Institutional Change in Japan and the United States

Sanford M. Jacoby

July 2006

For *New Political Economy.* Thanks to Michael Dietrich for organizing the symposium.

It is intimidating to receive comments from four distinguished scholars who know more about Japan (Professors Dore and Nitta) and are more accomplished comparativists (Professors Lane and Marsden), than I. For sugar-coating their ministrations with kind words, I am grateful. Nevertheless, interesting and difficult issues have been raised. While I can not adequately resolve all of them, I hope that my response at least will make for interesting conversation. We don't have to be Habermas devotees to appreciate the contribution to knowledge that comes from discussion and mutual understanding. I would like to thank each of the commentators for their thoughtfulness and generosity. Rather than respond to each essay in turn, I've organized my comments around several common issues, moving from the general to the specific and closing with some thoughts on methodology.

I. Institutional Change: Theory

Each of the contributors to this symposium grapples with the issue of institutional change, either asserting that change is less or more rapid than what I contend to be the case or posing theoretical questions about the process of change. The most explicit in this regard is Professor Lane, who asks, "Are institutions, even with their high degree of complementarity, really as stubbornly persistent as all that?" To answer that question requires a brief detour to situate *The Embedded Corporation* in its theoretical lineage and then a discussion of some problems with the literature that informs it.

When I wrote the book, I wanted to engage the stream of research concerned with "the varieties of capitalism." The concept has a long history, going back to the German historical economists who differentiated economies based on their level of development (as in List's infant industry argument) and their normative principles (as in the derogation of British economics as *Smithianismus*). [1] Skipping a century forward to the postwar decades--past Weber, Marshall, and the American institutionalists--economics still had a field called comparative systems, which, although most of it focused on socialist economies, still managed to produce interesting analyses of how capitalist countries differed in their institutional arrangements and whether these

differences affected economic outcomes. [2] The field took an analytic turn in the 1970s and 1980s as scholars differentiated between corporatist, semi-corporatist, and non-corporatist countries and sought to statistically relate these and related differences--in wage centralization, social welfare arrangements, and business-government relations-- to economic performance. [3]

The current stream of research developed in the late 1980s and 1990s in the context of globalization. Concerns over national competitiveness were expressed, first in the United States and then in Europe and Japan. [4] Recently, Hall and Soskice have turned the 1990s literature on its head by arguing, first, that there are comparative advantages associated with *each* major type of market economy, whether coordinated or liberal, and second, that comparative political economy has to consider not only macro-institutional issues but also micro ones, such as variations in corporate organization, business strategy, and skill formation. Relevant to these points is Whitley's "business systems" framework, which takes ten system variables (chiefly at the firm level) and four related institutions (government, finance, skill, and trust) and combines them to form not just two but many varieties of capitalism. [5]

Standing on the shoulders of giants, I appreciate and have utilized the achievements of scholars working in this tradition, including its most recent iteration. Yet I find aspects of the literature problematic. Occasionally there is a tendency to describe national systems as organic or expressive totalities in which there is a single essence--such as efficiency--that pervades and correlates the multiple levels constituting a national political economy. [6] There is an alternative perspective in which a structure's levels and institutions operate according to different logics and move at different speeds. Synchronicity is difficult to achieve --and to sustain in the face of entropic tendencies--especially in large and diverse societies. There are, however, conditions that facilitate coordination, such as external economic and political threats, cultural homogeneity, and/or small size; several of these exist in countries classed as coordinated market economies. [7] Even in these places, however, coordination requires long-term relationships and constant negotiations. [8] Finally, any national model or system, because it is an

ideal type, downplays diversity and can miss important discrepancies. For example, those who equate the U.S. business system with Chandlerian firms are often unaware of historical and contemporary alternatives to the dominant system. [9]

Another problematic tendency is the excessively structural focus on institutions and, conversely, insufficient attention to actors, agency, and norms. While economists think that they have solved the problem by invoking rational choice across all levels, this is not a solution so much as another form of expressive totality. Moreover, the rational actor approach takes the content of behavior and norms as given and explains why they are rational instead of historicizing the availability of a given choice set. To link agency and structure--to develop realistic models of the varieties of capitalism--it is necessary to analyze behavior as well as the institutions that result from and constrain behavior.

