

Neoliberalism and Labour Inequality in Japan

Ramifications of Neoliberal Policies in the Japanese Labour Market



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For my yiayia (1929-2018)

List of Abbreviations and Acronyms

BoJ	Bank of Japan
CEFP	Council of Economic and Fiscal Policy
CRR	Council for Regulatory Reform
ESL	Employment Security Law
GDP	Gross Domestic Product
ILO	International Labour Organization
LDP	Liberal Democratic Party
LSA	Labour Standards Act
MHLW	Ministry of Health, Labour and Welfare
MIAC	Ministry of Internal Affairs and Communication
OECD	Organization for Economic Co-operation and Development
WDL	Worker Dispatching Law

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Introduction

“There is no greater form of inequality than treating unequal things as equal.”

- Aristotle, Politics; Book III

Currently, the world economy in its majority has been penetrated by the capitalist agenda and ideology. Capitalist elements have permeated the political as well as the socio-economic tissues of both developed and developing economies, thus hugely influencing today's world as we know it. By closely inspecting certain characteristics in political and economic systems – such as the state intervention in the national economy, and the politico-economic institutions that partake in it - certain forms of capitalism are identified, widely known as ‘models’ or ‘varieties’ in academic literature (see: Hall and Sockice, 2001). One of these forms is the Japanese capitalism, a model universally popular amongst economic scholars for its developmental orientation.

In the aftermath of the Second World War, the government officials of the most advanced countries settled on the installation of a social contract characterized by increased state intervention in economic affairs, as well as the moral obligation of a satisfactory level of employment with the intention to provide a minimum standard of living for all. In Japan's case, Johnson (1982) coined the term “developmental state” as a definition of the political desire for high speed growth in industrial and technological development post-war. As a result of the state policies that followed, the Japanese economy encountered remarkable growth between the decades of 1950s and 1980s, thereby elevating the average income and acquiring the title of an ‘all-middle-class society’ (Shirahase, 2014).

During this era, a new wave of political economic thought started to emerge globally, widely associated with Ronald Reagan's and Margaret Thatcher's administrations. The main features of their political ideologies included aspects of neoliberal individualism, the commodification of all resources (including the labour power) and the undiluted faith in an unregulated free market as indicated in neoclassical economic theory (Clarke, 2005; Mudge, 2008). Being a member of the OECD and as the second biggest economy in the world during the mid-1980s, Japan undertook a series of

measures in order to obtain financial deregulation. However, the neoliberal prescriptions of minimal state intervention and flexible labour markets initially appeared to be incompatible with the regulations of the Japanese developmental state. Political leaders had to adopt policies that would put Japan in a transitory phase towards a market-based economy. In this regard, Japan has implemented a peculiar institutional framework, whereby neoliberal and developmental practices coexist in its economic system in order to achieve prosperity and growth (Lechevalier, 2014).

The implementation of deregulation reforms can bear benefits as well as ill effects. Liberal scholars insist that the expansion of the market economy and the absence of trade barriers would produce higher levels of growth (Cargill and Sakamoto, 2008). At the same time, however, market deregulation and economic policy liberalization also contribute to the increase of inequality within states, as these practices deviate from government intervention and regulation (Hurrell and Woods, 1999) and further enhance the highest incomes (Jacobs and Myers, 2014). The governments of industrially developed states responded in diverse ways to these outcomes (Watanabe, 2015), and, consequently, major institutions such as the Japanese labour market has been severely affected by these policy adjustments.

Japanese workers had traditionally enjoyed high levels of job security, primarily due to the life time employment policy that had been prominent throughout the period before the bubble burst. The stock bubble burst in 1990 signaled the beginning of a long period of stagnation that is still pertinent in the Japanese economy. Due to the magnitude of the recession, the public and private employment sectors had to reduce costs through wage cuts, increased working hours and opting for the recruitment of temporary employees over permanent ones (Song, 2014). The government – and in particular the members of the Liberal Democratic Party (LDP) - adopted a series of neoliberal reforms to stimulate the demand economy (Lechevalier, 2014). The effectiveness of these measures is still being debated by policymakers and scholars alike; nevertheless, labour practices and working conditions have been significantly altered in the past twenty years. This occurrence raises the following question:

To what extent has inequality increased in the Japanese labour market due to the neoliberal policies that were implemented during the last two decades?

The main purpose of this dissertation is thus to link the Japanese government's neoliberal agenda with any consequences detected in the labour force. The largest part of the relevant scholarly literature primarily focuses upon the political and economic change that penetrates the Japanese state structure and institutions (Dore, 1999; Vogel 2006; Rosenbluth & Thies, 2010), but only a few writers have analyzed the social transformation and its connection with neoliberal practices (Radice, 2008; Shirahase, 2014). This research is important as it will outline the implications of neoliberalisation from the perspective of ordinary citizens, using aspects such as unemployment rates and wage gaps, to prove that inequality levels have risen as a result of neoliberal reforms.

This paper is structured as follows. The first chapter discusses the concepts of neoliberalism and labour inequality in Japan, providing a brief literature review on the matter. Notions such as labour segmentation and precarity, as well as the views of scholars regarding their effects on the societal and economic nexus will be explained in the process. The second section explains in detail the research method and the methodological tools used in this paper in order to investigate the Japanese labour conditions. The third part presents the neoliberal policies of four Prime Ministers of Japan (Yasuhiro Nakasone, Ryutaro Hashimoto, Junichiro Koizumi and Shinzo Abe) that were essential to the state's enforcement of labour-market reforms, as well as the data required for the purpose of this research. In the fourth section, the policies are further discussed to determine whether the levels of labour inequality have also increased during their prime-ministership. The last section offers some concluding remarks about the results of the analysis; it appears that the deterioration of regulatory measures has de facto altered labour patterns, leading to the appearance of further disparities in the Japanese workforce.

Chapter 1: Literature Review

This section assesses the theoretical framework surrounding the context of neoliberal and labour market reforms experienced in Japan over the latest two decades. Prior to the analysis, it is imperative to present the political principles and processes that highlight the diversification of employment and the effects of deregulation and liberalization on working conditions. In particular, this chapter demonstrates the current scholarship positions regarding the relationship between neoliberalization and inequality and provide a brief overview about the current condition of the Japanese labour market. In doing so, scholarly views concerning the link between neoliberalism and labour inequality will be highlighted, and a background of the Japanese case will be provided.

Theoretical Background

Neoliberalism is an ideological system consisting of institutionalized principles and assorted political, economic and social policies that influence politico-economic activities (Campbell and Pedersen, 2001, p. 5). First introduced in the Mont Pelerin Society, where neoliberalism was developed in order to replace the Keynesian model (Clarke, 2005, p. 7), the notions of minimalist welfare state, flexible labour markets, and the reduction of trade barriers are now regarded as the theoretical grounds of this school of thought. The path to neoliberalism may differ from one country to another (Cambell & Petersen, 2001), as it is a complex process of institutional change, a sui generis set composed of intellectual, bureaucratic and political components (Mudge, 2008, p. 704). Nevertheless, it is generally agreed that neoliberal policies constitute of government decentralization, deregulation, privatization and laissez-faire measures that allow for a free and competitive international trade (Harvey, 2005, p. 2). This liberalization process essentially increases income levels, decreases poverty rates and essentially leads to a prosperous economic well-being for all (Hurrell and Woods, 1999, p. 152).

The neoliberal project thus proclaims that competition and free markets are defining features that lead to economic equity and growth. However, numerous scholars have expressed reservations about the trade-off effects of this economic doctrine, particularly in terms of the increasing inequality that it provokes. Ostry et al. (2016) express their concerns about the costs of the neoliberal agenda, as their research showed that neoliberal policies generate distributional effects that enhance wealth and income

inequality. According to Standing (2014), neoliberalism views competition as the core element of global economic relations due to the marginal productivity theory, which maintains that the production process benefits the most productive actors. As a result, higher incomes are associated with a greater contribution to the economy, and some level of inequality could be justified in terms of efficiency (Tachibanaki, 2006a). The writings of Piketty and Goldhammer (2014) and Jacobs and Myers (2014) illustrate that previous neoliberal administrations in advanced states – such as in the United States and the United Kingdom – had negative impacts upon the lower- and middle-class households, as they led to unequal income distribution and further endorsed disparities found in the labour market.

Recently, there has been growing discussion on the place of labour market in neoliberal policy projects in industrialized countries. Particularly due to economic crises and increasing unemployment rates, governments are introducing pro-liberal labour market reforms that increase flexibility in employment contracts (Song, 2014, p. 162). Those trends suggest that neoliberal practices, such as deregulation and liberalization, are becoming more prominent in the labour sector.

Neoliberalism and Labour Inequality

A. Inequality in the Labour Market

Equality in the workplace is not only a matter of diversity and social justice, but also a precondition for achieving growth, competitiveness and social cohesion. However, equitable societies are not necessarily the outcome of market forces (Berg, 2015, p. 1); they are formed by the institutions – that is, the regulations, policies and norms – of several sectors of a state, such as the economic system and the labour market. In order to reach and maintain satisfactory labour conditions, the state has to guarantee the establishment and the strengthening of institutions that regulate the workplace, such as working hour legislations, minimum wages and collective bargaining. Nevertheless, it appears that the expansion of the neoliberal capitalist model across the world has increased the levels of insecurity for large parts of the labour market, putting at risk individual and societal well-being.

Neoliberal prescriptions prioritize decentralization and the abolishment of any distortions that hinder competition and capital growth (Clarke, 2005). Regulation, taxation and public expenditures must be minimized; public corporations must be

privatized; collective bargaining unions must be restrained. In essence, neoliberalism promotes the reduction of constraints and the weakening of regulatory control of business activities, increasing the ability of employers to act on their employees as they please (Baccano and Howell, 2011, pp. 526-7). This leads to the formulation of disparities in the workforce, which, in combination with the politico-economic framework that the neoliberal agenda dictates, could potentially produce negative outcomes for the labour market and for society as a whole (Tsutomu, 2014).

One significant societal aspect that has deteriorated through the years due to liberal intervention is the standards of income. Income distribution is essential for its implications for stability and growth (Tachibanaki, 2006a). According to Piketty and Goldhammer (2014), however, the concentration of wealth amongst the top 1% of income distribution has intensified in advanced capitalist states. This signifies that neoliberal political transformation towards deregulation and flexible labour has severe implications in wage earners; it modifies relations of social hierarchy and power, leading groups of the population to social and labour market exclusion (Standing, 2014). A group that has constantly be considered to remain in unlucrative position is, according to Berg (2015, p. 57), women workers. Women are more likely to receive lower salaries than their male counterparts, whilst they are often being occupied in atypical forms of employment with fewer benefits and substantially lower levels of job security. It appears that efforts to create a more equal society are limited under neoliberal principles; inequality is justified in terms of utility and capital growth (Clarke, 2005).

