

Globalization and  
Reforms of Labor Market Institutions:  
Japan and Major OECD Countries

Mari Miura

F-94  
Institute of Social Science  
Domestic Politics Project No. 4  
July 2001

Dept. of Political Science  
University of California, Berkeley

Institute of Social Science  
University of Tokyo  
miura@iss.u-tokyo.ac.jp

An earlier version of this paper was delivered at the Japan Comparative Politics Association, June 23-24, 2001, University of Kobe. Parts of the argument were also presented at the Department of Economics, University of Hokkaido. I would like to acknowledge the insightful comments that I received from the following people: Nobuhiro Hiwatari, Junko Kato, Jonah Levy, Gregory Noble, Toshimitsu Shinkawa, Tetsuhiko Takai, Steven Vogel, and John Zysman.

## Introduction

In most advanced industrialized countries, labor market reforms have been pursued with vigor over the last decade. Intensified economic competitions, global capital mobility, persistent unemployment, rapidly ageing populations, and the necessity to curb financial deficits have been the major structural forces that have driven labor market reforms. Each country faces *similar* socio-economic pressures, yet has followed different paths in coping with these structural challenges. A number of studies attempt to identify reform paths and delineate explanatory factors that caused diverging paths. My paper aims to make a modest contribution to such academic inquiries by situating the Japanese experience in a comparative perspective.

In order to accurately comprehend reform paths, national variations in labor market institutions first need to be mapped. The current literature of welfare states does not fail to recognize the importance of labor market regulations as integral part of social protection system, yet systematic comparisons on labor market institutions draw lesser academic attention than pension and health-care systems. My paper intends to fill this gap, proposing six indices of labor market institutions and employment performance.

My attempt of classifying labor market institutions illuminates two distinct features of the Japanese employment regulation; “welfare thorough work” and “asymmetrical deregulation.” Japan’s labor market institutions are, on the one hand, similar to Anglo-Saxon countries with respect to a lean social safety net, but on the other hand, also closer to the Continental European countries regarding high employment protection legislations and tight regulation on temporary employment. However, unlike continental Europe, Japan continues to hold high employment rates. The combination of lean benefits to the unemployed and high employment rates gives Japan a characteristic of “welfare through work.” The question is how Japan maintains both high degrees of labor market regulations and high levels of employment rates, which is often considered incompatible. I argue that market segmentation between regular workers and atypical workers allows Japan to offer welfare through work.

The market segmentation was indeed fortified by Japan’s recent reform. Employment protection of regular workers has remained stable, while deregulation of the labor market has proceeded rapidly in the realm of atypical workers. Moreover, the gap between those protected and those not protected remains wide. Why did Japan follow this path of “asymmetrical deregulation”? Why did it fail to equalize social protection between core workers and others through providing an extensive social safety net and/or strengthening rights and benefits of atypical workers? My paper examines preferences of the government, employers, and unions thereby showing that existing labor market institutions, coupled with the organizational structure of unions, create a sharp cleavage between insiders and outsiders. Such segmentation in the market and politics led to asymmetrical deregulation.

The rest of the paper is organized as follows. The first section introduces the six indices of labor market institutions and employment performance and explores linkages between labor markets and welfare states. The second section focuses on Japan, asking why “welfare through work” became possible. The third section then explains why Japan followed the path of asymmetrical deregulation by briefly examining preferences of the government, employers, and unions.

## **1. Labor Market Institutions in a Comparative Perspective**

### ***Labor Market Regime?***

Classification is a first step of comparative analyses as such a method helps generate and test hypotheses as well as highlight case-specificities. In the literature of welfare states, Esping-Andersen's seminal work of categorizing welfare regimes (1990) has been repeatedly employed regardless of its shortcomings partly because a few clusters of countries allow us to simplify the reality to an extent that we can hold some variables as constant. The construction of a new typology can be added by introducing a new axis, like my attempt in the domain of labor market institutions. Nevertheless, the three welfare regimes based on the private-public mix in the income-maintenance programs remain a convenient reference point to any kinds of typologies as long as scholars share the view that different roles played by the basic providers of welfare—market, state, and family—underscore qualitatively different workings of welfare states.

Esping-Andersen claims that welfare states can be categorized into the three welfare regimes, which are underpinned by degree of de-commodification and modes of stratification. The liberal regime, which often can be found in Anglo-Saxon countries, tends to concentrate on needs-based social assistance and employ market mechanisms in underwriting risks. The Social Democratic welfare regime, in contrast, can be characterized by comprehensive risk coverage, generous benefit levels, and egalitarianism. The Scandinavian countries incorporate many of these traits. The continental European countries are often labeled as the conservative, Christian Democratic, or corporatist regime, which embodies status-segmented social insurance systems and familialism.

One way to develop post-Esping-Andersen comparative studies of welfare states is to unravel the triad of market, state and family, and focus on one of the three nexuses: the labor market-welfare nexus, the family-welfare nexus, and the labor market-family nexus. As far as the labor market-welfare nexus is concerned, many scholars have pointed out that the importance of labor market regulations is underestimated in the three models of welfare states. For instance, strong labor protection in Australia and New Zealand lead Castel and Mitchell to argue that Australasian welfare states substantially differ from the liberal regime (Castel and Mitchell 1993). Likewise, scholars who examine Southern and Continental European countries emphasize important roles played by minimum wages, extension of collective bargaining, and labor laws (Ferrara, 2000, Bonoli 2000). Recently, some scholars more assertively stress functional equivalents between welfare states and labor market policies (Bonoli 2000, Ebbinghaus 2000).

What connects labor market institutions and welfare states and what mechanism allows functional equivalents? Employment performance is, I argue, a missing link between labor markets and welfare states. Full employment and pay equalities could substitute to an extent for income maintenance programs and redistributive function by welfare states. However, just as welfare states create new stratifications as eloquently argued by Esping-Andersen, so do labor market institutions. Labor market institutions influence who will be more likely to be (un)employed, rather than how many people will be (un)employed (Esping-Andersen 2000). Varying patterns of unemployment risks and incomes maintenance, which I call employment performance, therefore connect labor market institutions and formal welfare

states.

Beyond various effects that labor market institutions might have on distributing undesirable risks and achieving social equity, the way in which *reforms* of labor market regulations are pursued in relation to retrenchment in welfare programs has contemporary relevancy to political scientists. Poor employment performance sooner or later appears on the policy agenda in industrialized democracies and instigates reforms of labor market institutions regardless of actual causalities between labor market institutions and unemployment. Thus, employment performance should be analyzed not only as the measurement of equality but also in light of the politics of welfare reform.

### ***Indices of Labor Market Institutions and Employment Performance***

What are then criteria for classifying labor market institutions and how do those criteria influence employment performance? In this paper, I tentatively propose six indices that measure the degree and scope of social protection for workers against volatile market forces: (1) protection of permanent workers against dismissal, (2) regulation on atypical workers, (3) safety net toward the unemployed, (4) active labor market policies, (5) minimum wages, (6) coverage of collective bargaining (Table 1).

