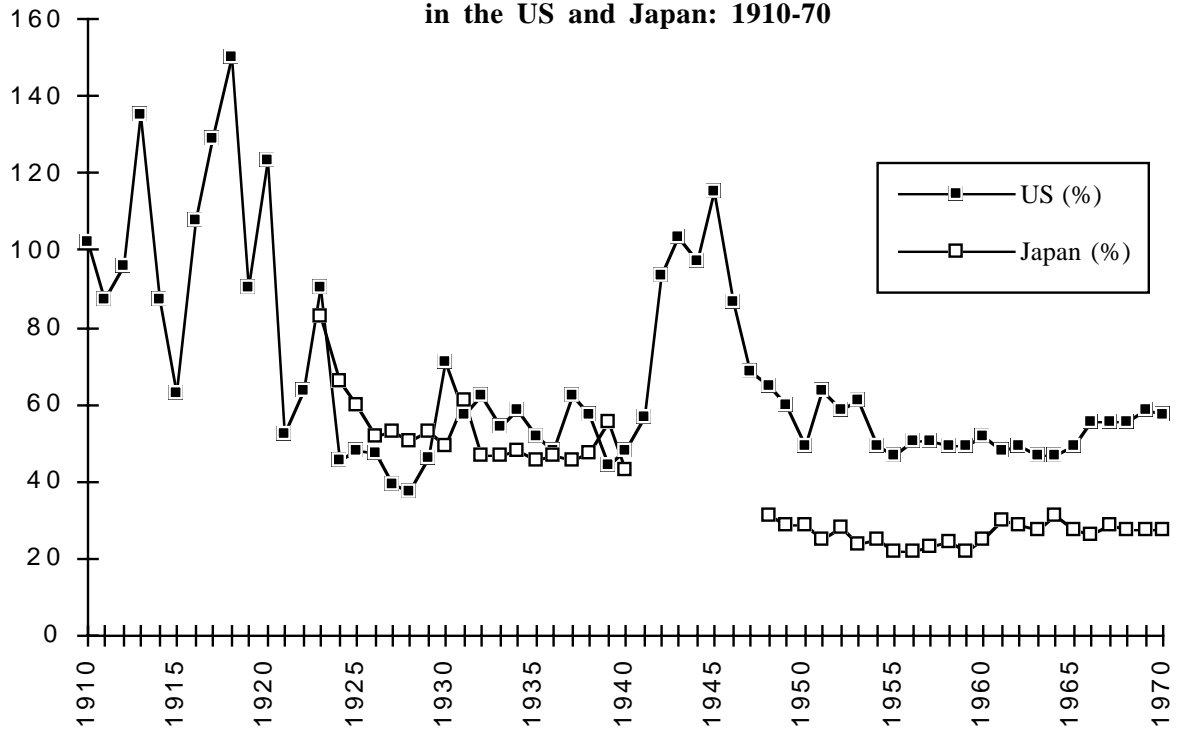


- U.S. Senate, Committee on Education and Labor (1939b), *Private Police Systems*, Report No.6, Part 2: 76th Congress, 1st Session.
- Wallace, M., Rubin, B. & Smith, B. (1988), 'American labor law: Its impact on working-class militancy, 1901–1980', *Social Science History* **12**, 1–29.
- Warne, C., ed. (1945), *Yearbook of American Labor, Volume I; War Labor Policies*, Philosophical Library; New York.
- Weinstein, M. (1980), *Recovery and Redistribution*, North-Holland; Amsterdam.
- Whatley, W. & Sedo, S. (1997), The origins of modern labor markets: New evidence from company personnel records, mimeo., Department of Economics, University of Michigan.
- Wolman, L. (1936), *Ebb and Flow in Trade Unionism*, National Bureau of Economic Research.
- Wright, G. (1996), The origins and economic significance of free labor in America, mimeo, Stanford University.
- Yamamoto, K., ed. (1991), *Nihon no Rōdō Sōgi (Labor Disputes in Japan), 1945–1980*, Tōkyō Daigaku Shuppankai.
- Yokoyama, K. & Tada, H., eds (1991), *Nihon Shakai Hoshō no Rekishi (History of Social Security in Japan)*, Gakubun-sha.
- Yui, T. & Daitō, E., eds (1995), *Daikigyō Jidai no Tōrai (The Advent of the Large Corporation Era)*, Iwanami Shoten.

**Diagram 1: Dynamic Process of Equilibrium Selection**



**Figure 1. Annual Turnover Rate in Manufacturing in the US and Japan: 1910-70**

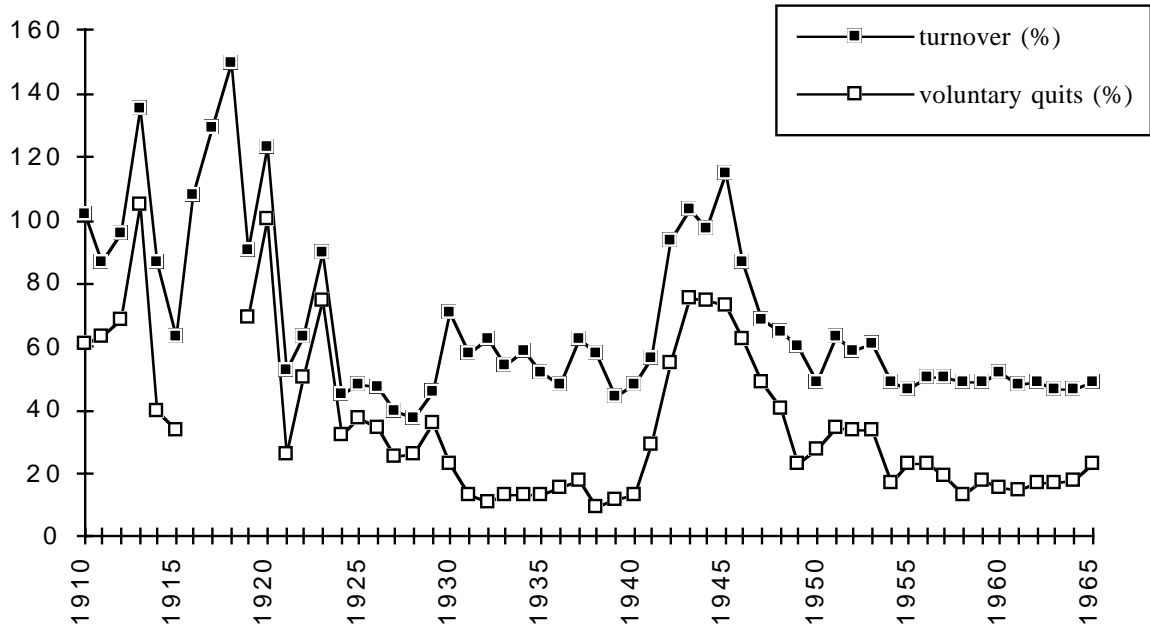


Source:

- US: (I) 1910-18: Brissenden and Frankel (1920), *Monthly Labor Review* 10, pp.1342-62;  
 (II) 1919-29: Berridge (1929), *Monthly Labor Review* 29, pp.64-5;  
 (III) 1930-70: U.S. Department of Labor, *Employment, Hours, and Earnings*.
- Japan: (I) 1923-1936: *Nihon Rodo Undo Shiryo* (Historical Data of Labor Movement in Japan), vol.10, II-60.  
 (II) 1937-40: Ohara Shakai Mondai Kenkyusho, *Taiheiyo Sensoka no Rodosha Jotai* (The Condition of Workers during the Pacific War), p.41.  
 (III) 1948-75: Japanese Ministry of Labor, *Monthly Labor Survey*.