B. The adaptability of Labour institutions under Neoliberalism

Labour market institutions consist of a vast set of regulations on employment protection, social security, labour mobility and income (Bass et al., 2010). The changing market conditions called for successive institutional reforms over the past decades in the name of modernization and development. Those set of reforms, which are based on the neoliberal principles of deregulation and minimum intervention, modify the current trends and structures in employment and create diverse patterns of labour flexibility in an effort to boost growth and efficiency.

Numerous authors have recently considered the concept of segmentation of the labour market as worthy of attention (Lechevalier, 2014; Song, 2014; Standing, 2014; Chiavacci and Hommerich, 2017). A market is regarded as segmented when it is divided

in two or several segments with minimal mobility between them. This leads to the *dualism* of the labour market, whereby the types of occupation are distinguished between regular (or formal) and non-regular (informal) employment (Berg, 2015). Parts of the labour force are usually immured in one certain type of employment, limiting their career prospects and job security; wages and work conditions are also quite different from one segment to another (Chiavacci and Hommerich, 2017). This distinction diminishes workers' statuses and further undervalues the quality of labour contracts. It is thus inevitable that deregulation policies create winners and losers, in which case non-regular employees experience widening gaps that require effective government policies to be tamed (Song, 2014).

Another major labour transformation is the appearance of a new mass class called *precariat*. As Standing (2014) explains, the precariat is characterized by minimal job security, whereby workers are faced with zero career opportunities and the constant threat of dismissal, and the unemployed are unable to meet the employment demands of capital. Lorey (2015) insists that precarization is more than just employment insecurity; it is a process of normalization of the poor state of labour conditions under the neoliberal order. It is a shortcoming of global capitalism (Radice, 2008; Kalleberg, 2009), as the problems in the labour market get exacerbated due to the escalation of competition triggered by deregulation and minimal state intervention. Therefore, the neoliberal labour model, characterized by flexible labour contracts, poor income distribution and social exclusion for certain groups, has restricted labour rights and has "[...] habituated most workers to a life of unstable labour and unstable living." (Standing, 2014, p. 968) Before we start focusing on the current conditions of the Japanese labour market, it is necessary to highlight other factors that drive the new policies and influence labour inequality in Japan.

Alternative explanations for the rise of labour inequality

An actor which plays a pivotal role in shaping socioeconomic policies that can potentially increase inequalities is the Japanese model of capitalism. This peculiar set of domestic institutions is characterized by state-led economic policies that highlight the influence of the state and bureaucracy in economic affairs and in the development process, giving Japan the title of a developmental state (Johnson, 1982). The neoliberal principle, however, proclaims that the role of the state is limited to guarantee an institutional

structure and a legal framework appropriate enough for the right functioning of the markets (Harvey, 2005). In that sense, neoliberalism is a project that favours certain policies and actors and diminishes the role of the state, a phenomenon that contradicts with the notion of the developmental state (Tsukamoto, 2012, p. 74). Western scholars have argued that structural factors are to blame for economic downturns, since Japanese financial and industrial institutions generate regulations to protect the market (Cowling & Tomlinson, 2002, p. 374). It is thus assumed that the Japanese model hinders liberalization and is not capable to manage its consequences properly, leading to the appearance of disparities in the workplace and in society as a whole.

Another explanation for the aggravation in labour conditions is the weak macroeconomy. Labour market institutions have experienced several transformations triggered by economic crises and bumbles; in times of financial and economic slumps, the private sector attempts to increase profitability by cutting out costs in employment (Tachibanaki, 2006b). Common practices include cutbacks on hiring new employees (Hamaki et al., 2010, p. 21), as well as raising the number of non-regular contracts (Song, 2014). An economic crisis could therefore lead to an employment crisis, as oftentimes rigid labour institutions are blamed for weak economic performance (Berg, 2015, p.8) and governments seek reforms to increase flexibility, create jobs and sustain competition. Slow economic growth and low demand are factors that enhance inequality, expand the number of working poor and intensify labour vulnerabilities due to policy responses aimed to resuscitate economic activity (Bass et al., 2010).

An additional explanation related to the rise of inequality is demographic trends, particularly the ageing of the Japanese population. The continually ageing society has put acute pressure to Japanese policymakers, as the elderly are expected to account for a quarter of the state's population by 2020 (Jones and Fukawa, 2017, p. 7). This translates to increased public expenditures for pensions and higher wage costs thanks to the seniority-based employment system. Combined with low fertility rates, these factors contribute to the reduction of the labour force and present major concerns about the social institutions and the fiscal sustainability of the state. Ohtake (2008) indicates that the rapid population ageing was the key factor for the widening of labour inequality, since changes in the population and in the family structures affect income distribution, leading to higher income inequality among the elderly. Although the same author would later

argue that income disparities have spread within all age groups, it appears that the ageing society is still regarded as a major cause of inequality (Bass et al., 2010, p. 72).

The aforementioned conditions could expedite the state's adoption of pro-liberal labour market policies; however, they are not sufficient factors to fully explain the widening of labour inequality in Japan. It is therefore mandatory to identify the unique characteristics of the Japanese labour market and explore the different dimensions of their responses to neoliberal policy reforms.

Neoliberalism and Labour Inequality in Japan

In order to understand the adaptability of the Japanese labour market, it is essential to investigate the characteristics of this particular employment model. After the Second World War, the labour system adopted the principles of the "three treasures" (*sanshu no jingi*): lifetime employment, enterprise unions (*keiretsu*) and seniority wage systems (Lechevalier, 2014; Song, 2014). This set of institutions were given high credit for the economic growth that ensued.

Traditionally, the Japanese corporal culture maintained strong employment protection systems, whereby long-term labour commitments went side by side with seniority- rather than performance-based salaries. These practices secured stable employment relations as workers were hired with the implicit understanding that their employment will be ensured until retirement (Ono, 2010, p. 5). Nonetheless, this model only applied to a certain population (mainly male regular workers) and has been criticized for being inflexible and unadaptable to fiscal and labour challenges, as it produced employment procedures that lacked efficiency and agility (Aoki, 2007; Bass et al., 2010). Those functional inefficiencies called for labour reforms; however, the intransigent and interdependent nature of the institutions suggested that implementing change might create discordance amongst traditional and reformed areas (Lechevalier, 2014, p. 31).

In the 1980's, PM Nakasone came into power unveiling the first wave of neoliberal policies during the bubble period (Cargil and Sacamoto, 2008; Hashimoto, 2014). The ruling Liberal Democratic Party aimed to reform management practices in the public and private sector in order to impose built-in flexibility in the labour market and reduce the role of the state in financial affairs, primarily as a response to pressure from the US and large Japanese firms (Shibata, 2008; Lechevalier, 2014). Some scholars, such as

Hirashima (2004) and Tsutomu (2014) assert that Japanese policymakers did not pursue a coherent, full-fledged neoliberal programme, but rather pursued a customized neoliberal agenda with measures adapted to the coordinated Japanese economic system. Nonetheless, bureaucratic structures were recast and loyalty to the traditional developmental model started to corrode, especially in the decade following the bubble burst.

The market crash and the forthcoming economic stagnation challenged the traditional labour structures, damaging the image of egalitarian Japan. Income gaps began to widen, employment security decreased and certain labour sectors were transformed, resulting to the segmentation of the labour market (Lechevalier, 2014). These changes led to the division (dualism) of labour into *regular* and *non-regular* (flexible) employment, or, as defined by Song (2014), to *insiders* and *outsiders*.

There is no exact legal definition of regular (or lifetime) employment in Japan. The common public conception suggests that regular employees are hired by their perspective company with contracts of indefinite duration. Employees are hired in entry-level posts with the prospect of committing to the firm until their mandatory retirement age (Ono, 2010, p. 4; Song, 2010). This indicates that employers usually hire workers right after their graduation and offer training and further incentives to ensure worker discipline and keep them in the same company for a long duration (Shibata, 2017; Takahashi, 2018). Hence, lifetime employees are privileged enough to enjoy protection from likely dismissals and any other fluctuations in the labour market, since firms generally refrain from discharging personnel with permanent contracts (Hamaki et al., 2010; Asao, 2011). Notwithstanding its perks, this scheme appears to be gender biased, as it favors men and excludes women who are considered by their peers to be less likely to commit long-term in a firm due to family obligations (Ono, 2010).

Despite the fact that there is no legal term for regular employment practices, Japanese labour laws contain definitions for several types of atypical employment. According to Bass et al. (2010) the largest group amongst them is *part-time* workers. These are employees, usually young adults and married women, who are directly hired by their firm but work shorter hours per week and receive lower salaries and welfare benefits than ordinary workers. The second largest category is *temporary/contract* staff. Contract employees are hired fulltime for short (up to six months) or long term (up to two years) periods, with fixed salaries and oftentimes with the possibility to renew their

contracts after their termination (Asao, 2011; Aoyagi & Ganelli, 2013). A third form is *dispatched* employees, whereby contracts are entered between the employee and a staffing agency rather than the enterprise (or client company) itself (Takashi, 1994; Sutton & Tanaka, 2015). The agency dispatches workers to clients through service agreements; the client companies then instruct the dispatched workers, but the workers maintain their employment relationship with the agency. This indirect type of employment can be fixed-term or open-ended, full- or part-time, providing clients with greater flexibility when it comes to dismissals (Asao, 2011, p. 2).

The aforementioned types of employees do not enjoy the same benefits and protection as their permanent-employed counterparts. Irregular workers are generally paid less and have low levels of job security, even if their duties and tasks are identical to the ones performed by regular employees. Atypical employment in Japan is thus a phenomenon that contains diverse, flexible employment arrangements and make it easier for employers to control, instruct and dismiss employees at will (Sutton & Tanaka, 2015). While numerous studies recognize that there has been a form of deregulation and segmentation of the Japanese labour institutions (Dore, 1999; Vogel, 2006; Lechevalier, 2014; North, 2014) and pinpoint several factors that increase inequalities (see: *Alternative Explanations*, p. 10), there has been little consensus among scholars on whether and to what degree the neoliberal policies adopted in the last twenty years have contributed to the aggravation of the conditions in the labour market.

Chapter 2: Methodology

Period Selection

In order to examine the impact of neoliberal economic policies, this study will attempt to identify changes in labour inequality using a multi-disciplinary approach that will combine political, social and economic elements and draw data from the following sets of time:

- I. Yasuhiro Nakasone's period (November 1982 - November 1987), taking place before the burst of the stock market bubble,
- II. Ryutaro Hashimoto's period (January 1996 - July 1998), after the bubble burst and in the midst of the "Lost Decade" and the Asian Crisis,
- III. Junichiro Koizumi's period (April 2001 - July 2006), before the 2008 financial crisis,
- IV. Shinzo Abe's second and third Cabinet (December 2012 - November 2017), after the financial crisis.

The time-spans of these terms of office are selected for three reasons. First, these specific Prime Ministers have, according to the academic literature (Cargil and Sacamoto, 2008; Hashimoto, 2014; Lechevalier, 2014; Shibata, 2016), attempted to administer measures that fall to a neoliberal spectrum. Second, the aforementioned Prime Ministers originate from the Liberal Democratic Party, a political party known for its neoconservative orientation (Vogel, 2006; Tsutomu, 2014). Third, considering that brief tenures are a relatively common phenomenon in the Japanese political scene, these four Prime Ministers were also chosen on the basis that their time in the Cabinet lasted for at least 24 months.