Strictness of protection against dismissal covers regular procedural inconvenience, notice and severance pay for no-fault individual dismissals, and difficulty of dismissals. The protection targets only regular workers under an indefinite length of contract or permanent employees. For regulation on atypical workers, I use overall strictness of regulation of temporary employment including fixed-term contracts and temporary work agencies. The third indicator, generosity of a safety net toward the unemployed, can be measured by two items: net replacement rates of previous wages offered by unemployment insurance and public expenditure on passive measures in labor market programs per GNP<sup>1</sup>. These three indices partially indicate flexibility of external labor markets and relative ease of firing.

Public expenditures on active labor market policies per GNP indicate the government's commitment to workers' employability. Active labor market policies used to prevail in Scandinavian countries, most notably in Sweden. Recently, some of the Continental European countries have also reinforced training programs in order to activate their long-term unemployed workers.

The level of minimum wages and coverage of collective agreements affect degrees of market segmentation. High levels of minimum wages compress wage disparities among low to middle income workers, but constitute barriers to low-skill workers to enter the labor market. Wage bargaining coverage includes not only the scope of collective bargaining between unions and employers but also legal extensions of such agreements by the government. This indicator shows the extent to which market segmentation is politically prevented or rectified.

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<sup>1</sup> Public expenditure on passive/active measures in labor market programs should be divided by the number of unemployed in order to control for effects of unemployment. Since comparable data were not conveniently available for Japan, in this paper I used the share of public expenditure per GNP.

Table 1 Labor Market Institutions in the mid-late 1990s

	Overall strictness of protection against dismissal	Overall Strictness of Regulation of Temporary Employment	Unemployment Benefit		Public Expenditure on Active Measures in Labor Market Program		Minimum wages' ratio to average wages	Wage bargaining coverage
			Net Replacement Rates	Passive Measures (% GNP)	1980s	1990s		
<i>Scandinavia</i>								
Denmark	1.6	0.9	81	3.1	1.3	1.8	54	69
Finland	2.1	1.9	59	2.6	1.0	1.4	52	95
Norway	2.4	2.8	62	0.5	1.0	0.8		74
Sweden	2.8	1.6	67	1.7	1.7	1.8	52	89
Average	<b>2.23</b>	<b>1.80</b>	<b>67.3</b>	<b>1.97</b>	<b>1.25</b>	<b>1.46</b>	<b>53</b>	<b>81.8</b>
<i>Continental Europe</i>								
Austria	2.6	1.8		1.2	0.3	0.5	62	98
Belgium	1.5	2.8	59	2.5	1.2	1.3	60	90
France	2.3	3.6	55	1.8	0.8	1.3	50	
Germany	2.8	2.3	54	2.1	1.0	1.3	55	92
Netherlands	3.1	1.2	69	2.8	1.0	1.8	55	
Average	<b>2.46</b>	<b>2.34</b>	<b>59.3</b>	<b>2.09</b>	<b>0.86</b>	<b>1.26</b>	<b>56</b>	<b>93.3</b>
<i>Southern Europe</i>								
Italy	2.8	3.8	19	0.6	0.70	1.1	71	82
Spain	2.6	3.5	49	1.6	0.80	0.7	32	78
Average	<b>2.7</b>	<b>3.65</b>	<b>34.0</b>	<b>1.10</b>	<b>0.75</b>	<b>0.89</b>	<b>52</b>	<b>80.0</b>
<i>Anglo-Saxon</i>								
Ireland	1.6	0.3	31	2.4	1.5	1.7	55	
UK	0.8	0.3	51	0.8	0.6	0.4	40	47
Canada	0.9	0.3	47	1.0	0.5	0.5		36
US	0.2	0.3	16	0.3	0.2	0.2	39	18
Australia	1.0	0.9		1.1	0.3	0.5		80
New Zealand	1.7	0.4	34	1.6	0.8	0.6		31
Average	<b>1.03</b>	<b>0.42</b>	<b>35.8</b>	<b>1.20</b>	<b>0.65</b>	<b>0.63</b>	<b>45</b>	<b>42.4</b>
Japan	<b>2.7</b>	<b>2.1</b>	<b>45</b>	<b>0.5</b>	<b>0.1</b>	<b>0.09</b>		<b>21</b>

Source: OECD (1997, 1999a, 1999b, 2000)

Table2 Employment Performance in the 1990s

	Unemployment rates (average 1990s)		Youth unemploy- ment	Male employ- ment rate (55-59)	Female employe ment rate (25-54)	Earnings dispersion		Part-time employment as % of total employment	
	Standar- dized	Long-term				D9/D1	D5/D1	1979	1995
<i>Scandinavia</i>									
Denmark	7.4	1.1	9.0	89.0	77.5	2.17	1.38	22.7	21.6
Finland	11.9	3.0	24.6	61.6	75.3	2.53	1.46	6.7	8.4
Norway	4.9	0.2	10.4	86.8	80.4	1.98	1.32	27.3	26.5
Sweden	7.3	2.4	19.0	89.0	79.6	2.20	1.36	23.6	24.3
Average	<b>7.9</b>	<b>1.7</b>	<b>15.8</b>	<b>81.6</b>	<b>78.2</b>	<b>2.22</b>	<b>1.38</b>	<b>20.1</b>	<b>20.2</b>
<i>Continental Europe</i>									
Austria	4.1	1.2	14.8		71.3		1.67	7.6	13.9
Belgium	8.7	5.4	21.2	51.3	63.3		1.38	6.0	13.6
France	11.3	4.6	26.6	68.9	67.9	3.43	1.61	8.1	15.6
Germany	7.5	4.5	9.3	76.4	68.2	2.25	1.37	11.4	16.3
Netherlands	5.7	1.4	9.3	66.7	66.0	2.59	1.56	16.6	37.4
Average	<b>7.6</b>	<b>3.4</b>	<b>16.2</b>	<b>65.8</b>	<b>67.3</b>	<b>2.76</b>	<b>1.52</b>	<b>9.9</b>	<b>19.4</b>
<i>Southern Europe</i>									
Italy	10.6	2.6	33.6	54.9	48.4	2.64	1.60	5.3	6.4
Spain	19.9	8.2	34.9	75.8	44.4			7.8	7.5
Average	<b>15.2</b>	<b>5.4</b>	<b>34.2</b>	<b>65.4</b>	<b>46.4</b>			<b>6.55</b>	<b>6.95</b>
<i>Anglo-Saxon</i>									
Ireland	12.1	3.6	13.6	72.0	55.3			5.1	11.4
UK	8.2	1.8	13.2		71.5	3.31	1.78	16.4	24.1
Canada	9.5	0.9	15.2	72.2	71.5	3.77	2.18	13.8	18.6
US	5.8	0.3	10.9	78.4	73.5	4.35	2.13	16.4	18.6
Australia	8.9	2.1	14.8	73.5	65.0	2.94	1.66	15.9	24.8
New Zealand	7.9	1.4	13.3	81.5	69.0	3.17	1.77	13.9	21.2
Average	<b>8.7</b>	<b>1.7</b>	<b>13.5</b>	<b>75.2</b>	<b>67.6</b>	<b>3.51</b>	<b>1.90</b>	<b>13.6</b>	<b>19.8</b>
Japan	<b>3.1</b>	<b>1.1</b>	<b>7.6</b>	<b>94.5</b>	<b>64.0</b>	<b>2.77</b>	<b>1.60</b>	<b>15.4</b>	<b>20.1</b>

Source: OECD (1999a, 2000), ILO (1999).