- 1) Turnover consists of voluntary quits by employees, discharges by employers, and layoffs by employers.
- 2) The annual turnover rate measures the number of employees separated from a manufacturing establishment in a given year as a percentage of that establishment's average number of employees on the payroll in that year.
- 3) See the notes of Figures 2 and 5 for details.

**Figure 2. Annual Turnover Rate and Quit Rate in Manufacturing in the US, 1910-65**



Source: (I) 1910-18: Brissenden and Frankel (1920), *Monthly Labor Review* 10, pp.1342-62;

(II) 1919-29: Berridge (1929), *Monthly Labor Review* 29, pp.64-5;

(III) 1930-70: U.S. Department of Labor, *Employment, Hours, and Earnings*.

1) Turnover rate is the sum of voluntary quits, discharges, and layoffs.

2) In (I), a turnover rate per 10,000 labor hours was reported. An annual turnover rate was computed assuming that one worker worked 30,000 labor hours per year.

3) In (II), the unweighted median of the turnover rates for all firms in the sample was reported. The sample covered 350 manufacturing establishments employing 700,000 workers in 1929 (the average number of workers per firm was 200).

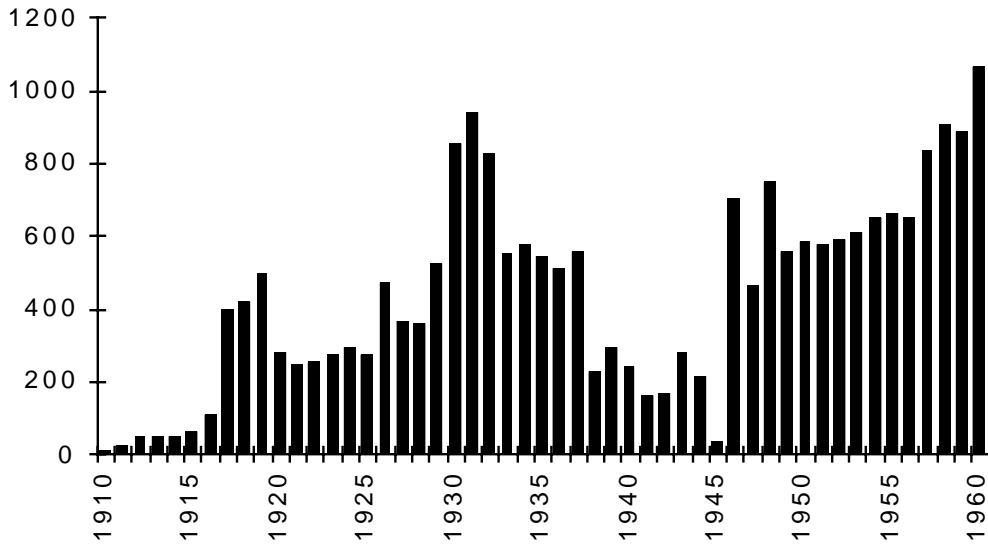
4) In (III), the weighted average of the turnover rates for all firms in the sample was reported. The sample covered 38,000 manufacturing establishments employing 104,000,000 workers in 1970 (the average number of workers per firm was 274).

4) In (I), in addition to manufacturing, establishments in public utilities, mercantile, and printing and publishing enterprises are included. All the non-manufacturing establishments had lower turnover rates than manufacturing establishments.

5) Before 1943, the data covered production workers only; after 1943, the data covered all employees.

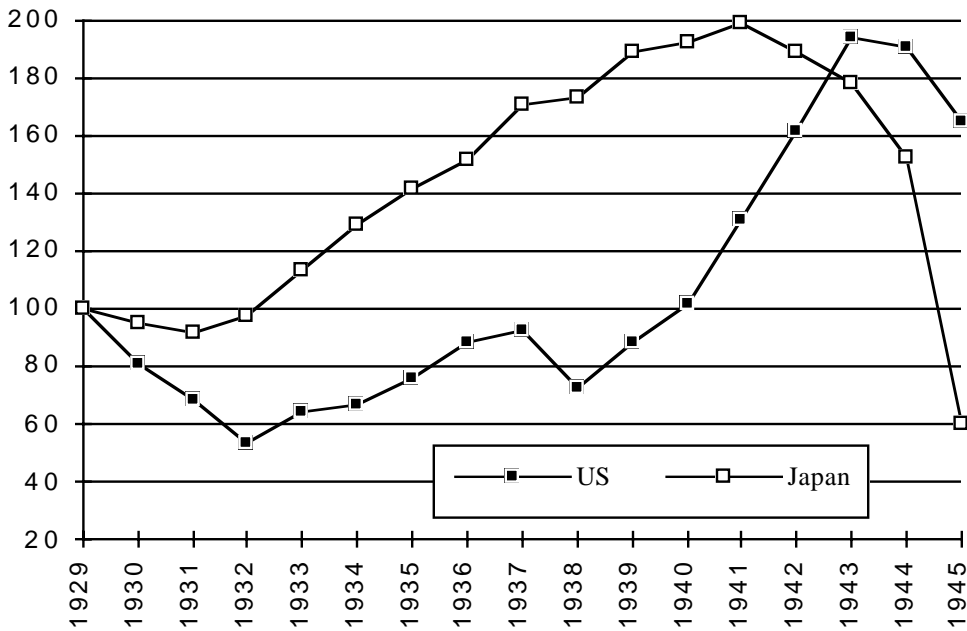
6) After 1959, transfers between establishments of the same firm are counted as separation.

**Figure 3. Work Stoppages in Japan: 1910-60**



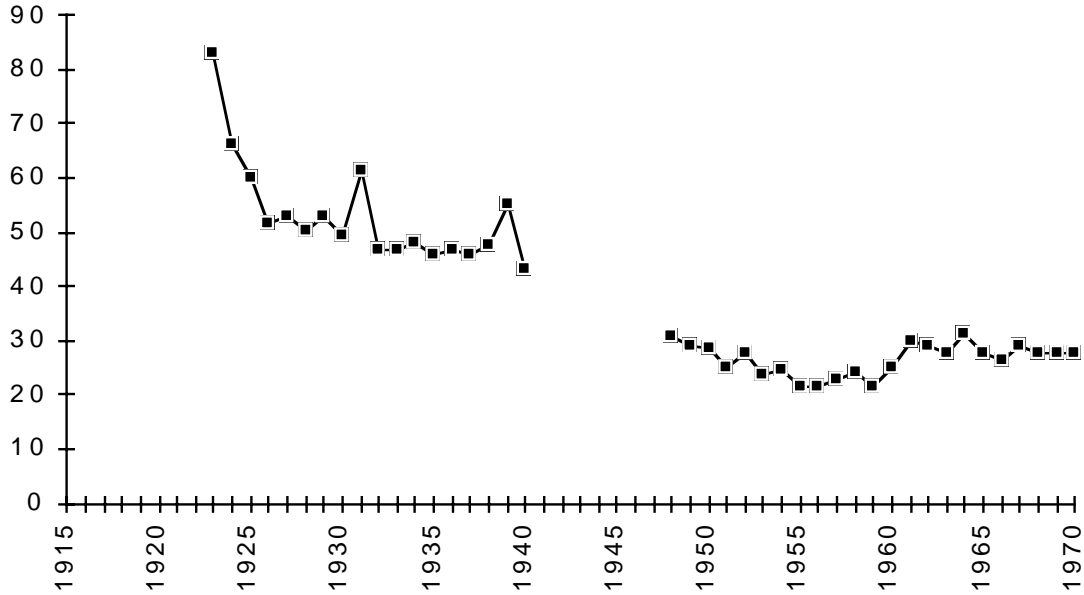
Source: (I) 1910-45: NRUS (1959), IV-18;  
 (II) 1946-70: *Rodo Sogi Tokei* (Labor Dispute Statistics).  
 1) Work stoppages are strikes and lock-outs (slow downs were not included).