In order to evaluate properly the consequences of these Prime Ministers' policies and draw credible conclusions, the analysis will also include data taken two years after the aforementioned officials stepped down from power (excluding the case of Shinzo Abe, who is still currently in office). Notably, while Yasuhiro Nakasone's period does not exactly fall in the specific timeframe of the research question, his inclusion is viewed as mandatory since his policies constitute the turning point for the Japanese economic and political model and "formed the basis for a vast programme of structural reforms in the 1990s." (Lechevalier, 2014, p. 31)

Research Methods

By collecting and examining empirical evidence one can assess whether neoliberalism has affected the Japanese working force. The research design will use process tracing in order to analyze the evidence and conclude whether inequality has risen in the society of Japan during neoliberal administration. Process tracing allows for the identification of the causal mechanisms that would link an independent variable with a dependent variable (George and Bennett, 2005, p. 206). For the purpose of this analysis, neoliberalization will be regarded as the independent variable, whilst aspects of inequality will be viewed as the dependent variable. By paying close attention to sequences of the independent, dependent and any other intervening variables, an analysis of the causal inferences will be formulated, so as to diagnose whether these neoliberal political acts produce labour disparities over time.

It is argued that process tracing acts as the ideal methodological tool for economic, political and social sciences in order to investigate the context and the ways in which the connection between the above variables manifests itself (Waldner, 2012). Process tracing can trace and evaluate causal relationships between conditions and outcomes which might initially be unobservable, as well as identify sequences of events and behaviors that contribute to this process (Falleti, 2006). For this particular case, this method can illustrate whether and how neoliberal principles have affected the conditions in the Japanese labour force by revealing valid causal mechanisms that would explain any changes observed in the labour market.

The type of sources to be used are predominately secondary; the studying of scholarly literature, academic journals and articles is imperative. Policy reports by government and quasi-governmental research organizations (such as The Japan Institute for Labour Policy and Training and The Japanese Economic Association) will also be referred to in the process. The data necessary can be collected from the online archives of the International Labour Organization, the database of the Organization for Economic Co-operation and Development (OECD) as well as the official sites of the Ministry of Health, Labour and Welfare, the Ministry of Internal Affairs and Communications, the Ministry of Economy, Trade and Industries and the Statistics Bureau of Japan. This data triangulation (the use of both written, academic works and statistical data) would increase the validity and the credibility of the research.

Indicators and Limitations of Study

The research would be incomplete without referencing major reforms in labour policy and other key areas linked to employment conditions. Each government administration will be discussed separately with reference to its policies, in order to assess their effects on the Japanese workers. In doing so, the impacts of the state practices in the labour force and therefore in the Japanese society will be highlighted. This paper will employ a qualitative method to analyze the neoliberalization process in Japan, therefore it will not overly rely on quantitative indexes. However, certain number-centric indicators related to labour inequality will be used in the process, in order to increase the level of focus of the study and understand some essential aspects of labour inequality in a more comprehensive and detailed manner.

- **Wage growth rates:** According to Tachibanaki (2006b, p. 2), income statistics are perceived as a valid indicator to measure labour inequalities, as they are more reliable than the ones concerning consumption, wealth and taxes. The wage-setting behaviors are influenced by liberalization (Bass et al., 2010; Hamaki et al., 2010), and, consequently, workers may face disparities due to poor income distribution. Since the Yearly Family Income and Expenditure survey conducted by the Ministry of Internal Affairs and Communications contains data only from 1999 onwards, the required data for wage growth rates can be drawn by the yearly Basic Survey on Wage Structure from the Ministry of Health, Labour and Welfare.
- **Unemployment rates:** The rate of unemployment is an important indicator with severe economic implications that contribute to a great extent to the overall increase of labour inequality (Takahashi, 2018). Furthermore, government policies need to be examined for their influence in shaping unemployment in specific groups of the Japanese population, such as women and the elderly. Data for this indicator can be found in the Annual Report on the Labour Force Survey, conducted by the Statistics Bureau of Japan.
- **Non-Permanent Employment rates:** The declining long-term employment and the widening income gap between regular and irregular employees lead to the increase the levels of inequality in the labour force, affecting mostly female workers, young graduates and the elderly population (Aoyagi & Ganelli, 2013; Watanabe, 2017). To identify changes in the numbers of non-permanent

employees, data will be collected from the Employment Status Survey, which is conducted every five years by the Ministry of Internal Affairs and Communications, as well as from the OECD's annual report on jobs and employment in OECD countries (Employment Outlook). Since both the OECD Employment Outlook and the Employment Status Survey review labour trends from the period of 1996-1997 onwards, this indicator cannot be included in Nakasone's period.

Whilst the above indicators represent certain aspects of labour inequality, it would be a grave mistake to solely rely on numerical data for this particular study. Positivist approaches, such as the Lorenz curve and the Gini coefficient, are insufficient tools to properly measure aspects related to social inequalities, since further disparities might not be reflected in the figures (Held and Kaya, 2007). Hence, in order to investigate the ramifications of neoliberal policies and identify any causal capacities in the labour sector that can be attributed to them, emphasis will be given mostly to empirical evidence from academic resources and government policies associated with the topic.

Due to the nature of the present thesis being one that is relying mostly on secondary research and the collection of secondary data, there should not exist any ethical concerns or bias. However, a few expected challenges can arise in terms of transparency. The data used is widely available online, but the measuring methods used by the different institutions may vary. Such differences are to be expected, and any data inconsistencies between the sources will be stated clearly. Furthermore, there is always the possibility that the data might get lost overnight from its original sources, therefore all the data used is appended accordingly at the end of this paper.

Chapter 3: Analysis / Data Presentation

Cabinet	Main Policies	Context
<i>Nakasone</i> (1982-1987)	Minkatsu Act (1986)	Stimulation of the private sector through investments, including the sale of nationally and publicly owned land and services
	Labour Standards Act (1986-7)	Contains the Discretionary Work Hours Rule and the Equal Employment Opportunity Law
	Maekawa Commission Reports (1986-7)	Recommendations for measures that boost economic growth and liberalize the financial and labour markets
	Worker Dispatching Law (1986)	Legalization of worker dispatching system for specific occupational sectors (positive list) with increased protection for regular workers
<i>Hashimoto</i> (1996-1998)	Big Bang (1996)	Austerity measures and deregulation policies in financial and labour markets
	Employment Security Law Ordinance (1997-9)*	Legalization of private employment services, adjustments to working hours and wage system
	Amendment to Worker Dispatching Law (1999)*	Legalization of worker dispatching system for all occupational sectors except for the ones mentioned in the negative list
<i>Koizumi</i> (2001-2006)	“Structural Reform without Sanctuaries” (2001)	Regulatory reforms for financial revival, including privatizations and fiscal consolidation
	Labour Standards Act Revision (2003)	Revisions concerning fixed-term contracts, dismissals, and the Discretionary Work Hours Rule
	Amendment to Worker Dispatching Law (2003)	Allowed the employment of dispatch workers in the manufacturing sector
<i>Abe</i> (2012-2017)	Abenomics (2012)	Three-pronged policy with monetary, fiscal and other structural adjustments
	Labour Standards Act Revision (2013)	Expansion of the discretionary work scheme and introduction of ‘equal work – equal pay’ principle
	Amendment to Worker Dispatching Law (2015)	Liberalization of agency work, replacement of position-basis with person-basis employment term

*Passed by the Diet in 1999, yet both Laws were planned during Hashimoto’s tenure.

1. Yasuhiro Nakasone (November 1982 to November 1987)

The turning point for the transformation of the Japanese state is considered to be Yasuhiro Nakasone's premiership (1982-1987). Nakasone pushed a series of structural reforms in an attempt to adopt a programme similar to the ones that Ronald Reagan and Margaret Thatcher implemented in the States and the UK respectively (Tachibanaki, 2006a, p. 119). These reforms were pressured by both external (by the United States) and internal (by domestic banks and firms) entities, and were also influenced by the ideological shift that the leading Liberal Democratic Party was experiencing at that time (Lechevalier, 2014, p. 32). Nakasone tried to minimize the power of the state by introducing a series of privatizations and by endorsing deregulation policies. The financial deregulation and the supply-side reforms that accompanied it challenged the levels of equality and well-being in the Japanese society (Tachibanaki, 2006a).

Economic policies

The Cabinet of Nakasone promoted liberal measures and pledged to seek administrative and fiscal reforms in an attempt to strengthen domestic and international economic affairs. In order to achieve this goal, the administration adopted a programme of internal and external deregulation that would allow for greater flexibility and dispose of restrictions in the financial and labour institutions of the coordinated Japanese economy (Lechevalier, 2014, p. 33). One of these measures was the *minkatsu* policy, a framework which encouraged market-led, private investments in public projects to stimulate the stagnated economy.

The *minkatsu* policies undertaken by Nakasone were administrative deregulation reforms that were also applied to land-use and urban planning. The greatest accomplishment of the reforms, according to Kuniko Shibata (2008, p. 99), was the privatization of four public entities: The Japan Tobacco and Salt Public Corporation, the Nippon Telegraph and Telephone corporation, the Japan National Railway and Japan Airways (Shibata, 2008; Lechevalier, 2014, p. 36). This series of privatizations succeeded in decreasing state expenditures, but, on the other hand, it also increased the number of dismissals in these firms, which, in combination with the suppression of the power of labour unions, created further instabilities in the labour institutions. As can be seen from the collocated graph (Figure 1), during Nakasone's tenure unemployment rates were generally kept below the 2,7% mark, except for the period whereby the privatizations

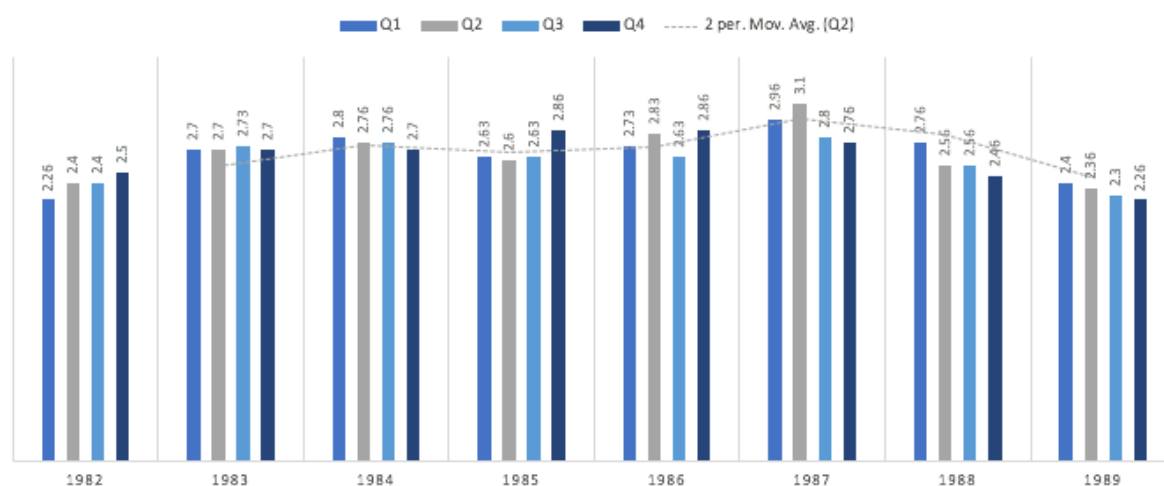


Figure 1: Unemployment rates for people aged 15-65 (%). Source: Statistics Bureau of Japan (2017).

took effect (late 1985 to 1987), since thousands of workers were dismissed in this process (Takanashi, 1992). Minkatsu was thus regarded as a strategy similar to the deregulation and public-private partnerships policies advocated by neoliberal thinkers, shifting the developmental state towards a liberal path (Shibata 2008, p. 99).