With regard to employment performance, following criteria indicate distribution of unemployment risks among different segments of population as well as pay equalities: (1) unemployment rates (both standardized and long-term), (2) youth unemployment rates, (3) male employment rates (age 55-59), (4) female employment rates (age 25-54), (5) earnings dispersions among male workers, and (6) ratio of part-timers as a percentage of total employment (Table 2)<sup>2</sup>. These items are straightforward and require little explanation.

Unemployment rates denote averages in the 1990s in order to contain cyclical changes in the economies. I use male employment rates between 55 and 59, instead of the unemployment rate, because retirement is an option for this group of workers, which is hardly the case for young workers. Moreover, variance among countries is quite wide on this item reflecting different public policies toward retirement processes. Female unemployment rates were not used for a similar reason. An exit from the labor market is an option for women in many places, thus female employment rates more noticeably indicate cross-national variance in women's involvement in paid work.

In terms of pay inequalities, I use earnings dispersions only among male workers. Pay differentials between the two sexes varies considerably across countries, which, when coupled with different degrees of female employment rates, make the number of overall wage dispersions inflate when a wide gender gap exists. The gender wage gaps are not used here due to the lack of reliable data that include Japan. I cite ratio of part-time employment as an imperfect and unsatisfactory proxy for degrees of market segmentation. It should be noted that numbers on this index are not comparable. Definition of part-timers varies across countries, and more importantly compensation packages and legal rights of part timers are significantly different. High dependence on part-timers in a given country could signify either a highly segmented market as seen in Japan or a kind of work-sharing, which is typically found in the Netherlands.

### ***Mapping Countries***

How can we map countries along with labor market institutions measured by the six indices and employment performance indicated by the six criteria? First, the three typologies of welfare regimes can be observed in the indices of labor market institutions, yet the dividing line seems to be drawn between Anglo-Saxon countries and elsewhere. Anglo-Saxon countries feature low degrees of regulation both toward regular workers against dismissal and temporary workers. The social-safety net toward unemployed is not dense and active labor market policies are not regular policy options except in Ireland. Minimum wages are slightly lower than in non-Anglo-Saxon countries, but wage bargaining coverage is markedly narrow. In contrast, differences between Scandinavian countries that tend to fall into the category of social democratic welfare state and Continental Europe, usually classified as Christian Democratic or conservative regime, are not pronounced. Active labor market policies are used to differentiate these two regimes, but as mentioned above the distinction became blurred in the late 1990s.

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<sup>2</sup> My indices do not incorporate the dimension of rights granted to workers at their workplace. Numerical operationalization of rights for the purpose of cross-national comparisons is not easy, yet such research will complement and enrich my findings, which are based on the strictness of regulation, budgetary allocation, and benefit levels.

This observation is consistent with the claim by Scharpf and Schmidt. They point out that two dimensions make up the three models of welfare states: “the extent to which welfare goals are pursued through the regulation of labor markets and employment relations or through the ‘formal welfare state’ of publicly financed transfers and services, and the extent to which ‘caring’ services are expected to be provided informally in the family or through professional services.” They argue that the first axis divides the liberal regime from Continental Europe and Nordic countries, whereas the second one differentiates the Continental countries from the Nordic and Anglo-Saxon countries (Scharpf and Schmidt 2000: 7).

Second, variation within a regime is also prominent. In each regime, it is relatively easy to spot outliers, which complement what area specialists have stressed. For example, among Social Democratic welfare states, Denmark stands out in terms of a low degree of protection against dismissals and generous benefit levels to the unemployed. This marks a stark contrast to Sweden, which offers a high degree of protection against dismissals and strong emphasis on active labor market policies rather than passive measurements toward the unemployed (Björklund 2000). The Netherlands also deviates from other Christian Democratic welfare states because of less restriction on temporary employment and recent recovery in unemployment rates. In addition, Italy differs in terms of weak function of unemployment insurance and high levels of minimum wages, as often noted by Italian specialists (Ferrara 2000; Rhodes 1997). Among liberal regimes, Australia and New Zealand constitute a distinct cluster, giving a relatively higher regulation of labor markets and a strong role played by state arbitration courts in setting wages (Castels and Mitchell 1993).

The existence of these outliers in each regime has an important implication for scholars who aspire to situate Japan in the typologies of welfare states. The Japanese case tends to be excluded in comparative studies of social policy due to the fact that it does not neatly fit to any regime (cf. Huber and Stephens 2001, Scharpf and Schmidt 2000). Or, Japan is often considered as a hybrid case of the liberal regime and the conservative regime (Esping-Andersen 1999; Uzuhashi 1997). However, if these outliers comfortably belong to some regime regardless of their deviations, there is little awkwardness for Japan to be considered as a variation of the conservative regime, except by its sheer geographical distance from the Continental European countries.

Third, variance in employment performance within each regime is wider than that seen in labor market institutions and accordingly the three models of welfare states do not work well to differentiate labor market institutions and employment performance. For instance, by the employment performance indices, Southern Europe evidently constitutes a distinct pattern. Moreover, differences in the levels of unemployment do not neatly correspond to the typologies. This result is not surprising because labor market institutions affect distributional patterns of unemployment risks rather than unemployment rates per se. In fact, striking differences can be found in varying employment rates among different groups of workers such as young people, women, and elderly male workers. Youth unemployment is severe most notably in Southern Europe followed by France, Belgium, and Finland. Female employment rates are low in Southern Europe and high in Scandinavian countries. Anglo-Saxon countries, continental Europe and Japan are located somewhere in the middle. In terms of pay equalities, Anglo-Saxon countries are most unequal, which contrast to the Nordic countries. Continental Europe and Japan are again in the middle. Early retirement prevails in Finland, Belgium, France, the Netherlands, and Italy, which differs quite noticeably from countries where elderly workers stay in the labor markets such as Denmark, Sweden, and Japan.

## 2. Situating Japan

### *Welfare Through Work*

What do the above indices tell us about Japan? Key features of the Japanese labor market institutions and employment performance can be characterized as “welfare through work.” Japan shares with liberal countries in terms of a lean social safety net toward the unemployed, yet differs quite significantly with respect to the high degrees of regulation on firing and temporary workers. Japan’s high employment rates, both among elderly workers in an absolute term and female workers in a relative term, makes a stark contrast to countries that also hold highly regulated labor markets.

The conservative welfare regime is often associated with negative characteristics, such as “welfare state without work” (Esping-Andersen 1996). It guarantees high family wages to male breadwinners, which in turn results in the containment of job creation. The situation became “negative spirals” after the oil crisis due to industrial restructuring proceeded by the (over)use of early retirement and disability programs. The usage of welfare programs to deal with labor market problems weakened the financial foundation of pension programs. The extent to which this downward spiral actually prevailed in each country might be controversial, since a number of scholars have recently portrayed more positive aspects of the conservative regime (Levy 1999, Rhodes 1998). However, as long as we compare Japan with other conservative regimes, it is remarkable that Japan has not experienced “welfare without work” or the inactivity trap.

Why was Japan able to avoid “welfare without work”? One hypothesis is that Japan’s lean social safety net prevented the specter of the inactivity trap. It is plausible to argue that strong incentives to work exist in Japan. We can easily name short duration of unemployment insurance provision, low pick-up rates of social assistance, or the late development of public pension system. However, these incentives only affect already laid-off workers. Corporate behavior that tends to restrain labor shedding still remains to be explained. Moreover, how can we explain the fact that strong labor market regulation, which is often considered to be a hindrance to smooth labor transfer thereby pushing up unemployment rates, has been accompanied with low unemployment and high employment rates in Japan?