**Figure 4. Industrial Production Indexes during the Depression and WWII in the US and Japan, 1929-45**



Source: Bank of Japan (1966), *Hundred-Year Statistics of the Japanese Economy*, p.397.  
 1) The values in 1929 =100.

**Figure 5. Annual Turnover Rate (%) in Manufacturing in Japan, 1923-70**



Source: (I) 1923-1936: NRUS (1959), II-60.

(II) 1937-40: Ohara Shakai Mondai Kenkyusho, *Taiheiyo Sensoka no Rodo Jotai* (The Condition of Workers during the Pacific War), p.41.

(III) 1948-75: Japanese Ministry of Labor, *Monthly Labor Survey*.

1) An annual turnover rate is the average monthly turnover rate multiplied by 12.

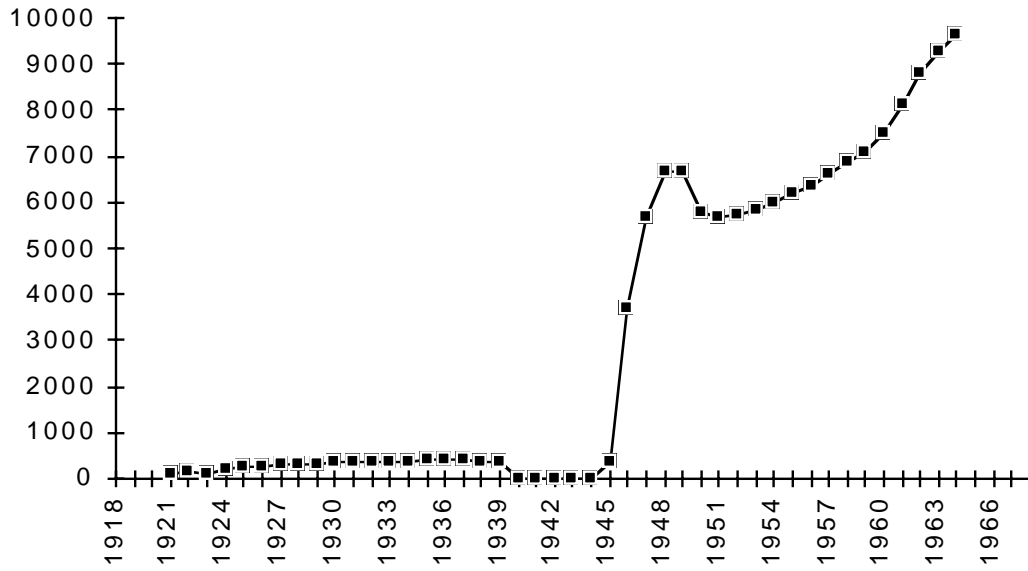
2) A monthly turnover rate is the number of separation (the sum of quits, layoffs, and discharges) within a month divided by the average number of workers during the month.

3) In (I), the sample covered factory employees (*kojo rodosha*) in the manufacturing establishments with 50 or more regular production workers (*jojo shokko*).

4) In (II), the sample covered regular employees in the manufacturing establishments with five or more regular employees. Regular employees are defined as (a) those who are employed indefinitely or for more than one month by contracts and (b) those who are employed for a period shorter than a month by contract (i.e., temporary workers) but were employed during past two months for 18 days or more in each month.

5) No data are available for years before 1923 and between 1941-47.

**Figure 6. Union Membership (1,000) in Japan: 1920-70**



Source: (I) 1923-44: NRUS (1959), VI-6,  
(II) 1945-70: Rodosho, *Rodo Kumiai Kihon Chosa* (Basic Surveys on Labor Unions).

**Table 1. Works Councils in the US: 1917-35**

| Year       | Establishments with Works Council | Companies with Works Councils | Employees covered by Works Councils | Average Employees per Works Council |
|------------|-----------------------------------|-------------------------------|-------------------------------------|-------------------------------------|
| 1917       | ...                               | 12                            | ...                                 | ...                                 |
| 1919       | 196                               | 145                           | 403,765                             | 2,060                               |
| 1922       | 725                               | 385                           | 690,000                             | 952                                 |
| 1924       | 814                               | 421                           | 1,240,704                           | 1,524                               |
| 1926       | 913                               | 432                           | 1,369,078                           | 1,500                               |
| 1928       | 869                               | 399                           | 1,547,766                           | 1,781                               |
| 1932       | 767                               | 313                           | 1,263,194                           | 1,647                               |
| 1934       | 1,075*                            | ...                           | 1,769,921                           | ...                                 |
| Early 1935 | 1,515-1,821*                      | ...                           | 2,500,000-3,000,000**               | ...                                 |

Source: NICB (1925), *The Growth of Works Councils in the United States*, p.10.

NICB (June 1933), *Collective Bargaining Through Employee Representation*, p.16.

NICB (Nov. 1933) *Individual and Collective Bargaining under the NIRA*, p.16.

NICB (May 1934), *Individual and Collective Bargaining in May, 1934*, p.12.

NICB (Oct. 1934), *Individual and Collective Bargaining in Public Utilities and Railroads*, pp.4-16.

Jacoby (1997), "Unnatural Extinction: The rise and fall of the local independent union, 1935-70", p.8.

Twentieth Century Fund (April 1935), *Labor and the Government*, p.79.

Lyon et al. (1935), *The National Recovery Administration*, p.524.

NICB (March 1936), *What Employers Are Doing for Employees*, p.10.

1) One company with multiple establishments or plants may have more than two separate works councils.

2) The numbers with \* are estimated by assuming that the average number of employees per works councils remained 1,647 between 1932-35 as in Jacoby (1935).

3) The number with \*\* is based on the estimations by the research staff of the Twentieth Century Fund (1935) and by Leverette Lyon (1935).