Labour Policies

A notable policy in the field of labour was the enactment of the *Worker Dispatching Law*, a placement act that legalized a working dispatching service which allowed firms in certain occupational categories to legally dispatch employees from agencies (ILO, 2018). Until then, dispatch agencies were prohibited by the original Labour Standards Law (1947), yet several businesses that offered contract work started to make their appearance (Takashi, 1997, p. 12). The Law was an attempt to provide legal protection to temporary workers and balance out the emerging dispatching market with the regular, life-time employees (Takanashi, 1992, p. 10). However, it also included employment protections to guarantee that the liberalization of the temporary sector would not lead to the erosion of regular employment (Song, 2014). Thus, the government confined dispatchable work to a “positive list” of only 16 professional sectors (which would later expand to 26) that required specialized skills and experience or special management (Takashi, 1999, p. 18). As a result, the number of temporary employees increased in the following years, particularly between women and elderly workers (Takashi, 1994).

As part of the deregulation programmes, the Diet enacted the Discretionary Work Hours Rule in 1987. In order to flexibilize the rules regarding working time, the Rule

introduced a relaxation of regulations on the hours-averaging scheme (Takashi, 1999, p. 14) and reduced the maximum working hours from 48 to 40 per week (Yamakawa, 1998). In doing so, labour institutions began shifting towards a performance-based rather than a quantity-based (amount of working time) management practices (Song, 2014).

Towards the end of his tenure, Nakasone proposed a series of structural and administration measures in order to increase demand and reduce the size of the public sector (Shibata, 2008). These measures were incorporated in the *Maekawa reports* (1986-7), which contained specific guidelines to reassess the economic system, achieve fiscal growth and meet liberalization goals on the basis of free market principles (Hirashima, 2004; ILO, 2018). The reports instructed reforms inspired by policies promoted by the US neoliberal agenda in the areas of finance, trade and the labour market, and constituted a response to the turbulent currency fluctuation that were persistent at that period of time (Takanashi, 1992, p. 7; Lechevalier, 2014, p. 31-2). Whilst these strategies aimed to boost domestic demand by providing incentives to increase private and public investments, they did not particularly have positive effects on worker's salaries; as demonstrated in Figure 2 below, total wage earnings increased by 2% and by just 0,1% in 1987-8, followed by a massive increase of 5,7% in 1989 due to the fiscal bubble. The subsequent market crash indicated that the Maekawa reports failed to safeguard the economy, leading to the skyrocketing of land prices, two decades of recession, and causing further unease to the Japanese society.

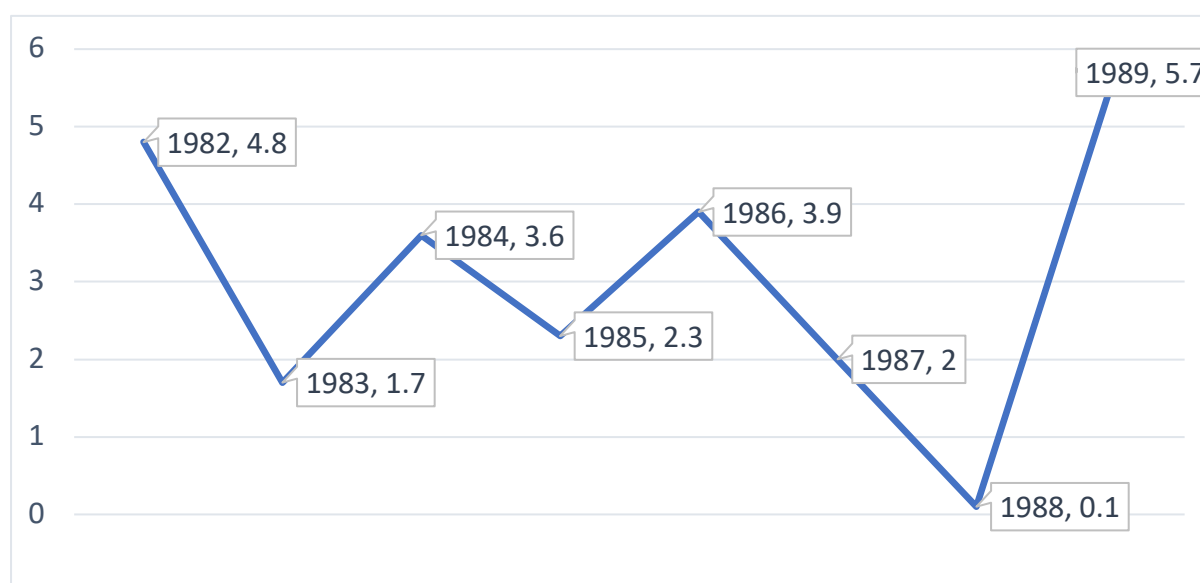


Figure 1: Total wage earnings growth (%). Source: Ministry of Health, Labour and Welfare (2017).

As the Japanese capitalism model began to be pushed to its limits, the policies of Nakasone foreshadowed the forthcoming neoliberal reforms of Hashimoto and Koizumi. Even though Nakasone's measures were a result of Western demands (Lechevalier, 2014; Song, 2014), he carried out the privatizations of four major public companies as well as other administrative reforms in order to deregulate and liberalize the coordinated economic system. For the first time in post-war history, Japanese bureaucracy lost its dominant role in economic affairs, as the deregulation and decentralization policies administered at that time meant that bureaucrats no longer guided the policy formulation process. The labour market was also affected by these reforms; the dispatching employment legislation signaled a new era of labour policies whereby expansion of atypical workers and lack of employment security started to become a norm (Takanashi, 1992; Takashi, 1994). It is evident that Nakasone's mandate advocated "internationalization for Japan, general reorientation towards a consumer economy [...] and greater flexibility," (Lechevalier, 2014, p. 38) paving the way to further deregulation programmes by the subsequent governments.

2. Ryutaro Hashimoto (January 1996 to July 1998)

The period of Hashimoto's prime ministership is typically regarded as the starting point of full-fledged neoliberalism in Japan, mainly due to the austerity measures he implemented during the Asian Crisis (Lechevalier, 2014; Tsutomu, 2014). The collapse of the bubble signaled the beginning of a long period of stagnation, whereby growth rates stalled, unemployment rates reached historical levels and temporary workers increased (Inagami, 2003; Chiavacci & Hommerich, 2017). In order to revitalize the sluggish economy, the Cabinet issued a deregulation promotion programme that contained structural reforms in broad areas of economic interest, including labour and employment relations. In pursuance of adapting traditional regulations to the new employment standards, Hashimoto's legacy in labour relations consists of the Employment Security Law Ordinance (1997) and its revision (1999), as well as a revision to Nakasone's Worker Dispatching Law (1999). Whilst the two revisions were passed by the Diet after Hashimoto stepped down from power, they should be analyzed on the grounds that LDP politician Obuchi Keijo (Hashimoto's successor) inherited and passed these labour market proposals that had been planned and prepared by Hashimoto's Cabinet (Song, 2014).

Economic Policies

The government of Japan had to seek out new remedies for the weak economic performance that had been lingering after the bursting of the bubble. In an attempt to liberalize the Japanese overprotective market, Hashimoto unveiled a deregulation programme concerning six broad areas: the financial industry, the bureaucracy, the economic system, the national budget, social welfare and education (Cabinet Office, 1997). His policy plan was dubbed the *Big Bang*, named after a similar agenda effected by Margaret Thatcher in 1986 that promoted deregulation measures in the UK financial market.

The Cabinet promoted the complete deregulation of the financial sector and implemented a vast series of structural and financial reforms through fiscal consolidation and administration adjustments (Hirashima, 2004, p. 43). In doing so, the government restrained expenditures in most sectors, remodeled the tax system, social security and pension system and, most importantly, reduced the role of the state in economic affairs. The Japanese market should become "free, fair and global," (Cabinet Office, 1997) and not

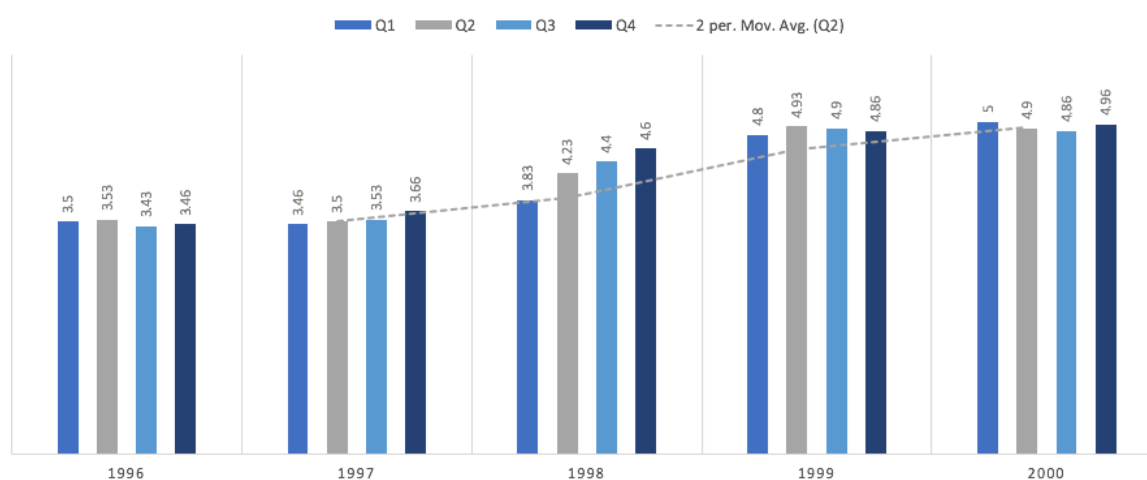


Figure 3: Unemployment rates for people aged 15-65 (%). Source: Statistics Bureau of Japan (2017).

get hampered or halted by complicated bureaucratic structures. As such, the government focused to reshuffle the coordinated market by administering further deregulation policies in firm management and in labour institutions (Lechevalier, 2014, p. 40). In effect, Hashimoto's Cabinet was essentially following the principles of Nakasone (Lechevalier, 2014, p. 40) and brought forward further neoliberal instructions in all institutions in an attempt to get the Japanese economic system to the right direction.