We can alternatively hypothesize that a relatively large share of low-wage sectors, which absorb redundant workforce, allows Japan to have both highly regulated labor market and high employment rates. Scholars often argue that high degrees of wage compression increase incentives of labor shedding (cf. Manow and Sieils 2000). If the degree of wage differentials has an impact on the level of employment in the highly regulated labor markets, we should be able to find substantial differences between Japan and the Continental European countries. Table 2 demonstrates, however, that high level of wage equalities can be found only in Germany and Belgium. The level of wage differentials in Japan is higher than the Scandinavian countries, yet comparable to Austria, France, and the Netherlands. As far as earnings dispersions among male workers are concerned, the hypotheses of low-wage sectors cannot be sustained.

If low levels of income maintenance programs during unemployment are not a sufficient

explanation, and if the degree of wage disparities among male workers does not adequately differentiate Japan from the Continental European countries, what allows Japan to maintain highly regulated labor market while keeping employment rates high?

If we compare Japan to the Continental and Southern European countries, the share of part-timers could not have been starker. Recently, the Continental European countries have increased the number of part-timers, but Japan already began to employ part-timers in the 1970s and it still outnumbers its Continental European counterparts except the Netherlands. This fact leads us to hypothesize that the role played by part-timers allows Japanese companies to retain labor force without infringing upon restriction against dismissal. Indeed, wage differentials between full-time workers and part-time workers are significantly large in Japan. The hypothesis of the low-wage sector might be sustained in the realm of part-timers.

Several pieces of evidence support this view, although it is quite difficult to conduct cross-national comparisons. Definitions of part-timers are not the same across countries and even differ within a country depending on surveys. As far as Japan is concerned, *pāto* refers to workers who are supposed to work part-time (e.g., less than 35 hours), but approximately 20 % of “part-timers” work more than 35 hours or as long as regular workers<sup>3</sup>. At the same time, some regular workers work less than statutory working hours (e.g. mostly 40 hours). Actual working hours thus do not correctly differentiate *pāto* from regular workers.

The major differences, instead, reside in the wage determination system and the promotion system. Wages for *pāto* are determined by the market and are barely above minimum wages<sup>4</sup>. *Pāto* are not guaranteed to receive promotions or raises, even if they take higher job responsibilities<sup>5</sup>. Length of employment is hardly taken into account in determining *pāto* wage levels unlike regular workers. The fact that regular workers and *pāto* are under different wage determination systems makes it very difficult to compare wage levels in a meaningful way.

The gap between regular worker and *pāto* is partly reflected in gender differences, as over 80% of *pāto* are women. This rate itself is not so peculiar because it is similar elsewhere. Actually, Japan has relatively a large number of male part-timers. But, the pattern of the gender divide in Japan cannot be understood without taking into account part-timers.

A striking feature of Japanese female employment performance is relatively high employment rates and low wages. Japanese women’s employment rates during the prime ages are moderate to low internationally, but moderate to high among countries that can be classified as a strong male breadwinner regime. More interestingly, Japanese women between 55-59 years still stay in the market and elderly women (older than 60 years old) work as much as their counterparts in Sweden and the US, surpassing the rates seen in Italy, Germany, France,

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<sup>3</sup> Part-timers here refer to both *parto* and *arubaito* and the source of data is Special Survey of the Labour Force Survey, Management and Coordination Agency. There are no clear differences between *parto* and *arubaito*, but *parto* is such a gendered concept that *parto* usually means middle age women working as part-time and *arubaito* means young people, including students, working as part-time.

<sup>4</sup> Minimum wages are determined by prefecture and industry in Japan, and the level of minimum wages reflect wages determined by the market. Currently, prefectural minimum wages range from 708 yen to 600 yen per hour.

<sup>5</sup> 8.7% of full-time *parto* experience promotion and 54.3% of them receive regular raise. Pātotaimā no Jittai [Realities of Part-timers], the Ministry of Labor, 1992.

the Netherlands, and Belgium to a considerable degree. In a typical case of the male breadwinner regime, male workers receive family wages necessary to support their families. High family wages, in turn, become an obstacle for women to work, as most women lack sufficient skills to receive high wages. The UK, Germany, Italy and Netherlands are considered to be the strong male breadwinner regimes and Sweden and Denmark are labeled weak male breadwinner regimes. France is located somewhere in the middle (Lewis 1993). If we consider that Japan also shares many traits of the strong male breadwinner model, Japanese female employment rates in their fifties and later appears paradoxical.

Even though Japan's female employment rates are relatively high or at least comparable to other strong male breadwinner countries, as far as wage levels are concerned it lags far behind. For example, Japan's Economic Planning Agency estimates that female regular workers earn 63.5% of the wages of male workers in Japan, which lags behind the 80.8% in France, 75.5% in the US, and 74.2 % levels seen in Germany<sup>6</sup>. Blau and Kahn compute different numbers, but indicate a similar trend. They show that Japanese female workers earn approximately half of male workers, whereas female/male hourly pay ratios are about 65-75% in the US, UK, Ireland, and Germany, 80-90% in France, Denmark, Australia, New Zealand and the Scandinavian countries. Data for Italy are not calculated by the same method, yet their research by using micro-data files shows that Italian women earn 82.3% of male earnings followed by 77.2% of Swedish women on the basis of gender earning ratios adjusted for hours. Moreover, Japan is the only country among their cases that demonstrated a downward trend in the female pay rates since the mid-1970s (Blau and Kahn 1995). Several variables need to be controlled for in order to get meaningful figures such as age, education, sector, firm size, and length of work. Yet, these numbers, taken together, clearly point to internationally low wages of Japanese female workers<sup>7</sup>. If these numbers fairly portray the reality of Japanese female worker's working conditions, it means that the Japanese version of the male breadwinner model is distinctive in the sense that the participation rates of women are high, but their wages are low. This presents a sharp contrast, for instance, to the Italian version of the male breadwinner model—low female employment rates, but high pay equality between the two sexes.

The above data on Japanese part-timers and female workers indicate that atypical workers constitute a low-wage sector. From this observation, we are able to conclude that a low-wage sector sustains the co-existence of highly regulated labor market and high employment rates.

### ***Two-tier Deregulation vs. Asymmetrical Deregulation***

How did the above characteristics of the Japanese labor market institutions change in the last decade? One of the problems associated with regime analyses is that typologies are static and only offer a snapshot. In order to overcome this drawback, a comparison of snapshots of the two time periods helps.

Figure 1 indicates the difficulty of dismissing regular employees among major OECD

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<sup>6</sup> Source: Kokumin Seikatsu Hakusho, the Economic Planning Agent, 1996. Gaps between core male workers and female workers, which exclude atypical workers. Japanese number is calculated by using data from Wage Structure Basic Statistics Survey, the Ministry of Labor.