**Table 2. Work Stoppages and the Number of Workers Involved in Japan: 1914-1920**

| Year | Work Stoppages | Workers Involved | Workers per Work Stoppage |
|------|----------------|------------------|---------------------------|
| 1914 | 50             | 7,904            | 158                       |
| 1915 | 64             | 7,852            | 123                       |
| 1916 | 108            | 8,413            | 78                        |
| 1917 | 398            | 57,309           | 144                       |
| 1918 | 417            | 66,457           | 159                       |
| 1919 | 497            | 63,137           | 127                       |
| 1920 | 282            | 36,371           | 129                       |
| 1921 | 246            | 58,225           | 237                       |
| 1922 | 250            | 41,503           | 166                       |
| 1923 | 270            | 36,259           | 134                       |
| 1924 | 295            | 48,940           | 166                       |

Source: NRUS (1959), VI-18.

1) Work stoppages are the sum of strikes and lock-outs.



**Table 3. Factory Committees in Japan**

| Year | Factory Committees |
|------|--------------------|
| 1923 | 124                |
| 1924 | 161                |
| 1925 | 168                |
| 1926 | 178                |
| 1927 | 182                |
| 1928 | 171                |
| 1932 | 196                |
| 1936 | 274                |

Source: NRUS (1959), IV-11, p.12 and 15.

**Table 4. Corporate Welfare Programs in Manufacturing in Japan, 1921.**

(% of plants adopting each program)

| Welfare Program             | Plants Adopting Program (%) |
|-----------------------------|-----------------------------|
| Injury and Accident Payment | 70.2                        |
| Compulsory Saving           | 62.0                        |
| Insurance                   | 24.6                        |
| Service Bonus               | 36.8                        |
| Attendance Bonus            | 25.1                        |
| Housing Allowance           | 11.7                        |
| Retirement Allowance        | 50.3                        |
| Discount Purchase           | 61.9                        |
| Loans to Employee           | 14.6                        |
| Company Housing             | 60.2                        |
| Dining Room                 | 56.1                        |
| Medical Clinic              | 95.3                        |
| Safety Committee            | 14.0                        |
| Hiking or Gathering         | 62.6                        |
| Concert, Drama              | 57.3                        |
| Employee Clubs              | 40.9                        |
| Library                     | 32.2                        |
| Lectures                    | 55.0                        |
| Vocational Education        | 18.8                        |
| Supplementary Education     | 20.5                        |

Source: Kyochokai (1924), *Hompo Sangyo Hukuri Shisetsu Gaiyo* (An Overview of Industrial Welfare Facilities in Our Country).

1) The sample covered 171 large plants in manufacturing employing 300 or more employees, including 11 state-run factories.

**Table 5. Industrial Production Indexes during the Great Depression: 1930-35**

|         | 1929 | 1930 | 1931 | 1932 | 1933  | 1934  | 1935  |
|---------|------|------|------|------|-------|-------|-------|
| Japan   | 100  | 94.8 | 91.6 | 97.8 | 113.2 | 128.7 | 141.8 |
| U.S.    | 100  | 80.7 | 68.1 | 53.8 | 63.9  | 66.4  | 75.6  |
| England | 100  | 92.3 | 83.8 | 83.5 | 88.2  | 98.8  | 105.6 |
| Germany | 100  | 85.9 | 67.6 | 53.5 | 60.7  | 79.8  | 94.0  |
| France  | 100  | 99.1 | 86.2 | 71.6 | 80.7  | 75.2  | 72.5  |

Source: Bank of Japan (1966), *Hundred-Year Statistics of the Japanese Economy*, p.397.

1) The values in 1929 =100

**Table 6. Retirement Allowance Plans in Selected Manufacturing Industries in Japan, 1932 (Basic daily wages)**

| Years of Service | Machinery        |                     |     | Metal            |                     |     |
|------------------|------------------|---------------------|-----|------------------|---------------------|-----|
|                  | A: worker's will | B: business reasons | A/B | A: worker's will | B: business reasons | A/B |
| Less than 1 year | 8                | 21                  | 38% | 0                | 29                  | 0%  |
| 3                | 21               | 38                  | 55% | 22               | 49                  | 45% |
| 5                | 35               | 63                  | 56% | 37               | 78                  | 47% |
| 7                | 55               | 97                  | 57% | 63               | 122                 | 52% |
| 10               | 84               | 141                 | 60% | 95               | 188                 | 51% |
| 15               | 147              | 223                 | 66% | 177              | 308                 | 57% |
| 20               | 233              | 339                 | 69% | 308              | 473                 | 65% |
| 25               | 320              | 449                 | 71% | 518              | 650                 | 77% |

Source: NRUS (1959), IV-50, pp.368-69.

1) Retirement allowance plans for blue-collar workers in establishments with 200 or more workers.

2) The average of the retirement allowance plans in the sample firms is shown.

**Table 7. Actual Payment of Retirement Allowances in Private Factories in Japan: 1929-33**

| Year | (A) Number of dismissals due to business reasons | (B) Number of workers receiving allowances | B/A (%) | (C) Amount of allowance per worker (yen) | (D) Daily wage | C/D (days of wages) |
|------|--|--|---------|--|----------------|---------------------|
| 1929 | 45,123   | 32,536                                     | 72      | 66.2                                     | 1.593          | 41.6                |
| 1930 | 59,873   | 42,974                                     | 72      | 176.2                                    | 1.551          | 113.6               |
| 1931 | 58,496   | 35,348                                     | 60      | 268.7                                    | 1.470          | 182.8               |
| 1932 | 39,073   | 19,742                                     | 51      | 172.0                                    | 1.425          | 120.7               |
| 1933 | 29,396   | 13,297                                     | 45      | 97.6                                     | 1.388          | 70.3                |

Source: NRUS (1959), IV-51, p.368.

1) Private factories with more than 50 regular blue-collar workers.

2) The sample size of factories in each year is between 5,000 and 5,600.

3) The basic daily wage is the average of male production workers (NRUS (1959), IV-13, p.290).

4) The reported allowances included the advanced-notice allowance (14 days of wage) legalized in the Revised Factory Law enacted in 1926.

**Table 8. Wages and Corporate Welfare Benefits in Japan: 1916 and 1931**

| Industry         | Average Wage per Worker (yen) |        | Average Welfare Benefit per Worker (yen) |       | Percentage of Welfare Benefit to Wage (%) |      |
|------------------|-------------------------------|--------|--|-------|---|------|
|                  | 1916                          | 1931   | 1916                                     | 1931  | 1916                                      | 1931 |
| Textile          | 157.66                        | 190.94 | 32.52                                    | 30.06 | 23.5                                      | 18.5 |
| Machine, Tool    | 414.41                        | 389.96 | 15.17                                    | 23.24 | 5.0                                       | 4.6  |
| Shipbuilding     | 438.40                        | 364.67 | 35.85                                    | 34.77 | 9.9                                       | 21.9 |
| Metal            | 389.81                        | 406.88 | 42.42                                    | 52.28 | 9.0                                       | 13.1 |
| Chemical         | 310.44                        | 300.15 | 39.74                                    | 34.18 | 12.8                                      | 15.7 |
| Food             | 294.73                        | 390.28 | 20.89                                    | 50.44 | 8.1                                       | 15.6 |
| Gas, Electricity | 462.59                        | 501.16 | 39.81                                    | 81.57 | 4.3                                       | 9.5  |
| Mining           | 253.75                        | 241.31 | 52.19                                    | 51.45 | 24.1                                      | 30.0 |

Source: Nihon Kogyo Kurabu, "Hukuri Shisetsu ni kansuru Chosa (Surveys on Welfare Facilities)" reproduced in Hazama (1978), *Nihon Romu Kanrishi Kenkyu* (Historical Studies of Japanese Labor Management), p.103.