A third problem with the literature is its functionalist orientation. When everything fits like a tightly woven basket, it is difficult to see how institutional change could ever occur. Recent efforts to build history into institutional analysis through the invocation of path dependence bump up against a similar problem. [10] Path-dependent explanations are good at identifying origins and situating them at a point in time but have little to say about institutional change over long periods of time. In fact, the theoretical apparatus associated with path dependence emphasizes why change is unlikely due to sunk costs, network effects, and positive feedback, all of which produce lock-in. Presumably, once a variety of capitalism has been set in motion, its path is irreversible until the occurrence of some sort of deus ex machina, which is now given the more scientistic name of “punctuated equilibrium.” As in the meteor that wiped out dinosaurs, the punctuation is literally a force from heaven and not part of the system. Yet there are examples of established paths being short by endogenous factors such as entropy or power, including competition between distribution and/or production modes within a given variety of capitalism. [11]

Historical institutionalists in political science and other disciplines are aware of institutional theory's shortcomings. As Paul Pierson recently observed, "The origins of institutions, as well as the sources of institutional change, remain opaque."[12] So, answering Lane's question is difficult, not just for me but for other institutionalists, whether devotees of the varieties of capitalism or not. Pierson provides a point of analytic entry by observing that institutional change involves two types of costs: conversion costs, which have to do with the ease of adapting existing institutions to new ends; and replacement costs, which entail the erasure of existing institutions and the construction of new ones. Building on this distinction, we can add social actors--motivated by trust, norms, and power-- to the weighing of these costs.

Take conversion costs. A standard economic approach would consider asset specificity as a determinant of conversion cost: When there is asset specificity and heavy investment in a dedicated set of interdependent institutions (a form of sunk costs), conversion costs will be relatively high. An alternative is to consider what happens when organizations are hierarchies. Hierarchical power facilitates conversion even if there is specificity. The individuals appointed by President Reagan to run federal agencies transformed departmental agendas despite objections from career employees, whose expertise had little to do with deregulation. On the other hand, vested interests frequently have the power to block or complicate institutional conversion. [13] Conversion can also be inhibited if an institution's legitimacy derives from deeply-held beliefs or slow-moving cultural formations. For example, civil law societies have been sluggish in granting minority shareholder protections. [14]

A key issue is whether conversion occurs gradually, and if so, at what point it results in a different entity with a new set of goals. Thelen discusses what she calls "layering," the process by which elements are added on to an existing institution until it is transformed. [15] However, it need not be the case that layering leads to a new institution, just as biological adaptation does not always result in speciation. This is the crucial issue in understanding Japan today: is layering producing new institutions and a new economic system or are existing institutions

adapting to a different environment? In addition to layering, gradual conversion can occur through the prototype process. In this situation, new institutions appear alongside old ones, such as a new stock market or a “greenfield” factory far removed from a company’s core sites. The new units either substitute for the old ones (in the United States, unionized firms shifted production to new nonunion plants) or represent a model of how the old is supposed to evolve (which is what General Motors hoped to achieve with its Saturn facility in Tennessee).

If institutional conversion is an option, it is tricky to count or measure institutions and assume that quantitative density is indicative of qualitative orientation. To see if an existing institution has been converted to new purposes, we need case studies to determine what is actually occurring on the ground. For example, corporate boards in Japan have shrunk in size and added outsiders, which would suggest more of a shareholder orientation in corporate governance. But these indicators in themselves are not a reliable guide to whether affected boards are any closer to maximizing shareholder value than conventional boards.