<sup>7</sup> When education, length of employment, and firm sizes are controlled for, female workers receive approximately 75% of male wages. (Useful Rodo Tokei 2000, JIL, 2000, pp. 182-183.)

countries in the late 1980s and the late 1990s. This index is slightly different from the one in the table. By this criterion, Japan and Norway stand out as holding the highest employment protection, which marks a sharp contrast to the liberal economies such as the UK and the US. It also illustrates that Spain eased its regulation against dismissal, whereas the Netherlands and Finland tightened their regulations. With the exception of these three countries, it is striking that most countries did not change their difficulty of dismissal in the last decade.

**Figure 1 Difficulty of Dismissal**

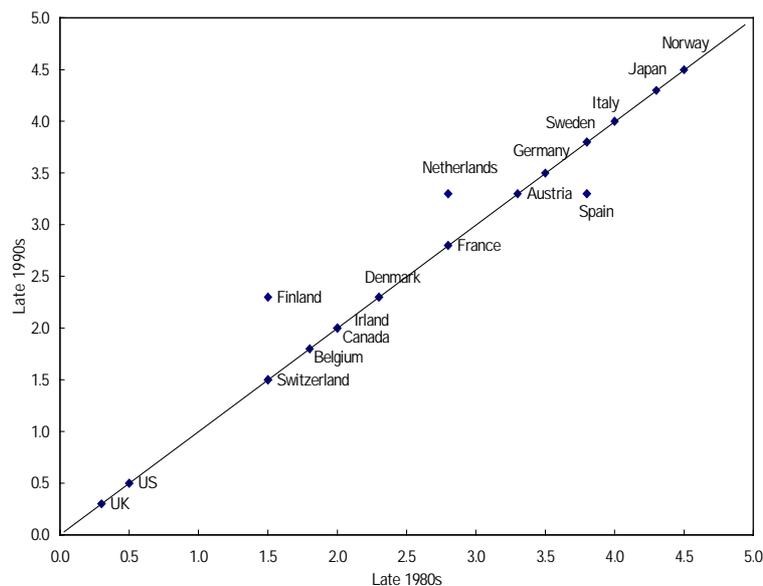
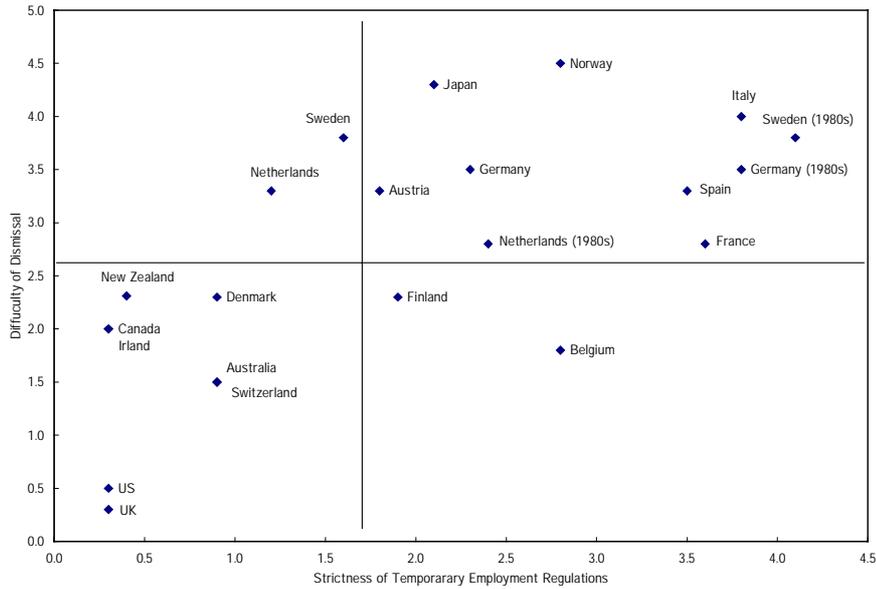
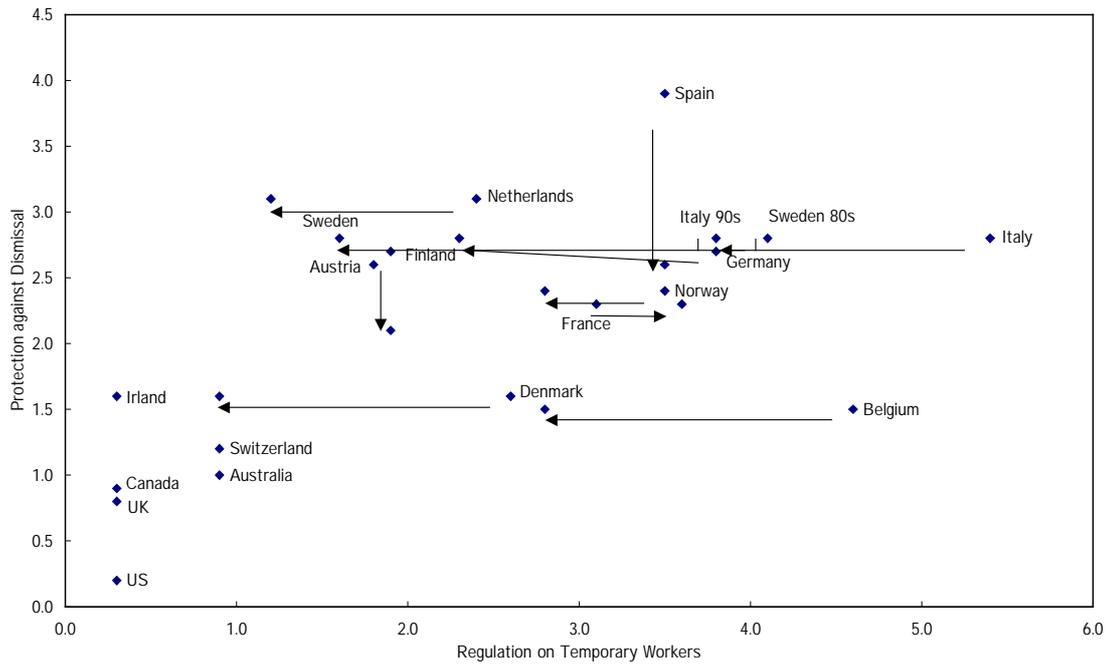


Figure 2 and 3 show both the difficulty of dismissal and the strictness of temporary employment regulations in selected OECD countries. In general, there are two clusters of countries in the 1980s: highly regulated markets versus little regulated markets. ‘Liberal’ countries have neither strict regulation against dismissal or temporary workers. Anglo-Saxon countries, Denmark and Switzerland are included in this category. In contrast, the highly regulated market group has strict regulations both against dismissal and toward temporary workers. Italy, Germany, Norway, Sweden, Spain and Japan are classified in this group. Among these, Italy, Norway, Sweden and Germany were the most rigid markets, yet Sweden and Germany deregulated their temporary employment regulations in the 1990s. The Netherlands also followed this path. As a result, by the end of the 1990s, a new category, which deregulated their regulations on temporary workers while maintaining their protection to regular workers, emerged. Sweden and the Netherlands fall into this new type.