**Table 9. Corporate Welfare Programs in Manufacturing in Japan, 1932.**

(% of plants adopting each program)

| Welfare Program               | Private Plants | Public Utilities | State-run Plants |
|-------------------------------|----------------|------------------|------------------|
| Health and Accident Insurance | 22.2           | 34.7             | 81.0             |
| Stock Purchase Plan           | 2.9            | ...              | ...              |
| Profit Sharing                | 12.3           | 4.0              | ...              |
| Service Bonus                 | 4.4            | 8.6              | ...              |
| Attendance Bonus              | 4.2            | 4.3              | ...              |
| Housing Allowance             | 5.9            | 13.0             | ...              |
| Family Allowance              | 3.3            | ...              | ...              |
| Retirement Allowance          | 40.6           | 69.5             | 75.9             |
| Benefit in Kind               | 30.5           | 43.5             | 93.6             |
| Loans to Employee             | 9.9            | 30.4             | 64.9             |
| Company Housing               | 31.2           | 34.8             | 31.1             |
| Medical Clinic                | 45.9           | 47.8             | 94.6             |
| Hiking or Gathering           | 34.8           | 21.7             | 70.0             |
| Movie, Drama                  | 90.9           | 60.9             | 81.1             |
| Employee Clubs                | 15.2           | 30.4             | 79.7             |
| Library                       | 34.0           | 30.4             | 75.6             |
| Newspaper or Magazine         | 11.6           | 13.0             | 29.7             |
| Lectures                      | 42.0           | 21.7             | 100.0            |
| Technical Education           | 10.2           | 8.6              | 87.8             |
| Supplementary Education       | 19.4           | 4.3              | 75.6             |

Source: Kogyo Hukuri Kyokai (1933), *Kojo Kozan no Hukuri Shisetsu Chosa* (Surveys of Welfare Facilities in Factories and Mining).

1) The sample covered 2,170 private plants in manufacturing, 23 establishments in public utilities, and 74 state-run factories in manufacturing.

**Table 10. Industrial Relations Programs in Small, Large and Giant Plants in the US, 1929**

(% of plants adopting each program)

| Industrial Relations Program                   | (I) Small Plants | (I) Large Plants | (II) Giant Plants |
|--|------------------|------------------|-------------------|
| <b>A. Compensation</b>                         |                  |                  |                   |
| Mutual Benefit Association                     | 4.5              | 29.7             | 58.4              |
| Group Life Insurance                           | 36.3             | 46.9             | 70.4              |
| Group Health, Accident Insurance               | 11.0             | 15.5             | 54.9              |
| Stock Purchase Plan                            | 3.7              | 17.1             | 21.5              |
| Paid Vacation                                  | 21.0             | 25.5             | 27.9              |
| Profit Sharing                                 | 3.8              | 4.8              | 8.6               |
| Saving Plans                                   | 3.8              | 19.6             | 25.3              |
| Loans to Employees                             | 13.7             | 26.3             | 24.9              |
| Service Bonus                                  | 8.7              | 10.9             | 23.2              |
| Attendance Bonus                               | 4.3              | 6.4              | ...               |
| Cafeteria                                      | 5.7              | 40.8             | 63.9              |
| Company Housing                                | 4.5              | 14.0             | 21.5              |
| <b>B. Health and Safety</b>                    |                  |                  |                   |
| Safety Committee                               | 28.8             | 67.2             | 76.8              |
| Company Hospital                               | 2.5              | 24.0             | 37.8              |
| Plant Physician                                | 3.9              | 33.5             | ...               |
| <b>C. Recreation</b>                           |                  |                  |                   |
| Picnics or Outings                             | 15.1             | 39.2             | 52.8              |
| Athletic Facilities                            | 2.6              | 18.9             | 35.2              |
| Employee Clubs                                 | 2.4              | 17.2             | 20.6              |
| <b>D. Training and Education</b>               |                  |                  |                   |
| Apprenticeship Training                        | 15.5             | 29.8             | 52.8              |
| Training for Unskilled or Semi-skilled Workers | 10.7             | 19.7             | 60.9              |
| General Education                              | 0.8              | 7.1              | 7.3               |
| Foreman Training                               | 4.9              | 19.2             | 49.8              |
| Employee Magazine                              | 2.2              | 18.1             | 43.8              |
| Suggestion System                              | 22.0             | 51.9             | 53.2              |
| <b>E. Employee Relations</b>                   |                  |                  |                   |
| Personnel Department                           | 2.5              | 34.3             | 71.2              |
| Centralized Employment                         | 6.2              | 41.8             | 87.1              |
| Centralized Discharge                          | 4.4              | 23.9             | 64.4              |
| Labor Turnover Records                         | 8.3              | 49.8             | 77.7              |
| Promotion System                               | 4.0              | 23.9             | 29.2              |
| Group Meetings                                 | 6.8              | 15.0             | ...               |
| Works Council                                  | 2.5              | 8.7              | 56.7              |

Source: (I) NICB (1929), *Industrial Relations Program in Small Plants*, Chapter II;

(II) NICB (1934), *Effect of the Depression on Industrial Relations Programs*.

1) In (I), the sample covered 4,409 "small" plants (250 employees or less) and 1,676 "large" plants (over 250 employees) in manufacturing, public utilities, and mercantile trade.

2) In (II), the sample covered 233 "giant plants" in manufacturing and mining; the average number of employees in these plants is 2,300.

**Table 11. Employment, Salary, and Wage Reductions in the Great Depression in the US between 1929 and 1932**

(Reduction in % to 1929 employment and compensations )

| Industry         | Decline in Employment | Plants Reducing Executive Salaries | Plants Reducing Wages | Reduction in Executive Salaries | Reduction in Wages |
|------------------|-----------------------|------------------------------------|-----------------------|---------------------------------|--------------------|
| Manufacturing    | 29.7%                 | 82.8%                              | 76.4%                 | 15.6%                           | 11.1%              |
| Chemicals        | 17.2                  | 51.9                               | 55.6                  | 12.5                            | 12.0               |
| Metal working    | 33.2                  | 88.2                               | 75.4                  | 15.6                            | 11.1               |
| Machines, Tools  | 37.5                  | 82.2                               | 55.1                  | 21.0                            | 14.6               |
| Food             | 11.4                  | 68.1                               | 68.1                  | 12.7                            | 7.5                |
| Textile          | 23.5                  | 84.1                               | 88.1                  | 17.9                            | 14.1               |
| Mining           | 19.8                  | 63.9                               | 58.3                  | 18.8                            | 11.8               |
| Public Utilities | 14.0                  | 33.3                               | 25.0                  | 14.1                            | 9.3                |

Source: NICB (1932), *Salary and Wage Policy in the Depression*.

