

JSHET conference 2019 Presentation Summary:

Shinohara Miyohei and Dual Structure

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My presentation is a summary of literature reviewed for the third chapter of my PhD thesis. Whilst the subject of my thesis is the contemporary macro-economic dynamics of inflation in Japan, my use of the *conflicting claims* model of inflation has led me to research on the historical and institutional features of the Japanese labour market. One of the most distinct identifiers of the Japanese labour market is the bifurcation in wages, conditions and prevailing techniques between full-time and part-time workers. This phenomenon is the subject of two distinct but related literatures. The first is the concept of “the dual economy”, principally advanced by Shinohara Miyohei and subject of significant debate within the historical tradition of *kindai kezaigaku*, or ‘modern economics’ in Japan. The second is the contemporary literature concerning “labour market dualism” advanced within debates on the effects of de-industrialization, primarily within the fields of International Political Economy and the *Varieties of Capitalism* approach. It is my contention within this presentation that a comparison and contrast of these two strands of economic thought (separated as they are by some decades) is especially useful in forming a more complete understanding, not only of how dualism in Japan has been theorized, but how the structural phenomenon of dualism itself has been established, changed and institutionalised in the Japanese context.

The first part of the presentation covers the origins of and debates surrounding Shinohara's concept of a "dual structure" or "the dual economy". Here I draw particularly from Shinohara (1962, 1968), Ryoshin (1986) and Morris-Suzuki (1989) in order to trace out the most significant debates over the direction of causality in the origin of the dual economy, specifically whether differential wages are a consequence of the discrepancy in capital intensity between large and small firms (Shinohara's view) or whether this wage differential promotes this bifurcation in capital intensity (Ryoshin's view). The significance of this debate from a contemporary standpoint is that it demonstrates a view of dualism as a phenomenon rooted in the path-dependent development of Japanese economic institutions such as the lifetime employment system, the adoption of the enterprise union model and the widespread phenomena of inter-industry capital recycling. This in turn allows us to understand dualism not simply as an accidental economic mal-adaption (as it is portrayed in contemporary literature), but rather as a semi-planned economic development strategy that was essential in the creation of Japan's export competitive position, particularly after WW2. Whereas the contemporary generic literature sees dualism as a consequence of *deindustrialization*, rediscovering these Japan specific debates within the *kindai kezaigaku* tradition allows us to reframe dualism in Japan as a feature of *industrialization*. This section also addresses the (largely timebound) limitations of this literature, namely how dualism, attached as it was to the theorists of the high growth period, would fair once Japan entered its current economic stagnation in 1990s. It should be noted here that in even by 1968 Shinohara did note the possible changes that labour shortages may bring to the dual economy. For a truly contemporary view of dualism however we must create a cross generational dialogue between Shinohara's original construction and modern theorists of dualism. This is the subject of the second part of the presentation.

Contemporary theorists of “dualization” do not conceptualize it as a Japan specific phenomenon, instead this literature understands the process of labour market dualization as inextricably linked to the process of deindustrialization in all high income countries (see for example Emmenegger, Häusermann, Palier and Seeleib-Kaiser, 2012). These authors, rather than being rooted in the discipline of economics narrowly defined, draw from the areas of welfare state studies and the *varieties of capitalism* literature and would generally be described as belonging to the broad field now often called International Political Economy. However, as we see with the work of Song (2012), Peng (2012), Yun (2016) and Watanabe (2017) there is an increasing branch of this literature that applies this version of dualization specifically to Japan (often paired with a study South Korea). Because these authors primarily understand dualization as a consequence of deindustrialization they therefore characterize it as a more straightforwardly negative phenomenon, a kind of economic mal-adaptation that entrenches inequality by expanding the gap between labour market ‘insiders’ and ‘outsiders’. Whilst these authors do not cite the original debates surrounding Shinohara’s concept of the dual economy, they do acknowledge to some degree the path dependent nature of dualization in Japan (though not the role it played making Japan export competitive). However, one of the most useful features of this literature is the way in which it traces how the dual nature of the labour market has been institutionalised and structurally entrenched (rather than eroded) during Japan’s ‘lost decades’.

Whilst there is no explicit dialogue between these two literatures, we can see they basically describe the same phenomenon in two stages and two different macroeconomic contexts. The debates around Shinohara’s formulation of dualism are fundamentally just one part of a

larger theory of Japan's post war-development and boom, and so are fundamentally bound up with the structural logic of the growth era. The contemporary dualization literature describes how these structural features have entrenched themselves despite the end of high growth, and indeed how outside the context of the high growth era they appear more explicitly as structural impediments to renewed growth. In other words, by combining these two literatures the dual economy in Japan can be understood in two distinct phases: *establishment* and *institutionalization*.

The final part of the presentation briefly outlines some potential implications of this literature for contemporary policy debates. My own thesis concerns the current problem of low inflation and deflation in Japan through the lens of the *conflicting claims* model of inflation as seen for example in Rowthorn (1977), Palley (1996) and Lavoie (2015). A potential implication to be drawn here is that the institutionalization of a dualism along the lines of Shinohara's model may act as structural barrier against price reflation in Japan. This connects to a potential broader implication for a revival of this literature, as all over the developed world the issue of stagnant wages has become a central component in growing concern over the issue of income and wealth inequality. Shinohara's concept of dual economy acts a salient warning against policy makers adopting a one size fits all approach to the issue of stagnant wages, as it demonstrates that though this issue can be easily diagnosed empirically across different developed economies it traces its origins to distinctly country-specific path dependent developmental strategies. Whilst Anglo-American economies arguably adopted a high wage developmental strategy that has since been institutionally eroded, Japan adopted a low-wage developmental strategy that has since been institutionalised. It is my hope that in this context the relevance Shinohara's work can

take on a new urgency and we can see a revival of the attention that was once paid to his thinking by Anglo-American scholars such as Amsden (see Amsden and Suzumura, 2001) in the 1990s and early 2000s.

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