Replacement costs, like conversion costs, depend on the relative power of those seeking new institutions versus those committed to the status quo. Reformers bear the extra burden of having to create a coalition for change, which entails collective action costs, including the cost of changing norms or preferences to favor the new institution. Because new institutions may entail new ways of distributing risks and returns, change efforts must address distributional concerns. Those in favor of change will try to persuade others that new institutions have distributional as well as functional benefits, or will cloak distributional objectives under the guise of efficiency and competitiveness. Here is where norm entrepreneurs enter the situation.[16] Prominent individuals, whether public or private, can kick-start change by defying old norms (think of Horie) and by appealing to entities most likely to benefit, in some way, from change. Seeing good results achieved by early adopters persuades others to imitate them. If social bandwagons start rolling fast enough, they can lead norm adoption to a tipping point. [17]

When norm entrepreneurs come from a powerful group, they are sometimes called “hegemons.” Hegemonic norm entrepreneurs (they can be individuals, states, or international agencies like the IMF) have resources to get their message out and power to influence everything from school curricula to mass media. Unfortunately, viewing institutional change as exclusively driven by hegemons can be carried to an extreme and create its own expressive totality, shot through with domination. [18] In reality, hegemons are often met by counter-efforts that cause conflict, preemption, and compromise. Instead of “fit” between institutions and hegemonic norms, we have indeterminacy and contingency.

II. Institutional Change: Practice

Do changes in the United States in the 1980s and 1990s constitute a rupture and the emergence of a new kind of capitalism? Those who ways yes see a progression to a new neo-liberal order or a reversion to an older system that was more shareholder-oriented, inegalitarian, and market-oriented. Others are more inclined to characterize recent changes as adaptive rather than transformational. Yet nearly everyone agrees that there has been a shift from the postwar world depicted in Galbraith’s book on American capitalism, in which the power of large, domestic oligopolies was offset by a regulatory state and labor movement. [19]

There is less consensus regarding the present situation in Japan. Professor Dore surveys the scene and sees the LDP breaking up the old system under pressure from foreign investors. Yet while the LDP is a liberalizing force, it operates within constraints imposed by interest groups such as the Keidanren, which is why commercial-law reforms have mostly been permissive--offering a wider range of choices to those who need them-- rather than mandatory. Other interest groups within the party have diluted efforts to privatize the postal system and to reform retailing. [20] Although foreign investors are influential, they have as yet to effectuate an alliance with the business community. Norm entrepreneurs--M&A shops, institutional investors, maverick businessmen, economists and other pundits--are still out in force. But their strongest justification for reform was the weak Japanese economy. Now that the economy is in its fifth year of expansion,

the argument that structural transformation is a precondition for growth is unconvincing. The businessmen who embodied a new, more rugged, approach to commerce, such as Horie and Murakami, are under arrest. Those who are in their 20s and 30s are not by any means universal enthusiasts for U.S.-style practices. Even the Japanese MBA students who I teach in California are nuanced in discussing the pluses and minuses of Anglo-American capitalism and its suitability for Japan.

The power of foreign investors stems from their ownership of one fourth of all share value in Japan; their influence is magnified because they trade their shares more than domestic owners. American investors, especially private-equity firms and public employee pension funds, have worked hard to popularize the idea of shareholder primacy in Japan. Although these investors assert that a focus on shareholder value would make Japanese companies more efficient, in fact most of the changes to corporate governance that they have proposed have no statistically significant effect on corporate performance. [21] The underlying purpose is to reallocate resources among corporate stakeholders-- owners, creditors, executives, and employees--and make sure that shareholders get a larger stake.