- 1) The survey covered reductions that became effective by March 1932.
- 2) The sample covered 1,503 establishment in manufacturing, 36 establishments in mining, and 24 establishments in public utilities.
- 3) Decline in employment shows percentage decline of employment between 1929 and 1932.
- 4) Plants reducing executive salaries (wages) shows percentage of companies who reported reductions in executive salaries (wages) between 1929 and 1932.
- 5) Reduction in executive salaries (wages) shows percentage reduction of executive salaries (wages) between 1929 and 1932 among those companies who exercised reductions. The numbers are the weighted average computed by using the number of affected employees in each establishment.
- 6) The reductions in salary and wage rates above do *not* include the effects of reduced working hours, elimination of bonuses and benefits, or demotion of employees.

**Table 12. Effect of the Great Depression on Industrial Relations Programs in the US, March 1934**

| Industrial Relations Program | Companies with Program |         | Percentage of Companies Discontinued |
|------------------------------|------------------------|---------|--------------------------------------|
|                              | In 1929                | In 1934 |                                      |
| Mutual Benefit Association   | 134                    | 133     | 1                                    |
| Unemployment Insurance       | 15                     | 13      | 13                                   |
| Employer Stock Ownership     | 49                     | 24      | 51                                   |
| Pension Plan                 | 125                    | 118     | 6                                    |
| Paid Vacation                | 65                     | 37      | 43                                   |
| Safety Committees            | 179                    | 173     | 3                                    |
| Profit Sharing               | 20                     | 13      | 35                                   |
| Dismissal compensation       | 59                     | 53      | 10                                   |
| Special Bonuses              | 54                     | 47      | 13                                   |
| Suggestion System            | 124                    | 102     | 18                                   |
| Employee Magazine            | 101                    | 52      | 49                                   |
| Picnic or Outing             | 122                    | 89      | 27                                   |
| Athletic Program             | 82                     | 70      | 15                                   |
| Cafeteria or Restaurant      | 149                    | 124     | 17                                   |
| Apprenticeship training      | 123                    | 106     | 14                                   |
| General education            | 17                     | 13      | 24                                   |
| Centralized employment       | 203                    | 199     | 2                                    |

Source: NICB (1934), *Effect of the Depression on Industrial Relations Programs*, pp.4-10.

1) The sample covered 233 firms in manufacturing and mining with total employment 537,685 (the average number of workers per establishment was 2,308).

2) The above figures reflect discontinuation of the programs only; reduction or downwards revision of the programs were *not* reported.

**Table 13. Trade Union Membership vs. Works Council Coverage in the US: 1919-35**

| Year | Trade Union Membership | Works Council Coverage | % of Works Council to Trade Union |
|------|------------------------|------------------------|-----------------------------------|
| 1919 | 4,125,200              | 403,800                | 9.8                               |
| 1922 | 4,027,400              | 690,000                | 17.1                              |
| 1924 | 3,536,100              | 1,240,700              | 35.1                              |
| 1926 | 3,502,400              | 1,369,100              | 39.1                              |
| 1928 | 3,479,800              | 1,547,800              | 44.5                              |
| 1932 | 3,144,300              | 1,263,200              | 40.2                              |
| 1935 | 3,753,300              | 2,500,000              | 66.6                              |

Source: Troy (1965), *Trade Union Membership, 1897-1962*, p.1 and Table 5.

**Table 14. Methods of Dealings with Employees in Manufacturing in the US: 1933-1946**

(Percentage distribution of companies adopting each method)

| Year | Individual Dealing Only | Works Councils | Trade Union Agreement |      |      |                    |
|------|-------------------------|----------------|-----------------------|------|------|--------------------|
|      |                         |                | Total                 | AFL  | CIO  | Independent unions |
| 1933 | 68.9                    | 19.7           | 12.6                  | ...  | ...  | ...                |
| 1934 | 62.1                    | 24.3           | 16.6                  | ...  | ...  | ...                |
| 1935 | 59.3                    | 31.0           | 9.7                   | ...  | ...  | ...                |
| 1939 | 42.6                    | ...            | 42.8                  | 28.9 | 21.0 | 14.5               |
| 1946 | 19.6                    | ...            | 80.3                  | 41.8 | 42.3 | 12.4               |

Source: NICB (1933), *Individual and Collective Bargaining under the NIRA*;

NICB (1934), *Individual and Collective Bargaining in May, 1934*;

NICB (March 1936), *What Employers Are Doing for Employees*;

NICB (March 1940), *Personnel Activities in American Business*;

NICB (1947), *Personnel Activities in American Business (Revised)*.

1) The sample in 1933 covered 3,314 manufacturing companies with total 2,585,740 wage-earners (average 780 workers per company).

2) The sample in 1934 covered 2,975 companies with total 2,636,847 wage-earners (average 886 workers per company).

3) The sample in 1935 covered 2,075 manufacturing companies with total 2,602,246 wage-earners (average 1,254 workers per company).

4) The sample in 1939 covered 2,216 manufacturing companies with total 2,845,697 workers (average 1,284 workers per company).

5) The sample in 1946 covered 3,039 manufacturing companies employing approximately 5,500,000 workers (average 1,800 workers per company).

6) "Total" refers to the companies with at least one signed union agreement. Since one company might deal with more than one union, the sum of percentages of the AFL, the CIO, and independent unions exceeds the percentage of total.

7) "Independent unions" include (a) standard independent unions representing more than one employer and (b) *local independent unions* representing a single employer (some of works councils were reorganized into local independent unions after Wagner Act of 1935).

**Table 15. The Size of Japanese Electorate: 1890-1945**

| Date of Election | Qualified Voters (million) | Population (million) | Percentage to Population (%) | Voting Qualification  |
|------------------|----------------------------|----------------------|------------------------------|---|
| July 1890        | 0.45                       | 39.9                 | 1.3                          | Men over 25 paying more than 15 yens in direct national tax |
| Aug. 1902        | 0.98                       | 45.0                 | 2.2                          | Men over 25, more than 10 yen                               |
| May 1920         | 3.1                        | 55.5                 | 5.5                          | Men over 25, more than 3 yen                                |
| Feb. 1928        | 12.4                       | 62.1                 | 20.0                         | All men over 25   |
| Apr. 1945        | 36.9                       | 75.8                 | 48.7                         | All men and women over 20                                   |

Source: Johnson (1982), *MITI and the Japanese Miracle*, p.39.

**Table 16. Diffusion of Personnel Practices in the US: 1927-46**

(% of firms adopting each practice)

| Personnel Practice             | 1927 | 1935 | 1939 | 1946 |
|--------------------------------|------|------|------|------|
| A. Personnel Department        |      |      |      |      |
| Small firms                    | 2.5  | 5.4  | 7.3  | 29.6 |
| Large firms                    | 34.3 | 46.0 | 47.2 | 74.6 |
| B. Centralized Employment      |      |      |      |      |
| Small firms                    | 6.2  | 17.8 | 17.4 | 29.6 |
| Large firms                    | 41.8 | 53.2 | 55.2 | 74.6 |
| C. Job Analysis and Evaluation |      |      |      |      |
| Small firms                    | ...  | 5.2  | 10.0 | 44.6 |
| Large firms                    | ...  | 24.1 | 27.1 | 61.2 |
| D. Merit Rating                |      |      |      |      |
| Small firms                    | 1.7  | 4.3  | 6.5  | 20.2 |
| Large firms                    | 14.2 | 16.0 | 20.6 | 34.9 |
| E. Seniority Rules             |      |      |      |      |
| Small firms                    | ...  | ...  | 33.4 | 71.7 |
| Large firms                    | ...  | ...  | 58.2 | 82.5 |
| F. Time and Motion Study       |      |      |      |      |
| Small firms                    | ...  | 12.6 | 23.5 | 27.0 |
| Large firms                    | ...  | 34.7 | 49.0 | 51.2 |

Source: Baron, Dobbin, and Jennings (1986), "War and Peace: The Evolution of Modern Personnel Administration in U.S. Industry", *American Journal of Sociology* 92, pp.354-7.