Labour Policies

In order to flexibilize the labour market and keep unemployment at a low level (which was already rapidly growing at that time – see Figure 3 above), the Cabinet revised the *Employment Security Law* (1947). As Takashi (1999, p. 8-9) indicates, the old ESL prohibited private employment placement agencies with the exception of limited occupational sectors. The new Ordinance places private services on the same level with public employment offices which, until then, were monopolized by the state. Furthermore, to adjust employment management and compete with other Asian industries that were flourishing at that time, the government shifted towards flexible working hours and a performance-based wage system (Song, 2014). Although these measures were to reduce obstacles in occupational activities, they caused deleterious effects on workers' salaries (Shibata, 2016, p. 498); as can be seen from Figure 4, the stability of wage earnings were undermined during Hashimoto's tenure, peaking in 1997 at 6,3% in 1997 and plummeting at -3,2% in 1999, when the ESL Ordinance eventually took effect.

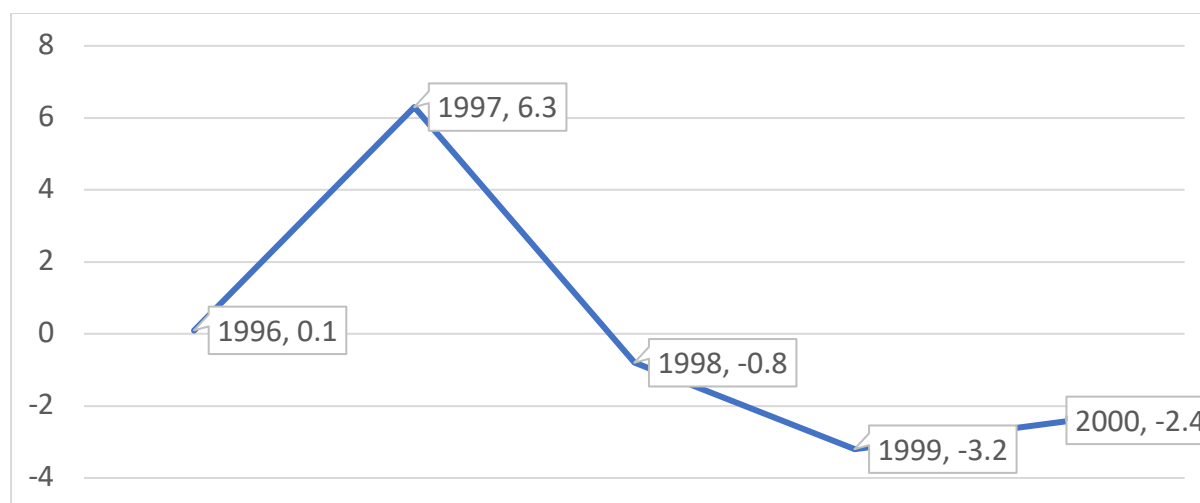


Figure 4: Total wage earnings growth (%). Source: Ministry of Health, Labour and Welfare (2017).

The Ministry of Health, Labour and Welfare announced the revision of the *Worker Dispatching Law* to eliminate further restrictions in the labour market. To reiterate, the original WDL (1986) legalized temporary agency employment for a limited number of occupations (the ones included in the “positive list”); however, business circles deprecated on this enactment, as they viewed that the restriction of allowable work to a short list of occupations was too narrow and did not reflect the current labour conditions de facto (Takashi, 1999, p. 12). In addition, other international and domestic factors - such as the adoption of ILO Convention regarding Private Employment Agencies (ILO, 2018) and the increasing unemployment rates observed after the bubble crash (see Figure 3), highlighted the necessity for the development of a tentative plan to provide new forms of safety in the labour market. Hence, the Ministry undertook further liberalization of the WDL by introducing a “negative list” system whereby working dispatching was generally liberalized except for certain sectors mentioned in the negative list, such as construction, port transportation and (for the time being) manufacture (Song, 2014).

The introduction of the negative list system abolished general prohibitions on the listed occupations and, as a result, is considered to be the most significant aspect of Hashimoto’s labour policies at a time when deregulation drives were prominent due to competition under globalization (Watanabe, 2015). As indicated by the Japanese Institute of Labour (Takashi, 1999), this drastic change in regulations would ameliorate worker’s conditions in declining industries, since they would provide an active labour market to the unemployed and create further employment opportunities to diversify the workforce.

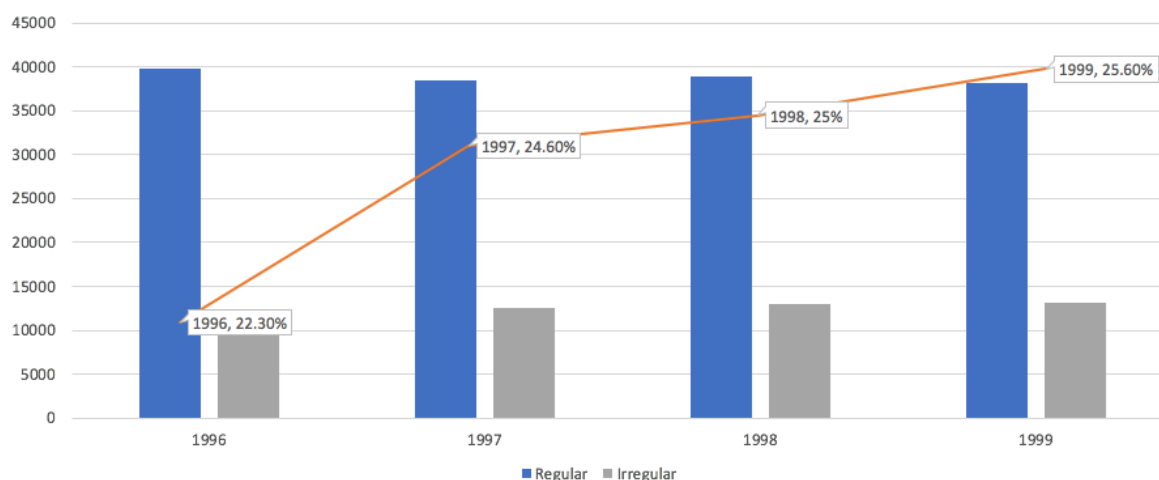


Figure 5: Total number of regular and non-regular employees, plus total ratio of irregular workers compared to regular employees. Source: Ministry of Interior Affairs and Communication (2017), OECD (2018).

Thus, the new WDL simplified administrative procedures and increased labour mobility in the sectors not included in the negative list, expanding the use of non-regular employment from 22,3% of the Japanese workforce to 25,6% in just three years (see Figure 5). The implementation of the legislation benefited employers by securing labour power in a tightening market, but increased job insecurity amongst non-regular workers; since regulations contained mostly measures to protect employees with permanent contracts, there was a widespread concern on whether non-regular, temporary workers will eventually turn out to be cheap labour with minimal employment security (Takashi, 1997, p. 15). Indeed, later labour scholars, such as Song (2010) and Lechevalier (2014) insist that non-regular workers would eventually bear the cost of economic and labour adjustments.

To synopsise, Japan's secondary labour market experienced remarkable growth in mid 1990's. The Cabinet brought forward a package of neoliberal reforms through fiscal consolidation in economic affairs and deregulation practices in labour legislation. It is argued that Hashimoto's structural reforms did not achieve his initial financial goals (Hirashima, 2004, p. 45); nonetheless, his policies played a crucial role in shaping labour relations, pushing forward a new phase of liberalization and deregulation in the form of atypical employment expansion and flexible management (Lechevalier, 2014).

3. Junichiro Koizumi (April 2001 to September 2006)

Junichiro Koizumi became Prime Minister right after the lost decade, with promises to precipitate the stalling economy into recovery. Since previous economic tools had proven to be futile, he intended to use a counter-cyclical policy, introducing market-oriented reforms under the prism of neoliberalism (Song, 2014). Despite the bureaucratic obstacles and the political resistance he had to face (from labour unions and the coalition to even his own party), Koizumi brought forward large-scale structural reforms in the financial sector and the labour market (Hirashima, 2004, p. 39). While his programme brought some relief in macroeconomic management, it also revealed significantly increased levels of economic and labour inequality.

Economic Policies

The establishment of the Council of Economic and Fiscal Policy in 2001 was a move to transfer fiscal and economic leadership from the hands of bureaucrats to the Cabinet; in doing so, Koizumi was able to bypass disputes and resistance forces from other parliamentarians – at least to some level (Hirashima, 2004, p. 48). The CEFPP advanced a fiscal guideline agenda concerning various areas of the economy and the government. Regarded as one of the most drastic post-war economic policies (Aoki et al., 2007), Koizumi's strategy emphasized deregulation and institutional transformation under the slogan '*structural reform without sanctuaries*'. This agenda was composed of three parts: the reform of administrative system, the downsizing of the public sector, and further deregulation measures in other societal aspects, such as labour and healthcare.

In a clear neoliberal manifestation, Koizumi proposed consolidation on public finance by realizing the mandate to "leave the private sector to do what it can do." (Cabinet Office, 2005, p. 3) As a result, he reduced the number of public work projects, enhanced fiscal decentralization of local government authorities and opened up government-led markets (such as healthcare and education) to private sectors. These advances in public corporations' transformation were intensified with the privatizing of postal services in 2005, a major reform since postal savings contributed to a great degree to the control of financial movements (Lechevalier, 2014, p. 44). Even though the launching of private-sector management techniques was expected to entail large-scale unemployment, the government moved forward to the privatization or abolishment of

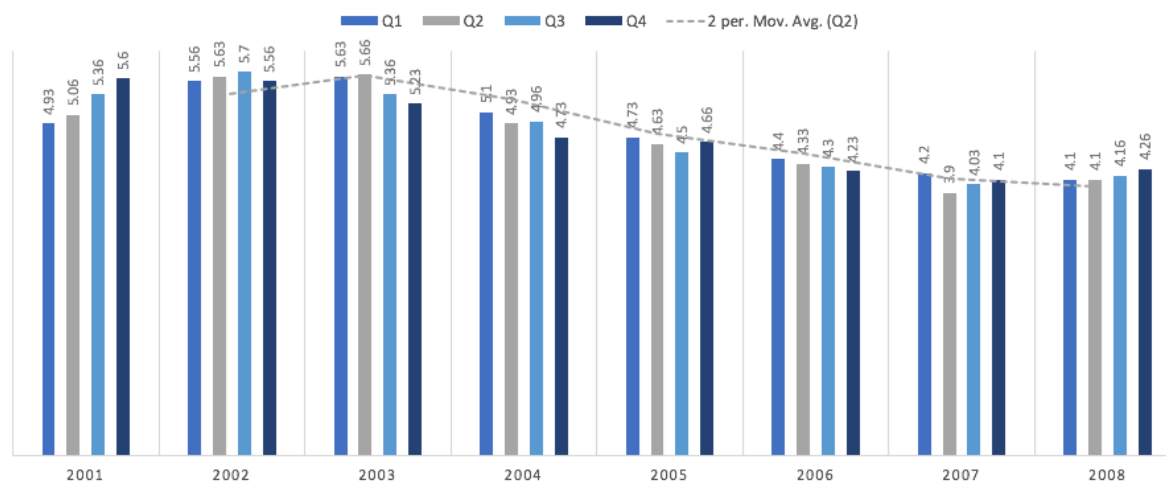


Figure 6: Unemployment rates for people aged 15-65 (%). Source: Statistics Bureau of Japan (2017).