**Figure 2 Rigidity and Flexibility (1990s)**



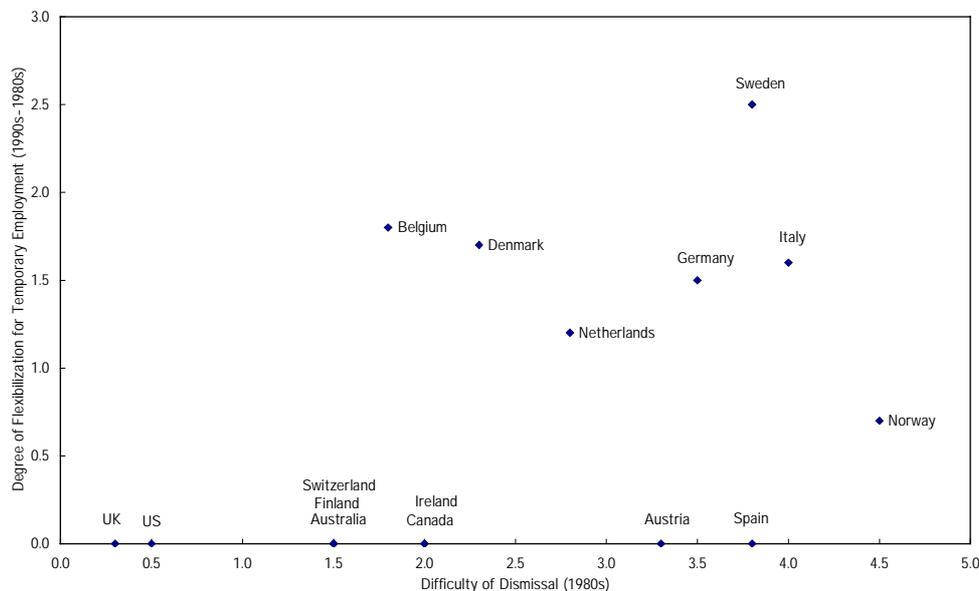
**Figure 3 Reform Paths in the 1990s**



A general tendency exists that the more difficult it is to dismiss regular workers, the more likely it becomes that the temporary labor market is deregulated. Figure 4 illustrates the relationship between the difficulty of dismissal in the late 1980s and the degree of deregulation in the temporary labor market between the late 1980s and 1990s. It clearly shows four distinct clusters. First, the liberal regimes (US, UK, Australia, Finland, Switzerland, Ireland and Canada) did not deregulate their temporary labor markets, as they did not have much regulation on temporary workers in the first place. Second, Sweden, Italy, and Germany significantly deregulated their regulations on temporary workers. So did the

Netherlands albeit to a lesser degree. The first and second clusters of countries match well with the hypothesis. However, Austria, Spain, and Norway did not deregulate their temporary labor markets at all or only to a minor degree, even though they offered high degrees of protection to their regular workers. In contrast, Belgium and Denmark considerably deregulated their temporary labor markets, even though their degrees of job protection were moderate.

**Figure 4 More Segmentation?**



Since Japan’s late 1980s information on the regulation on temporary workers is missing from the OECD’s data, it is impossible to locate Japan in Figure 3. However, it is quite plausible to argue that Japan’s path was similar to that of Sweden and Netherlands. Japan’s position in the late 1990s probably reflects the deregulation of the Dispatched Manpower Business Act in 1996 but not its substantial amendment in 1999<sup>8</sup>. If deregulations in temporary labor markets in 1999 were taken into account, Japan’s location would move leftward, closer to Sweden and the Netherlands.

A combination of the deregulation of the temporary labor market and the protection of regular workers is in fact seen not only in Japan, Sweden, and the Netherlands but also in Italy and Germany. In fact, many studies reveal that “two-tier” approach was pursued in many European countries with the exception of the UK (Lodovici 2000, Bertola et al 2001).

Even though two-tier deregulation can be found in a number of countries in the 1990s, it should be considered separately from market segmentation. The strictness of temporary employment regulation captures only an aspect of segmentation in the labor market. As far as the Japanese case is concerned, large discrepancies between regular workers and atypical workers in terms of compensation packages and employment security make its labor market quite segmented. In some countries, such gaps are prohibited. The notable case is the 1996 Law on the Equal Treatment of Part-time and Full-time Employment in the Netherlands by which equal treatment in terms of hourly earnings and social protection between part-time and full-time workers is required. Legal protection for part-time workers in pay, benefits, and working conditions prohibits discrimination of part-time workers by

<sup>8</sup> On detail account on the Dispatched Manpower Business Act in 1999, see Nakamura and Miura (2001).

employers. By contrast, in Japan as well as in Germany, Ireland, and Sweden, the same rights and benefits guaranteed by national law or agreed upon by collective bargaining are not applied to part-time workers who work below a certain threshold. Unemployment benefits, pensions, and public health insurance require hours and earning minima for eligibility.

From data collected above, it is premature to conclude that Japan is the only case that followed the path of asymmetrical deregulation, yet it should not be underestimated that asymmetrical deregulation is qualitatively different from two-tier deregulation.

### **3. Who Wants What Reform?**

#### ***Segmentation in Market and Politics***

Why did Japan follow the path of asymmetrical deregulation? Why was not an extension of a safety net pursued? Has does Japan's labor market segmentation have something to do with it? A number of theoretical frameworks help sort out where we should look.

Scholars of comparative social policies have long investigated what factors cause national differences in policy outcomes. In the nexus of “problem-institutions-actors-politics-policy” (Sharpf and Schmidt 2000: 17), variables that gain analytical weight in a relative sense partly depend on the research design and controlled variables. It is not difficult to infer that the same social coalition brings about reforms due to changes in their policy preferences in coping with a new socioeconomic environment. Alternatively, a seemingly status-quo outcome can be achieved by a shift in social coalitions, when a new partner of the social coalition also supports the existing arrangement. In order to adequately comprehend degrees and paths of reforms, we need to first understand “who wants what reform.” Indeed, actors' orientations and policy preferences vary to a considerable degree across countries, across sectors, and across time. It is thus indispensable to specify intentional actors and their preferences in reform options in order to evaluate roles played by other variables.

Policy advocates emerge when they perceive institutional incongruities between their interests and existing regulation. When they see that the social protection system is the cause of problems that they intend to solve, it is only natural that they seek to remove or replace problematic regulations. In fact, existing social protection systems are now increasingly seen as problems rather than solutions to socioeconomic crises. Welfare institutions shape the characteristics of the problems, the urgency for reforms, and alternative policy proposals.

Regarding labor market reforms, three sets of intentional actors are particularly relevant: government, employers, and unions. The two major policy advocates, government and employers, pursue different goals. Government proposes reforms when it commits itself to attacking unemployment. Its attempt at financial reconstruction also drives it to engage in reforms. In contrast, the main concern of employers is improving the competitiveness of their firms. With these different objectives—unemployment, financial reconstruction, and firm competitiveness—, government and employers perceive different kinds of institutional incongruities, which make them diverge on how they evaluate the necessity and urgency of labor market reforms. Furthermore, different degrees of pressure that these two actors perceive due to varying levels of unemployment, financial deficits, and firms' competitiveness also make them favor different policy proposals. Thus, who initiated the reforms influences the content of reforms

Mass and persistent unemployment might trigger an expansion of income-maintenance programs, which ultimately lead to welfare reforms in order to constrain costs of supporting an inactive workforce. Although a cure of unemployment is the fundamental issue, available policy options are limited under open economies and intensified global competitions. In this context, governments pursue labor market reforms, hoping for the improvement of unemployment rates.