1) All industries including manufacturing, mining, banking, finance, gas, electricity, transportation, and communication.

2) "Small firms" were the firms with 250 employees or less and "large firms" were the firms with over 250 employees.

3) A: The percentage of firms having "personnel director";

B: The percentage of firms having "employment section";

C: The percentage of firms having "standardized job descriptions" and/or "job specifications";

D: The percentage having of firms "merit rating" or "performance appraisal" plans for clerical, factory, supervisory, and executive employees;

E: The percentage of firms having the seniority provision in written agreements or announced policy;

F: The percentage of firms using "time study" and/or "motion study" of scientific management.



**Table 17. Work Stoppages, Workers Involved, Mandays Idle, and the Average Duration in the US: 1935-48**

| Year | Number of Work Stoppages | Workers Involved (1,000) | Workers Involved (%) | Mandays Idle (1,000) | Duration of Work Stoppage (days) |
|------|--------------------------|--------------------------|----------------------|----------------------|----------------------------------|
| 1935 | 2,003                    | 1,102                    | 5.2                  | 15,500               | 23.8                             |
| 1936 | 2,156                    | 710                      | 3.1                  | 13,900               | 23.3                             |
| 1937 | 4,720                    | 1,950                    | 7.2                  | 28,400               | 20.3                             |
| 1938 | 2,772                    | 688                      | 2.8                  | 9,150                | 23.6                             |
| 1939 | 2,639                    | 1,180                    | 3.5                  | 17,800               | 23.4                             |
| 1940 | 2,439                    | 573                      | 1.7                  | 6,700                | 20.9                             |
| 1941 | 4,314                    | 2,360                    | 6.1                  | 23,000               | 18.3                             |
| 1942 | 3,036                    | 852                      | 2.0                  | 4,180                | 11.7                             |
| 1943 | 3,734                    | 1,970                    | 4.6                  | 13,500               | 5.0                              |
| 1944 | 4,958                    | 2,130                    | 4.8                  | 8,720                | 5.6                              |
| 1945 | 4,616                    | 3,070                    | 8.2                  | 38,200               | 9.9                              |
| 1946 | 4,990                    | 4,940                    | 10.5                 | 116,000              | 24.2                             |
| 1947 | 3,693                    | 2,170                    | 4.7                  | 34,600               | 25.6                             |
| 1948 | 3,419                    | 1,960                    | 4.2                  | 34,100               | 21.8                             |

Source: *Historical Statistics of the United States*, Series D977, D982, D972, D973, D981.

1) Work stoppages are the sum of strikes and lock-outs.

2) The percentage of workers involved is a ratio of the workers involved in work stoppages to the total employees.

**Table 18. Diffusion of Joint Labor-Management Production Committee during WWII in the US: 1942-45**

| Year      | Number of Production Committees | Number of Employees Covered |
|-----------|---------------------------------|-----------------------------|
| Jun. 1942 | 932                             | 2,000,000                   |
| Dec. 1942 | 1,817                           | 3,582,000                   |
| Nov. 1943 | 2,786                           | 5,982,000                   |
| Sep. 1944 | 4,835                           | 7,265,900                   |
| Jul. 1945 | 3,224                           | 5,066,700                   |

Source: De Schweinitz (1949), *Labor and Management in Common Enterprises*, pp.19-20.

1) Data were from the statistical reports of the War Production Drive Division of the War Production Board.

**Table 19. Labor Mobilization at the End of WWII in Japan, August 1945**

(1,000 workers)

| Category              | Number | % in Total |
|-----------------------|--------|------------|
| Regular Workers       | 4,183  | 32.1       |
| Labor Conscription    | 6,164  | 46.7       |
| (a) Frozen            | 4,555  | 34.4       |
| (b) Newly mobilized   | 1,610  | 12.3       |
| Student Labor Service | 1,927  | 14.9       |
| Female Labor Service  | 473    | 3.6        |
| Foreign Workers       | 357    | 2.7        |
| Total                 | 13,104 | 100.0      |

Source: Sumiya et al. (1971), *Nihon Shokugyo Kunren Hattatsu-shi* (History of the Development of Vocational Training in Japan), vol.2, p.319.

- 1) All industries including manufacturing, mining, munitions, and agriculture.
- 2) Private, state-owned, and military-controlled factories and establishments were included.
- 3) "Frozen" workers (*gen-in choyo*) were the male workers who were fixed to their jobs in conscripted private factories by the government compulsion.
- 4) "Newly mobilized" workers (*shinki choyo*) were the male workers who were conscripted and sent to war factories designated by the government.

**Table 20. Trade Unions and their Types in Japan: 1948, 1952**

(Union membership is in 1,000 workers)

| Year | Total            |            |
|------|------------------|------------|
|      | Number of Unions | Membership |
| 1948 | 33,900           | 6,534      |
| 1953 | 27,851           | 5,720      |

| Types | Enterprise Unions |                  | Craft Unions     |               | Industrial Unions |               | Others           |               |
|-------|-------------------|------------------|------------------|---------------|-------------------|---------------|------------------|---------------|
|       | Number of Unions  | Membership       | Number of Unions | Membership    | Number of Unions  | Membership    | Number of Unions | Membership    |
| 1948  | 30,683<br>(90.5%) | 5,498<br>(84.1%) | 1,471<br>(4.3%)  | 493<br>(7.5%) | 1,274<br>(3.8%)   | 356<br>(1.6%) | 472<br>(1.0%)    | 187<br>(8.3%) |
| 1953  | 24,330<br>(87.4%) | 4,726<br>(82.6%) | 1,293<br>(4.6%)  | 323<br>(5.6%) | 1,373<br>(4.9%)   | 462<br>(8.1%) | 855<br>(3.1%)    | 208<br>(3.6%) |

Source: Rodosho (1960), *Rodo Gyoseishi*, vol. II, p.1557, based on *Rodo Kumiai Kihon Chosa*.

- 1) "Enterprise union" is defined as a labor union which consists exclusively of the employees of one firm.