136 corporations (Cabinet Office, 2005). Consequently, unemployment reached historical rates close to 6% at that time (see Figure 6).

Labour Policies

To adjust the labour market to the new conditions, the government initiated further revisions to the *Labor Standards Act* (2003). The revised LSA mainly concerned employees with fixed-term contracts, as it raised the upper limit of employment from one to three years in all types of industries or occupations (Song, 2014). The adoption of Article 137 allowed workers to resign after the first year of employment, regardless of the duration of the contract (OECD, 2015). It also incorporated, for the first time, the explicit clause requiring employers to have just cause for dismissals, thereby guaranteeing workers to be employed for the entire duration of the contract. However, employers could exploit the new Act by constantly hiring new staff on a trial basis for a three-year term and then rehiring only a small percentage of workers with indefinite term contracts (Nakakubo, 2004, p. 7); companies could also break contracts by redefining the positions (Watanabe, 2012, p. 42). Thus, the Cabinet strengthened employment protection for regular workers by implementing restrictions on lay-offs, but, simultaneously, forwarded increased flexibility for non-regular employees (Song, 2014).

The *Worker Dispatching Law* (2003) was also given another revision during Koizumi's tenure. Previously, the WDL allowed dispatching work in all occupational categories except for those in the 'negative list' (construction, several social services and manufacture, the largest sector). In an attempt to diversify the working patterns of

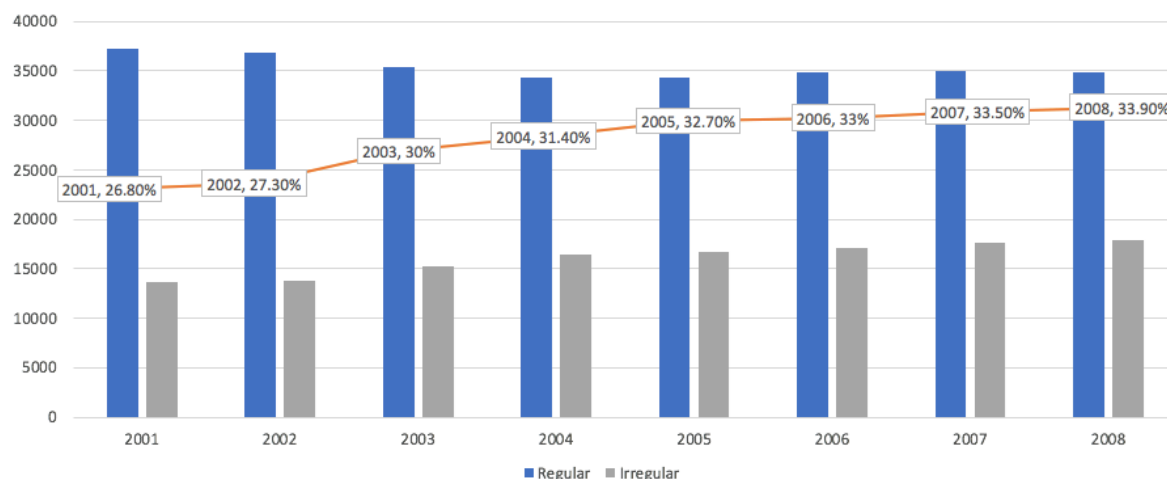


Figure 7: Total number of regular and non-regular employees, plus total ratio of irregular workers compared to regular employees. Source: Ministry of Interior Affairs and Communication (2017), OECD (2018).

temporary workers, the Cabinet further liberalized the market and lifted the ban on manufacture, extending the dispatch framework to cover all industries except for transportation, construction and security services (Cabinet Office, 2005, p. 8). By eliminating legal restrictions in the biggest industry, Koizumi aimed to make Japanese factories competitive on the global markets again (Watanabe, 2012). As indicated by the collocated chart (Figure 7), the abolishment of restrictions by the amended WDL led to a massive escalation of the number of temporary workers; the ratio of non-regular employees compared to regular workers increased almost 7% in less than six years, and, by 2006, one third of the total Japanese labour force was employed under non-regular contracts.

The Koizumi administration viewed labour flexibility, market disciplining and public reorganization as the core themes of its policy and presumed that economic growth can be led by private-sector demand. Public corporations were rationalized, resources were shifted towards industries that were deemed productive and competitive, and labour laws were further deregulated in order to adjust to the current standards. Traditional employment procedures were further eroded, as management control on salary determination was enforced through the performance-based pay system (Shibata, 2016, p. 499). As a result, wage earnings were suppressed (see Figure 8), income gaps between high and low-middle income groups widened, and Japanese

citizens started to experience increased levels of disparity and social segmentation (Tsutomu, 2014).

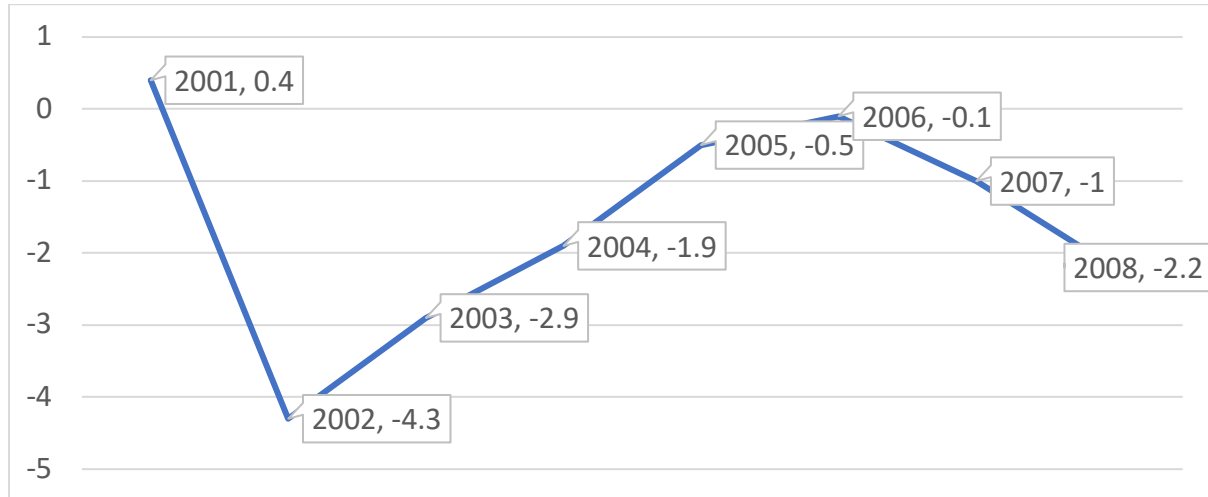


Figure 8: Total wage earnings growth (%). Source: Ministry of Health, Labour and Welfare (2017).

4. Shinzo Abe (September 2012 to November 2017)

Shinzo Abe first became Prime Minister of Japan in 2006, but resigned less than a year later due to low popularity rates and health issues. His re-election in 2012 followed a campaign whereby labour and fiscal reform were considered primary tools in order to tackle sluggish economic growth, low consumer demand and increasing labour shortages. The Cabinet established the Council for Regulatory Reform (CRR) that would form policy proposals endorsing economic and social reforms (OECD, 2015). With the support of the Council, the Abe administration introduced a three-arrow reform strategy to secure the realization of a virtuous economic cycle.

Economic policies

The three-arrow agenda that the government undertook constitutes of a policy plan that “develops simultaneously the three prongs of bold monetary policy, flexible fiscal policy, and a growth strategy to encourage private sector investment.” (Cabinet Office, 2012). The plan, commonly known as ‘*Abenomics*’, includes an aggressive quantitative easing by the Bank of Japan (BoJ), massive fiscal stimulus, and numerous structural adjustments aimed to combat the depressed economic environment and to strengthen Japan’s position in the global markets (Lechevalier, 2014, p. 51). It was thus regarded as a revitalization strategy that would stimulate the Japanese economy in the medium and the long term. Initially, the Cabinet was aiming to achieve an average of 2% GDP growth and increase household income by 3% over the next decade; early observations show that *Abenomics* had a limited, albeit positive impact upon growth (Shibata, 2017, p. 411), and, as indicated from Figure 9, total wage growth appears to be slightly increased after a long period of experiencing negative rates.

Three years after the introduction of *Abenomics*, the government announced a series of urgent policies to create a society “in which all citizens are dynamically engaged,” by raising minimum wages and implementing further work-style reforms (ILO, 2018) Thus, Abe reshaped the three arrows with three new ones to enhance labour productivity through deregulation and further diversify the workforce (Watanabe, 2017): achieve and maintain a robust economy, increase child care support to encourage women to participate in the labour force, and restructure social security services to reduce incidents of workers leaving their jobs to take care of family members (Takashi, 2016).

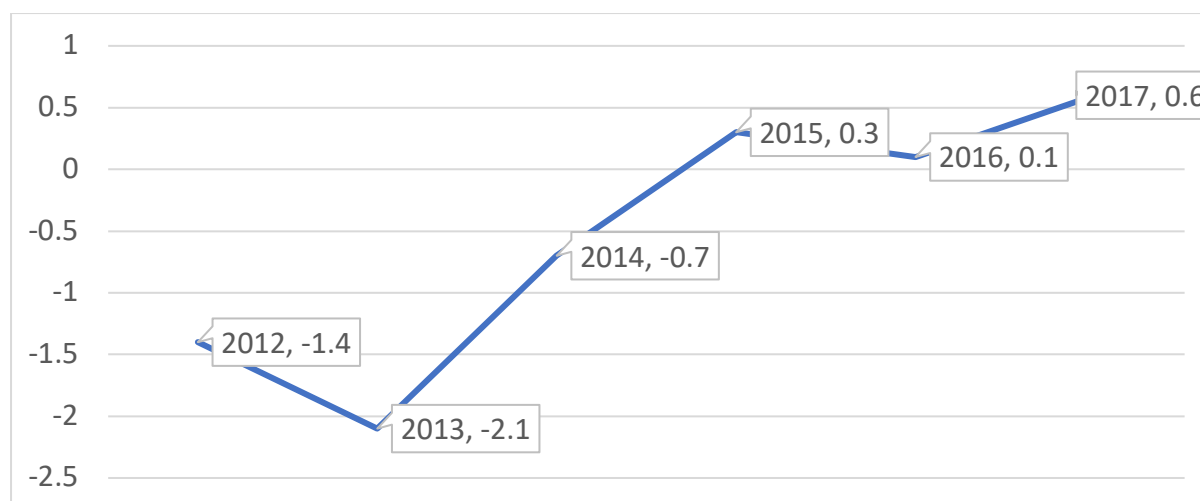


Figure 9: Total wage earnings growth (%). Source: Ministry of Health, Labour and Welfare (2017).