This chain—unemployment-welfare expansion-retrenchment—may be found in many of advanced industrialized countries, especially in Northern and Continental Europe. If mass unemployment was not the problem, like in Japan at least until recently, or if mass unemployment did not accompany the upsurge of social transfer, as in many Anglo-Saxon countries, the linkage takes different forms.

As far as Japan is concerned, a long period of quasi-full employment has precluded the development of a social safety net toward the unemployed. This means that unemployment insurance reforms are not necessary for the purpose of cutting the inactivity trap. Instead, employers essentially initiated labor market reforms. Questions arise: Why did not the government extend a social safety net when facing rising unemployment rates? Why did employers seek asymmetrical deregulation instead of total deregulation? Moreover, did unions cooperate or block asymmetrical deregulation and why?

### ***Government: Why Is It Difficult to Extend a Social Safety Net?***

With increasing rates of unemployment, an extension of unemployment insurance coverage or the increase of benefit levels could be an option. Also, the intensive use of active labor market policies could have been pursued. None of these outcomes resulted because the financing method of the social safety net—social contributing system—makes it hard to mobilize the political support necessary for such a policy shift.

If unemployment rates remain high, some might demand the improvement of unemployment insurance benefits and active labor market policies to enhance the employability of unemployed workers. However, the way of financing the unemployment insurance system suggests that such a policy shift is less likely to receive adequate political support. The extension of the safety net towards unemployed workers is not attractive to employers or unions since they must bear the costs. The tight relationship between contributions and benefits in the program structure of unemployment insurance makes it difficult to create active labor market policies for vocational training.

The financing methods of social security systems and of labor market policies have a great impact on the formation of preferences. Whether social policy programs are funded by social contributions or by the state budget, it has different effects on reform processes. The major difference between social contributions and general taxes is the existence of the *reciprocity* principle between contributions and benefits. Once this principle is embedded in financing and distributing systems, a distinctive political logic follows.

Social-contribution systems are more likely to embody the reciprocity principle between contributions and benefits. Social insurance programs are, in theory, not based on the reciprocity principle as with other insurance mechanisms. Risks are pooled among contributors and levels of contributions and benefits are calculated actuarially. However,

social contribution-funded social security systems are less redistributive, often earnings-related, and have a tighter relationship between contributions and benefits than tax-funded social security systems, which, in turn, shapes the sense of entitlement and rights among contributors. Benefits are considered as deferred wages in the case of old-age pensions and as reserved wages in the case of unemployment insurance. The distinction between insurance and saving becomes blurred. This impacts differently when the system is expanding or retrenching. In general, raising social contributions tends to be easier politically than raising taxes, especially income taxes. The costs of raising benefits can more easily be externalized under contribution-supported systems than tax-funded systems because of the reciprocity principle. While employers are able to externalize the costs of rising contributions to wages, employees are likely to accept such expansion since benefits are earnings-related. When financial cutbacks are pursued, the reciprocity principle works in such a way that the relationship between contributions and benefits becomes tightened. This is more likely to be supported by contributors than a reform plan that would only curb benefits. Thus, under the contribution-funded systems, expenditures are more likely to increase, whereas drastic cutbacks are less likely to occur.

In contrast, tax-funded systems are more likely to be subjected to policy priorities set by the government. When the government commits itself to financial reconstruction, it has more incentives to reform welfare programs because such reforms are expected to contribute directly to improving the government's financial profile under tax-financed systems. However, open retrenchment requires skillful political maneuvering. Such constraint could lead to a reduction in targeted areas where political support is scant. Alternatively, a universal cutback to even out burdens of retrenchment to all recipients is another strategy to be pursued in order to avoid political mobilization of relevant groups<sup>9</sup>. Either way, a loose connection between contributions and benefits under tax-financed systems enables sudden shifts in expenditure levels once a policy priority changes due to power alternation and/or mounting financial pressures.

The strength of the reciprocity principle embedded in labor market institutions certainly affects a range of desirable policy options. A well-discussed case is the relationship between financing systems and expenditure levels of active labor market policies. On the one hand, the absence of the reciprocity principle, allows the government to expand welfare programs for general objectives, but on the other hand it gives the government incentives to cut programs for financial reconstruction. For example, Sweden's high expenditure on active labor market policies would not have been realized if it were not funded by the state budget (Schmid and Reissert 1987). National variance in using active labor market policies does not squarely correspond to the three or four typologies. Instead, different financing methods seem to affect the development of active labor market policies.

To summarize, financing methods of social safety nets affect a range of political support. As a result, political strategies to mobilize a new support or demobilize resistance also vary depending on the amount and type of available political support.

### ***Employers: Seeking a New Access to Politics?***

If the government was not the main advocate of labor market reforms in Japan, what role

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<sup>9</sup> Targeted cutbacks can be found in Japan's social assistance expenditure in the 1980s. An example of universal cutbacks is Britain's unemployment insurance reforms in the late 1970s to early 1980s.

did the employers' associations play? Major reforms in work hour rules and temporary work agencies in the late 1990s were led by employers, which was actually unusual in the labor law making processes in Japan (Kume 2000). Employers assertively pursued asymmetrical deregulation and in so doing they sought a new access to politics. The question is, why did they prefer asymmetrical deregulation and why did they seek a new access to politics?

Employers' policy demands are partly shaped by the way in which production and protection are linked. When firms are able to maintain their competitiveness through labor shedding, and when such a strategy is facilitated by welfare and labor market policies such as unemployment insurance and early retirement programs, employers do not have incentives to advocate labor market reforms since their competitiveness depends on such policies. However, "welfare without work" increases the non-wage labor costs needed to finance such welfare programs that underpin a firm's competitiveness. When high labor costs are coupled with compressed wage structures, job growth in low productivity sectors stagnates, as the German experience illustrates. (Hemerijck, Manow, and Kersbergen 2000).

If such a production-protection system causes a politically unacceptable level of unemployment, the government has incentives to implement activation policies. However, as discussed above, under social contribution systems, it is politically difficult to receive support from employers to finance active labor market policies as they deviate from the reciprocity principle. Moreover, once productivity stagnates, firms have incentives to seek pension reforms as well as other social insurance reforms in order to curtail their non-wage labor costs to improve their competitiveness. As long as welfare programs are the basis for their strategy of upgrading technology and skills to maintain competitiveness, an attractive solution to employers is to increase the level of government subsidies allocated to social security accounts. Such demands conflicts with the government, if the latter seeks to contain governmental deficits.

Even if protection is not tightly connected with production via skill formation or technology advancement, the existence of high employment protection legislation itself also serves a firm's competitiveness. A higher degree of protection against dismissal often results from cooperation between unions and employers. Even if the state or the court grants such protection in the absence of cooperative industrial relations, deregulation of employment protection risks worsening industrial relations, thereby eroding the basis of competitiveness. It is therefore not surprising that countries having a highly regulated labor market pursued a two-tier or asymmetrical deregulation.

Nikkeiren and other employer associations repeatedly articulate their adherence to long-term employment practices offered to regular workers. At the same time, they demand deregulation of temporary labor markets. For instance, Nikkeiren advocates that Japan needs to renew its management style and corporate governance. From mid-1995, it has proposed that Japanese firms should have three different sets of employees: core workers who are employed with contracts of undefined length and whose skills are developed within the firm; workers with special skills who switch companies occasionally; and routine workers who are flexibly employed and relocated. Nikkeiren foresaw that the ratio of core workers would/should shrink to 70% of the male workforce, instead of the current level of 80%. Most routine work is expected to be assigned to atypical workers in order to meet peak demand, yet minimize the cost of maintaining regular workers. Nikkeiren's policy proposals have been consistent with its support of the new management style. More concretely, it demanded the deregulation of the dispatched manpower business, the entry of private replacement service companies, the flexible and irregular work hour rules, and the extension

of term-contracts, etc.