**Table 21. Strike, Lock-outs, and Production Controls in Japan: 1946-56**

| Year | Strikes | Workers in Strikes | Lock-outs | Production Controls | Workers in Production Control | Mandays Idle |
|------|---------|--------------------|-----------|---------------------|-------------------------------|--------------|
| 1946 | 662     | 510,391            | 80        | 170                 | 140,569                       | 6,266,255    |
| 1947 | 381     | 212,089            | 88        | 93                  | 24,039                        | 5,035,783    |
| 1948 | 667     | 2,298,530          | 83        | 54                  | 6,548                         | 6,995,332    |
| 1949 | 511     | 1,117,154          | 53        | 25                  | 8,322                         | 4,320,688    |
| 1950 | 566     | 761,050            | 45        | 28                  | 6,446                         | 5,486,059    |
| 1951 | 564     | 1,159,740          | 35        | ...                 | ...                           | 6,014,512    |
| 1952 | 576     | 1,622,549          | 29        | 2                   | 476                           | 15,075,269   |
| 1953 | 602     | 1,333,519          | 27        | 4                   | 271                           | 4,279,220    |
| 1954 | 623     | 915,111            | 32        | 6                   | 869                           | 3,836,276    |
| 1955 | 638     | 1,028,629          | 40        | 1                   | 29                            | 3,467,008    |
| 1956 | 631     | 954,177            | 44        | 5                   | 209                           | 4,561,890    |

Source: Rodosho, *Labor Dispute Statistics*.

**Table 22. Retirement Allowance Plans in Japan, 1951**

| Years of Service | Blue-collar Workers     |                            |         | White-collar Workers    |                            |         |
|------------------|-------------------------|----------------------------|---------|-------------------------|----------------------------|---------|
|                  | (A) Worker's Will (yen) | (B) Business Reasons (yen) | A/B (%) | (C) worker's Will (yen) | (D) Business Reasons (yen) | C/D (%) |
| 1                | 1,600                   | 5,900                      | 27      | 1,800                   | 6,400                      | 28      |
| 2                | 3,700                   | 10,000                     | 37      | 4,300                   | 11,400                     | 38      |
| 3                | 7,700                   | 15,700                     | 49      | 9,200                   | 18,000                     | 51      |
| 4                | 11,200                  | 21,500                     | 52      | 13,900                  | 24,900                     | 56      |
| 5                | 15,700                  | 29,300                     | 54      | 20,400                  | 34,000                     | 60      |
| 10               | 47,100                  | 69,500                     | 68      | 61,200                  | 91,500                     | 67      |
| 15               | 94,900                  | 129,300                    | 73      | 128,700                 | 169,600                    | 76      |
| 20               | 159,300                 | 202,100                    | 79      | 220,000                 | 279,900                    | 79      |
| 25               | 236,500                 | 288,100                    | 82      | 333,600                 | 403,100                    | 83      |
| 30               | 317,600                 | 403,900                    | 79      | 456,600                 | 583,300                    | 78      |

Source: Ministry of Labor (May 1951), *Retirement Allowance Survey*.

1) The average plan of establishments with 30 or more regular workers in all industries.

**Table 23. Corporate Welfare Programs by Size of Firms in Manufacturing in Japan, 1949**

(% of firms adopting welfare program)

| Welfare Program     | Total | 500 or more workers | 100-499 workers | 30-99 workers |
|---------------------|-------|---------------------|-----------------|---------------|
| Housing             | 58.7  | 96.3                | 82.4            | 54.8          |
| Dining              | 21.5  | 72.2                | 37.6            | 14.7          |
| Discount Purchase   | 10.6  | 69.8                | 19.4            | 5.1           |
| Company Loan        | 9.4   | 31.9                | 14.6            | 6.8           |
| Medical Clinic      | 18.4  | 96.6                | 43.5            | 7.6           |
| Sanitation          | 50.1  | 94.6                | 75.4            | 41.0          |
| Nursery             | 0.9   | 9.9                 | 1.5             | 0.3           |
| Recreation          | 26.4  | 77.4                | 50.4            | 17.3          |
| Athletic Facilities | 22.0  | 87.7                | 46.9            | 11.8          |

Source: Rodosho (1960), *Rodo Gyoseishi*, vol. II, p.1540.

**Table 24. Welfare Benefits by the Size of Firms in Manufacturing in Japan, 1949**

(Monthly payment in yen)

|                       | Compensations in Cash | Legally Required Welfare Benefits | Voluntary Welfare Benefits |
|-----------------------|-----------------------|-----------------------------------|----------------------------|
| 50-99 workers         | 6,505 (100%)          | 326 (5.0%)                        | 156 (2.4%)                 |
| 200-499 workers       | 7,554 (100%)          | 398 (5.3%)                        | 386 (5.1%)                 |
| 1,000 or more workers | 8,362 (100%)          | 454 (5.4%)                        | 813 (9.7%)                 |
| Total                 | 7,541 (100%)          | 403 (5.3%)                        | 493 (6.5%)                 |

Source: Rodosho (1960), *Rodo Gyoseishi*, vol. II, p.1538.

1) "Compensations in cash" includes wages, overtime pays, and biannual bonuses which are specified in a collective agreement.

2) "Legally required welfare benefits (*hotei hukuri-hi*)" include health insurance, pensions, and other benefits required by law.

3) "Voluntary welfare benefits (*hotei-gai hukuri-hi*)" include private insurance, family and commuting allowances, company savings, stock ownership, housing facilities, dining facilities, health and medical facilities, and educational, recreational and athletic facilities which are not required by law.

4) The above data for "voluntary welfare benefits", however, do *not* include retirement allowances and training cost. Therefore, the total amount of voluntary corporate welfare benefits would be significantly higher than the figure shown above.

**Table 25. Temporary and Outside Workers in Selected Industries in Japan, 1957**

(% in total workers)

| Industry           | Regular Workers | Temporary Workers | Outside Workers |
|--------------------|-----------------|-------------------|-----------------|
| Shipbuilding       | 64.9            | 13.9              | 21.2            |
| Automobile         | 74.5            | 19.0              | 6.5             |
| Electric Machinery | 71.1            | 26.3              | 2.6             |
| Chemical           | 68.0            | 14.3              | 17.7            |
| Metal              | 80.3            | 7.3               | 12.4            |

Source: Rodosho (1957), "*Rinji-ko ni kansuru Jicchi Chosa no Kekka Gaiyo* (Summary of a field survey on temporary workers)".

- 1) Regular workers (*joyo-ko*) are the workers with employment contracts specifying an indefinite term.
- 2) Temporary workers (*rinji-ko*) are the workers with employment contracts specifying a definite term between one month and one year.
- 3) Outside workers (*shagai-ko*) are the workers who work for a particular firm although they are not directly employed by that firm.
- 4) The sample covered 49 large firms; the average number of regular workers in those firms was 2,800.

**Table 26. Methods of Employment Adjustment during Recessions in Japan**

(% of firms using each method during each recession)

| Method of Employment Adjustment                  | 1954-55 | 1957-58 | 1962-63 |
|--|---------|---------|---------|
| Reduction of Working Hours                       | 48      | 55      | 51      |
| Relocation of Regular Workers                    | 25      | 27      | 31      |
| No Renewals of Contracts with Temporary Workers  | 19      | 30      | 13      |
| Reduction of a number of Outside Workers         | 3       | 8       | 14      |
| No Hiring of Regular Workers                     | 10      | 12      | 23      |
| Early Retirement or Dismissal of Regular Workers | 17      | 17      | 8       |

Source: Economic Planning Agency (1964), "Report on Employment and Wage during Business Adjustments".

- 1) Percentage of firms in mining, manufacturing and transportation which adjusted employment by the above methods in the respective business recessions is shown.
- 2) One firm may use more than one method.