Labour Policies

The third Abenomics arrow included policies to enhance productivity while it simultaneously administered measures to promote a better work-life balance amongst both regular and non-regular employees. In order to do so, the Cabinet provoked another amendment to the *Labour Standards Act* (2013). Abe shifted further away from the traditional seniority-based system as he established the ‘equal work, equal pay’ principle, allowing workers to be paid based on their performance instead of the amount of time spent in the workforce. This practice was also enacted in order to address wage disparities between regular and non-regular employees (Lechevalier, 2014, p. 51); according to the OECD (2018), irregular Japanese workers earn roughly 60% less salaries than their regular counterparts. Increased wages for those workers would not only boost their morale, but would also raise their purchasing power and increase consumer demand as well as remove disincentives for them to participate in the labour force (Takashi, 2016, p. 5).

One of the most controversial revisions was the expansion of the discretionary labour system into other emerging industry sectors. This system enables employers to pay workers a fixed income according to a predetermined number of hours rather than actual working hours (ILO, 2018). Therefore, employees would not be entitled to be paid for overtime work that has not been agreed upon in advance. The introduction of a new “highly professional expertise” system also lifts overtime regulations on workers occupied in positions that require specialized skills – a practice which, in combination

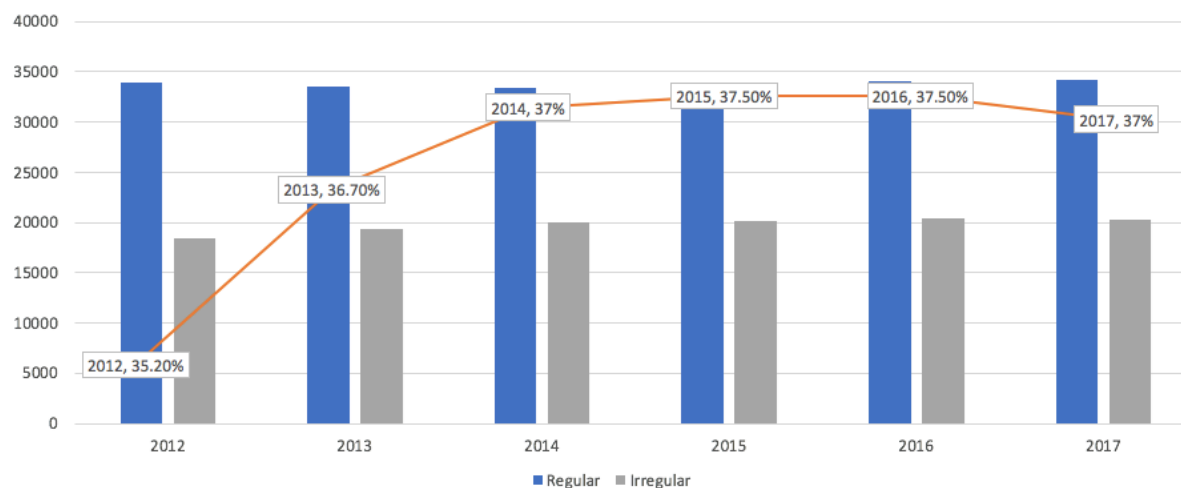


Figure 10: Total number of regular and non-regular employees, plus total ratio of irregular workers compared to regular employees. Source: Ministry of Interior Affairs and Communication (2017), OECD (2018).

with the discretionary work scheme could result in employees working longer hours without being paid overtime (Kojima et al., 2017).

The aforementioned measures might have been undertaken in order to tackle disparities between regular and non-regular workers, but the number of atypical employees did not cease to increase (see Figure 10). The new revision of the *Worker Dispatching Law* would further increase the share of temporary workers in the labour market, which emphasized liberalization of agency work and deregulation of work hours. The previous WDL calculated terms on position basis; that is, if a dispatch employee had been working in the position for two years and was replaced by another worker for the third year, the three-year term would be regarded as complete. The current WDL explicitly states a term limit of three years per person, therefore calculation starts over if a new dispatch worker replaces a previous one (ILO, 2018). This measure introduced additional flexibility to employers since it eliminated almost all limits on using temporary workers; companies are now able to use dispatch work with no time limit so long as they replace temporary staff every three years for the same position (Watanabe, 2017). The government also proposed the use of the term ‘semi-regular’ (or ‘limited’) as an alternative to non-regular work, as a way to ensure that non-regular employees enjoy the same employment conditions with regular workers (North, 2014).

At the time of writing this paper, the results of Abenomics are rather mixed. Unemployment rates have been gradually dropping (see Figure 11), yet non-regular workers still amount to almost 40% of the total workforce. Wage earnings were increased, but income inequality persists, despite the fact that reducing the pay gap

between regular and non-regular workers was a top priority for Abe (Kojima et al., 2017, p. 5). GDP rates have slightly risen (OECD, 2018), mainly due to the monetary and fiscal stimuli that Abe's economic plan ensued. However, the deregulation of the labour market suggests that Abe continued the neoliberal agenda of his predecessors in the employment sector (Lechevalier, 2014; Shibata, 2017). It appears that Abe has shifted support for employment stability to support for employment mobility (North, 2014), and the feasibility and likely success of his efforts rely upon the government's desire to reform the current labour practices in order to reduce disparities in a way that will not conflict with the efforts of Japanese firms to cut expenses (Takashi, 2016, p. 6).

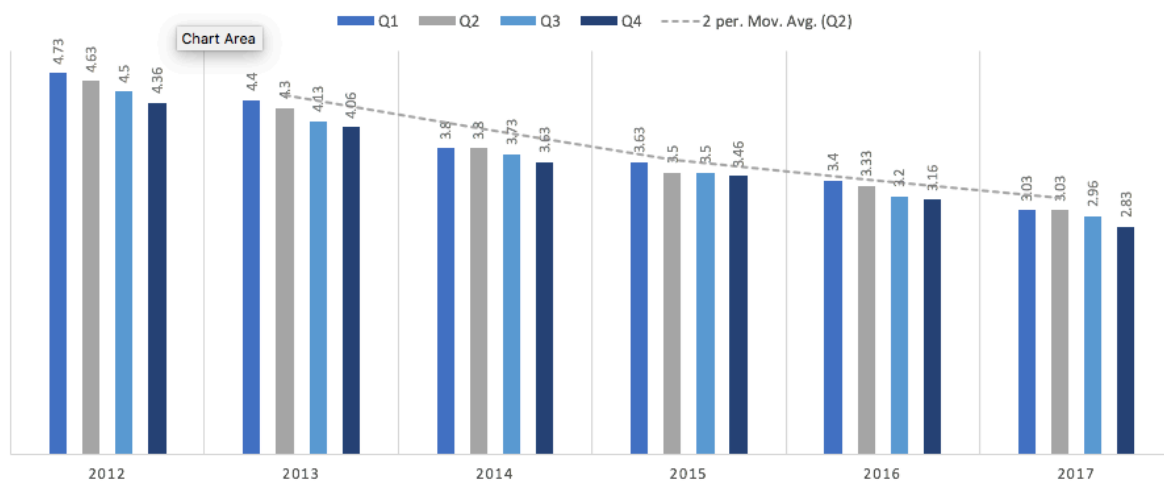


Figure 11: Unemployment rates for people aged 15-65 (%). Source: Statistics Bureau of Japan (2017).

Chapter 4: Discussion

Taking the above analysis into consideration, this chapter discusses the findings and provides a plausible answer to the research question by identifying the pathway in which the independent variable (neoliberal state policies) causes and affects the dependent variable (labour inequality). A brief summarization of the results can be found in the table below.

	Economic Policy	Labour Market Policy	Labour Inequality Levels
<i>Yasuhiro Nakasone</i>	Liberalization of trade and financial market; enhanced participation for private entities → <i>Neoliberal</i>	Legalization of worker dispatching scheme, making the labour market more flexible → <i>Neoliberal</i>	Unemployment rates increased; WDL introduces stratification of workers → increased
<i>Ryutaro Hashimoto</i>	Fiscal consolidation and lessening of regulations in financial market → <i>Neoliberal</i>	Deregulation in the labour market; increased number of occupations available for dispatch work → <i>Neoliberal</i>	Unemployment rates increased; wage earnings decreased; non-regular workers increased → increased
<i>Junichiro Koizumi</i>	Downsizing of public sector; privatization of state-led corporations → <i>Neoliberal</i>	Expansion of WDL to manufacturing industries; increased flexibility for non-regular workers → <i>Neoliberal</i>	Unemployment rates reached record high levels; wage earnings decreased; non-regular workers increased → increased
<i>Shinzo Abe</i>	Monetary easing and fiscal stimulus → <i>Keynesian</i>	Liberalization of agency work and expansion of the discretionary work scheme → <i>Neoliberal</i>	Unemployment rates fell; wage earnings slightly increased; non-regular workers increased → remain stable albeit in high levels

Explanation of results

The hypothesis of this paper assumes that the policies undertaken by the Japanese administration in the last two decades have contributed to a great degree in the development of disparities in the labour market. To confirm this theory, we firstly need to assess the levels of neoliberal ideology in government policymaking. It appears that economic governance has not always been consistent; while Ryutaro Hashimoto and Junichiro Koizumi continued the neoliberal political trend that Yasuhiro Nakasone first implemented in Japanese economic affairs, Shinzo Abe has so far been handling monetary and fiscal policy using remedies from the Keynesian textbook (Lechevalier, 2014; Shibata, 2017). However, all governments have been continuously lessening regulations in the labour market, leading to the gradual erosion of traditional Japanese labour institutions such as the seniority-based wage system and lifetime employment. Hence, while there is no drastic neoliberal change observed in terms of the economic model per se, there is a gradual neoliberal attempt in the labour market as a result of the multiple deregulation policies interacting over time.

What the Japanese labour market is experiencing can be characterized as the stratification of its workforce; depending on their employment contracts, employees are divided into insiders (regular) and outsiders (non-regular) or, into the core and the periphery (North, 2014). Workers in the core sector have managed to maintain a satisfying level of employment protection and job security through the years, whereas workers in the peripheral sector are subject to relatively lower earnings and increasing employment instability. State laws and policies play a crucial role on this divergence, as the acceleration in the process of economic revitalization has challenged institutional foundations and encouraged the adoption of flexible employment measures that enhance polarization in the labour market. Based on the strategy that the past and the current Japanese policymakers are following, it could be said that peripheral workers suffered the cost of labour market reforms, whilst changes in the employment conditions for the core workers were relatively minimal (Song, 2014). Therefore, labour market liberalization undermined the status of non-regular workers since their differences from their regular counterparts were further enlarged.