Logically, other employers associations probably share the image of the three types of workers and industrial relations as well. Keidanren goes one step further aggressively seeking to put the deregulation of labor market regulation on a political agenda. In so doing, it lobbied the Deregulation Subcommittee, which eventually accelerated the process of deregulation thereby making the labor politics openly contentious (Miura 2001). Keidanren's intention to establish a new and direct access to political decisions resonates with experiences of other countries. Public commissions are commonly used to legitimize neo-liberal reforms. German's *Deregulierungskommission* or Sweden's Lindbeck Commission had similar missions as Japan's Deregulation Subcommittee.

To sum up, when a trade-off exists between a cooperative relationship with unions and high non-wage labor costs, the deregulation of employment protection is not an attractive option to employers. Moreover, because of the cooperative industrial relations, employers have incentives to seek a new policy making procedure that allows them to institute new policy agenda.

### ***Unions: Who are Insiders?***

The asymmetrical deregulation can be also partly explained by the insider-outsider cleavage. Unions above all defend the interest of their members. This creates a sharp cleavage between employed and unemployed or between insiders and outsiders (Saint-Paul 1996, Lindbeck and Snower 1998). The failure of French attempts to reduce minimum wages in order to facilitate young workers' entry to the labor market well illustrates the point that insiders block reforms that would have a negative impact on them. Pareto optimal outcome could be achieved, but burden sharing between insiders and outsiders is less likely to result without skillful political maneuvering.

Labor economists treat employed or unionized workers as insiders. In the case of the two-tier or asymmetrical deregulation, however, the boundary of insiders and outsiders should be drawn between permanent workers and atypical workers. High degrees of employment protection legislation increase vested interests of permanent regular workers, which makes the cleavage deep.

The insider-outsider cleavage is even deeper in Japan. The fact that unions prioritize employment protection elevates the stakes for insiders even higher. Furthermore, the organizational structure of unions that does not include many atypical workers makes it hard to overcome the already profound insider-outsider cleavage.

The order of preferences among unions' organizational goals varies across place and time. Generally, unions pursue the increase of real wages, better working conditions, and job protection. When unions face trade-offs among these goals, they place different priorities to each item. In the Japanese case, unions have been concerned the most with the preservation of long-term employment. Unions most vigorously resisted any changes that might potentially undermine long-term employment practices and employment protection legislation for permanent workers. Instead, unions accepted deployment, wage moderation, and wage dispersion. The lack of a seniority rule to determine who has to be fired first, coupled with an organizational form of enterprise unionism, made union leaders prefer employment security even more in exchange for wage protection.

No matter what actually made unions prioritize employment protection, the intensity of their policy preferences has had an impact on the path of reforms. Japanese unions' preference—attachment to strong employment protection and tolerance of wage moderation and dispersion—pushes employers to pursue asymmetrical deregulation because employers anticipate unions' resistance at any attempt to weaken employment protection. These policy options were less likely to offend unions, thereby allowing employers to secure both smooth industrial relations and the necessary amount of labor market flexibility.

Unions' organizational structures also account for their priority and intensity of interest representation. Female unionists occupy approximately 28 % in Japanese unions, which is evidently lower than the actual share of women at workplace<sup>10</sup>. Unionization rates of part-timers are not easy to measure, yet it is extremely low. The Japan Federation of Commercial Workers' Unions (Shōgyō Rōren) and National Union of General Workers (Zenkoku Ippan) are the only exceptions who organize a large number of part-timers. The share of part-timers in these unions are 24.29 % and 17.35 % respectively, whereas the Japanese Electric Electronic and Information Union (Denki Rengo) organizes only 0.55 %, the Japanese Federation of Textile, Garment, Chemical, Commercial, Food and Allied Industries Workers' Union (Zensen) does 4.97 % (Nakamura 2001). Many of the enterprise unions in the manufacturing sector do not even organize part-timers. Unionization rates of dispatched workers are even worse. Due to the organizational boundary of enterprise unions, they cannot be organized at workplace as they are not employed by the managers they work for, but by temporary work agencies<sup>11</sup>.

In the process of the asymmetrical deregulation in Japan, some of the rights for atypical workers were slightly strengthened. Unions, especially Rengo (rather than industrial federations or enterprise unions), defended interests of unorganized workers anticipating organizational expansion by recruiting atypical workers (Miura 2001). However, the bottom line is that unions block any reforms that undermine long-term employment practice. Such stance taken by unions, coupled with employers' ultimate goals to improve a firm's competitiveness, produces asymmetrical deregulation as an optimal outcome.

## Conclusion

My findings about various reform paths of labor market institutions in major OECD countries in general and the Japanese case in particular will make a contribution to the current debates as to the impact of globalization on welfare reforms and the survival of welfare states.

My cases suggest that we should go beyond the debate that pit globalization forces against domestic institutions. Studies that stress the importance of domestic institutions in explaining cross-national differences tend to take socioeconomic factors as uniform. However, it is absurd to hold globalization pressure constant across places because the degree of exposure is different. Obviously, firms strive to control wage increases and curtail non-wage labor costs in order to restore their competitiveness in the world market. Governments also have great interests in reforming labor market institutions to solve massive and long-term unemployment and improve their financial outlays. These pressures are

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<sup>10</sup> Labor Force Survey, Labor Union Survey, the Ministry of Labor (2001).

<sup>11</sup> Union federations that allow individual participation organize dispatched workers.

persistent, but uniform across nations.

The fact that firms and governments face different degrees of pressure for change was not totally dismissed in the past studies. Welfare states are now considered a source of challenge rather than a solution because different welfare states create different sets of challenges (e.g., rates and types of unemployment) (cf. Scharpf and Schmidt 2000). This line of thought does not anticipate convergence of domestic institutions to the least common denominators, unlike the view that emphasize the sweeping power of globalization. Instead, it expects regime-dependent changes by which each welfare state regime evolves in a certain way due to an institutional logic peculiar to that regime (Pierson 2001, Esping-Andersen 1999).

My findings cast doubt on this argument. Regime-dependent changes were not empirically observed in my cases. At least as of the late 1990s, variations in reform paths within each regime were conspicuous. This fact leads us to consider two possibilities or two future research goals.

First, this mismatching between regime typologies and reform paths could have resulted from mis-conceptualization of labor market institutions. I proposed the six indices because these items influence employment performance thereby constituting a bridge between labor market regulation and welfare states. It could be the case that labor market reforms take place whether or not functional equivalents exist between labor market institutions and income-maintenance programs.

Second, my Japanese case suggests that policy advocates (i.e., the government and/or employers) prefer certain kinds of reforms not only responding to institutional incongruities between exogenous pressures and labor market institutions, but also anticipating the political feasibility of reforms. Political feasibility is, in turn, constrained by policy opponents' preferences and capabilities to block reforms. Consequently, unions' order of preferences and their organizational structure matter.

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