2 Labour Segmentation in Interwar Japan

2.1 INTRODUCTION

The origins of the postwar subdivision of the labour market, into distinct submarkets, demarcated on the demand side in terms of specific contracts offered workers, and on the supply side in terms of distinctive signals about expected levels of effort capacity and costs of being trained, lie in the interwar period. To assert this is not to deny that economic and social institutions dating back to the Tokugawa period and even earlier are of no importance to an understanding of origins of postwar Japanese labour market practices. Indeed, to search for origins is to embark on a journey backward through history to which there is no obvious and predetermined final resting point. But in my view it is first and foremost during the interwar era that one comes upon institutions of labour market subdivision sufficiently similar to those of the postwar era, and sees labour market outcomes resulting from their operation of sufficient similarity to the outcomes of the postwar period, for us to refer to the interwar period as the formative era for the system dominating the four decades after 1950.

In making this argument I emphasize the emergence of dualism between the combined sectors of agriculture and light industry on the one hand, and heavy industry on the other. In the former sector wages were relatively low, and archetypical labour market contracts tended to be either of either the family firm or the small-commercial-firm type. In the latter sector wages were significantly higher and archetypical labour market contracts tended to be the large firm type. For the relatively low costs of monitoring, however, I do not seek to define origins. I do discuss these costs in this chapter – especially in the context of interwar village life and textile factories – but I feel the origins of pervasive monitoring in Japanese economic affairs predate the interwar era.

That describing origins for labour contracts and labour market outcomes matters for the analysis in this book is a consequence of the view, now becoming increasingly common in the field of economic history, that path dependence exists. That is, in the presence of scale economies which allow one type of technology once chosen to drive out competitors, the historical path taken by firms in adopting competing technologies matters. Once firms have selected a path – which in the aftermath, may be viewed
as inefficient from the viewpoint of long-run technological progress as a whole – switching over to the other competitor technology may simply be too costly. Thus we can say that ‘path dependence’ exists. Over time, organizational forms and technological progress tend to move in small increments along paths. Thus the fact the labour market contracts took a certain form during the nineteenth century is of significance to the labour market in the twentieth century. However, the further one goes back in time the more tenuous does the search for origins become: in the interim many choices have been made and these choices are not foreordained on the basis of what happened in the remote past, for the existence of path dependence does not rule out choice in the present. It simply constrains the nature of the choices made in any given point in time.

To be specific, in this chapter I show that during the first fifty years of Meiji industrialization (1868–1918) labour market contracts of the large-firm type tended to be restricted to a small élite, many of whom were of samurai origin, and that for the overwhelming majority of firms contracts were of the small-family and commercial variety. We can speak of the Meiji period as being an era of balanced growth in which labour flowed back and forth from the dominant manufacturing subsector, light industry as exemplified by textiles and food processing, to agricultural households which were firms of the small family-run type and the differential between wages in the two sectors was minimal. With the rapid expansion of heavy industry – of shipbuilding, machinery manufacturing, chemicals and the like – during World War I and after a second major subsector emerged into prominence, and with this emergence a characteristic large firm contract became increasingly common, one which combined rules for training and promotion which had dominated Tokugawa merchant houses with principles governing the ranking and advancement of the samurai élite in the feudal fiefs. In the new type of contract the firm took far greater risks in recruiting workers than firms in the light manufacturing sector: risks associated with offers of job security, extensive training and payment of premium efficiency wages, and with the fact that it needed highly motivated workers with sufficient technical expertise to understand and adapt the foreign technology which these firms were importing from the West. For this reason firms were reluctant to offer these contracts to persons who lacked extensive screening in advance of hiring for effort capacity and for the expected costs of being trained. They limited efficiency wage payments to their white-collar élite, and attempted to limit their selection of future efficiency wage workers to graduates of institutions of higher learning who could be expected to have mastered the ability to learn foreign languages and/or the technical