The results of the analysis are not optimistic; it appears that the transformation of the labour market has worsened conditions for the Japanese employees. Deregulation policies led to heightened discrimination between workers regarding quality of work,

access to regular employment and professional development. The number of working-poor amongst non-regular workers has risen (Watanabe, 2012), while the pay gaps between core and peripheral employees are yet to be bridged. As the character of regulations shifted from being protective to being directive and flexible, workers found themselves in a labour environment with minimal security. Although the negative effects are greater among non-regular employees, regular workers also face work pressure since peripheral workers can perform the same tasks and duties for less pay and fewer benefits (North, 2014, p. 7). The greater use of non-regular employment by Japanese companies indicates that the production of capital is prioritized over the interests of labour. Capital-labour relations, therefore, have been altered at the cost of workers, be it in regular or non-regular employment.

At the time of writing, the Abe government has so far attempted to address the right issues, albeit by pushing the wrong remedies. The ‘equal work, equal pay’ principle suggests that workers must be paid according their contribution in the workplace. This implies that if a worker is not satisfied with their treatment they should acquire more skills and be more productive (Kojima et al., 2017, p. 7). Therefore, this policy might be problematic rather than beneficial for the workers, as it legitimizes their status and class position based on their employer’s judgement and cultivates “the neoliberal culture of self-blame and individualistic ethic of hard work.” (ibid, p. 13). Furthermore, the fact that the Cabinet used falsified data to justify its forthcoming discretionary labour strategy (Okunuki, 2018), makes the public less confident in the government's initiatives to alleviate the current labour conditions any time soon.

The struggle to balance economic transformation with social fairness is putting a lot of pressure to Japanese policymakers. Company managers rush for enhanced deregulation, whereas conservative officials who stick to the traditional coordinated patterns oppose these adjustments (Watanabe, 2015). The cost of reforms ultimately falls to the workers, who aim for a more reliable labour environment than atypical employment, but receive mobility and decreasing legal protection instead. In the name of economic growth and international competitiveness, Japanese workers – particularly those hired with non-regular contracts - have to face increasing job uncertainty, wage disparities and precariousness.

New Social Contract

The previous section indicates that Japanese citizens are experiencing a new social compromise, whereby duality and precarious work has become the norm. For decades after the Second World War, Japan's social contract pertained low unemployment rates, growing prosperity, and a relatively stable and secure society. The weakening of labour market institutions during the last two decades, however, implies that work is no longer associated with a guarantee of social integration (Shibata, 2017). Japan is witnessing a transition from an egalitarian society to an unequal one, partially due to increased use of flexible employment, declining wage earnings and an overall heightened sense of insecurity.

The segmentation of the labour market has a variety of results in social structure. The standards of living in postwar Japan used to be at quite a high level, as most parts of society considered themselves to belong in the middle class (Shirahase, 2014). However, the new institutional arrangements in employment has fractured the middle- and low-income classes (Song, 2010; Kojima et al., 2017). Despite the fact that precarity is now one of the most dominant components in the workplace (Kalleberg, 2009), it is not given the attention it needs by governments, as shown by several significant consequences, such as the increasing numbers of the elderly with a wide income gap, and the persistent discriminations against women in employment.

Traditionally, the Japanese state did not provide an adequate safety net to its citizens, as employment security for men was a *fait accompli* (Cargill and Sakamoto, 2008). Non-working women would essentially take the role of the caregiver for their offspring as well as for the elderly relatives. Nowadays, family structures have substantially been altered; the heightened economic insecurity and the increasing household needs have brought more women in the labour force and, at the same time, have ostracized the elderly, who now rely on public assistance for their care. The privatization of social services – a policy accelerated under the Koizumi administration – has contributed to the deterioration of the economic position of the elderly population in Japan.

The status of women in employment is still a matter of concern. Female labour force participation might have been increased in the recent years (OECD, 2018), but working women still face certain struggles. Having to endure the third highest gender pay gap amongst all OECD states, women find themselves in flexible forms of employment

(temporary, part-time) or in occupations with low responsibilities that tend to reproduce the stereotyping role of woman rather than overthrow it (Chiavacci and Hommerich, 2017). In addition, the number of women hired in managerial positions is rather limited (OECD, 2018), indicating that female workers have fewer employment prospects than their male counterparts. The fact that childcare facilities are inadequate and expensive further discourages women from pursuing a professional career. Female participation in the workforce might have thus increased in quantity, but not in quality, as employment is still regarded as a primarily male-centered activity.

The social changes that have been taking place along with policy adjustments led to the appearance of new social groups. Typically, a rapidly ageing labour force would suggest a higher demand for young workers and graduates (Inagami, 2004). In reality, however, young adults are poorly integrated in employment as usually the only available occupations for them are in the non-regular sector. The term 'freeter' was coined for those young people who earn their living by temporary or part-time work, whilst 'parasaito shinguru' (parasite singles) refers to unmarried adults beyond their late twenties who live with their families and have their basic expenses taken care of by their parents (Hamada and Kato, 2007). The number of individuals not in education, employment or training ('NEETs') has risen, whilst some parts of the population choose to completely remove themselves from social situations, giving rise to the phenomenon of hikikomori (Bass et al., 2010). It is thus evident that inequality has far-reaching implications for societal structure, while the policies undertaken by the recent Japanese governments have succeeded in institutionalizing the new social contract whereby social integration, job security and quality of life in general are getting progressively obliterated.

Conclusion

The initially stated purpose of this study was to identify the causal mechanisms that link neoliberalization with the rigidities detected in the Japanese labour market. The results corroborate the hypothesis, according to which the neoliberal policies administered by Prime Ministers Yasuhiro Nakasone, Ryutaro Hashimoto, Junichiro Koizumi and Shinzo Abe contributed to a great degree to the rising of labour inequality as well as the deterioration of the conditions in the labour market in general.

The theoretical and empirical analysis showcase that, whilst the transformation of the Japanese economic model has not been linear, there is a gradual neoliberal progress in the labour sector reflected by the continuous deregulation schemes that the administrations have chosen to pursue. The structure of labour market institutions has been altered, as forms of contingent employment expanded in the last twenty years. Japanese companies are following a neoliberal creed by seeking to dismantle costly traditions that guarantee employment security, while the government is endorsing these attempts viewing them as a method to make the Japanese market competitive again. The impacts of Japan's labour reforms call for extended state supervision in order to protect the citizens from the risks the market generates. The deterioration of regulatory labour measures implies that working conditions and employment protection would be further downgraded, leading to increased levels of job insecurity for the Japanese workers. The Japanese policymakers need to seek out the right balance in order to make the labour market more flexible without removing protections for the part of the labour force that has borne the costs of liberalization – that is, workers with non-regular employment contracts.

The results of this research do not invalidate other alternative explanations for the production of greater economic and labour inequality; economic crises, ageing population and perseverance to institutions that do not actively respond to changing external environments are still all plausible arguments. What this paper sought out, however, is to determine whether the neoliberal ideology that penetrates the policy agendas of the Japanese policymakers is encouraging the appearance of disparities in the labour force. The analysis clearly indicates that the acceleration of labour inequality in Japan can be also credited to the neoliberal nature of the labour policies that the

government has adopted after the 1980's, making neoliberal politics at least partially attributable to this phenomenon.

While the study of Japan's liberalization transformation has been discussed extensively in comparative academic literature, this paper contributes to knowledge of the changing labour patterns affiliated with this neoliberal process and the role they played in forming issues of inequality and discrimination in the labour market. The introduction of neoliberal institutional reforms might have challenged the traditional Japanese labour institutions, but there is a wide range of distributive policies that could be taken in order to ameliorate labour conditions and guarantee social integration and fairness in the community. The question that is yet to be answered, however, is whether Japanese policymakers are willing to commit to this cause and take the political risk of building a just society for all.

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Appendix

Year	Regular Workers (in thousands)	Total Irregular Workers (in thousands)	Total ratio of irregular workers
1996	39884	11446	22,3%
1997	38542	12605	24,6%
1998	38865	12955	25%
1999	38153	13127	25,6%
2001	37252	13638	26,8%
2002	36867	13843	27,3%
2003	35454	15266	30,1%
2004	34807	15932	31,4%
2005	34384	16706	32,7%
2006	34820	17150	33%
2007	35019	17641	33,5%
2008	34837	17863	33,9%
2012	33956	18444	35,2%
2013	33499	19421	36,7%
2014	33466	19994	37,4%
2015	33619	20171	37,5%
2016	34107	20463	37,5%
2017	34147	20313	37,3%

Table showing total number of regular and irregular employees, and total ratio of irregular workers compared to regular employees. Source: MIAC (2017), OECD (2018).

Prime Minister	Year	Wage Growth
Yasuhiro Nakasone	1982	4,8
	1983	1,7
	1984	3,6
	1985	2,3
	1986	3,9
	1987	2
	1988	0,1
	1989	5,7
Ryutaro Hashimoto	1996	0,1
	1997	6,3
	1998	-0,8
	1999	-3,2
	2000	-2,4
Junichiro Koizumi	2001	0,4
	2002	-4,3
	2003	-2,9
	2004	-1,9
	2005	-0,5
	2006	-0,1
	2007	-1
	2008	-2,2
Shinzo Abe	2012	-1,4
	2013	-2,1
	2014	-0,7
	2015	0,3
	2016	0,1
	2017	0,6

Table showing total wage earnings growth (%). Source: Ministry of Health, Labour and Welfare (2017).

Prime Minister	Year	Unemployment Rates			
		Q1	Q2	Q3	Q4
Yasuhiro Nakasone	1982	2,26	2,4	2,4	2,5
	1983	2,7	2,7	2,73	2,7
	1984	2,8	2,76	2,76	2,7
	1985	2,63	2,6	2,63	2,86
	1986	2,73	2,83	2,63	2,86
	1987	2,96	3,1	2,8	2,76
	1988	2,76	2,56	2,56	2,46
	1989	2,4	2,36	2,3	2,26
Ryutaro Hashimoto	1996	3,5	3,53	3,43	3,46
	1997	3,46	3,5	3,53	3,66
	1998	3,83	4,23	4,4	4,6
	1999	4,8	4,93	4,9	4,96
	2000	5	4,9	4,86	4,96
Junichiro Koizumi	2001	4,93	5,06	5,36	5,6
	2002	5,56	5,63	5,7	5,56
	2003	5,63	5,66	5,36	5,23
	2004	5,1	4,93	4,96	4,73
	2005	4,73	4,63	4,5	4,66
	2006	4,4	4,33	4,3	4,23
	2007	4,2	3,9	4,03	4,1
	2008	4,1	4,1	4,16	4,26
Shinzo Abe	2012	4,73	4,63	4,5	4,36
	2013	4,4	4,3	4,43	4,06
	2014	3,8	3,8	3,73	3,63
	2015	3,63	3,5	3,5	3,46
	2016	3,4	3,33	3,2	3,16
	2017	3,03	3,03	2,96	2,83

Table showing unemployment rates for people aged 15-65 (%). Source: Statistics Bureau of Japan (2017).