Foreign influence is not pervasive, however. Foreign investors own more than 30 percent of shares (a control threshold) at only 103 of roughly 1600 first-tier TSE companies. Foreign ownership is concentrated among the largest and best-known companies, such as Orix, Canon, and Rohm; the proportion of foreign ownership declines with firm size. Generally it is the largest companies that are most actively traded; the fifty most heavily traded companies accounted for 43 percent of all TSE transactions in 2004. Also, it is only long-term investors like U.S. pension funds who bother to engage in “voice.” Recently, some of these “voice” investors have switched from market-wide activism to more focused “relational” investments at a handful of companies. Short-term investors, who piled into Japan three years ago, are on their way out again. [22]

It’s true that a lot of overseas money is waiting on the sidelines to initiate hostile M&As when conditions turn favorable, perhaps next year when stock-

based acquisitions by foreign firms become lawful. A wave of hostile takeovers could change the face of Japanese capitalism. On the other hand, prosecutors are tightening up on private equity and hedge funds. And many Japanese companies are deploying defensive tactics such as poison pills and more extensive cross-shareholding, this after a decline in crossholding during the 1990s.

A powerful source of foreign pressure is the U.S. government. The Structural Impediments Initiative started in 1989 and continues to the present day through regular talks between the Japanese and U.S. governments. American objectives have included deregulation of Japanese markets, corporate governance reform, and removal of impediments to foreign acquisitions. Dore notes that the strengthened defense partnership between Japan and the United States is likely to cause the Japanese to embrace American-style domestic policies. But another possibility is that the United States will ease up on urging Japan to pursue domestic reforms so long as it raises military spending (and buys its weapons from the United States).

In short, I don't take it as a foregone conclusion that norm entrepreneurs will sustain the influence they exerted in the recent past. The problem, however, is this: Even if these entrepreneurs become less potent, they are still hegemonic. Japan has a one-party political system, a weak civil society, and public discourse that minimizes conflict. Relatively little is heard from those with dissenting views. Who are they? First, there is the political opposition to the LDP, which is unfocused and often inept. Then there is the labor movement, whose chief federation, Rengo, has a disappointingly timid voice. Intellectuals and journalists from the center-left also are relatively quiet. Oddly, some of the staunchest defenders of the old social contract are Keidanren leaders, such as Okuda (Toyota) and Mitarai (Canon), although their actions occasionally belie their words. The middle and working classes are worried about the unraveling of Japan's company-based egalitarianism but there is no party or organization that effectively expresses their concerns. The debate over Japan's future is like the sound of one hand clapping.

A wild card in the deck are the ultra-conservatives, who have experienced a resurgence in the last few years. This group, which encourages Koizumi's visits to Yasukini, includes people like Tokyo governor Ishihara, who wants Japan to say "no" to the United States. Although the right-wing seeks more defense spending and is willing to cooperate militarily with the United States, it is also concerned that pressure from the West is causing traditional Japanese values to fade, everything from morality to patriotism to a stakeholder ethos inside Japanese companies. A few years ago, I heard right-wing sound trucks outside Sony headquarters denouncing the company for shipping jobs to China. It is well to remember that one of the main spurs to enterprise unionism and other features of the modern Japanese system was the right-wing wartime government. [23] Indeed, there remains a whiff of national chauvinism in the way that Japanese companies distinguish between employee sovereignty at home and relatively poor treatment of workers at overseas subsidiaries.

Leonard Schoppa argues that the key to Japan is the middle class. In the postwar years, the middle class resided in neighborhoods with mixed social strata, sent their children to public schools (supplemented by private cram schools), and accepted the narrow pay differentials found in Japanese companies. But in the last few years, says Schoppa, there has been a shift from solidaristic "voice" to individualistic "exit" as the middle class deserts the old neighborhoods, quits the public schools, and supports efforts to base pay more squarely on "performance." The argument sounds plausible and has facts to support it, especially when it comes to the life choices made by educated Japanese women. [24]

But keep in mind that Hirschman's exit/voice framework was formulated to explain how actors respond to decline in organizations and societies. While Japan was in decline until 2001, when Schoppa first formulated his ideas, recovery has been in full swing since then. Will there be a continuing rush for the exits? Also, Hirschman's framework includes a third factor, loyalty, which can counteract the tendency to exit. Social solidarity--loyalty--still exists among the middle class in Japan. But a collective action problem prevents people from

acting on their concerns. As in Lukas's account of middle-class citizens deserting Boston's schools, even true believers find it difficult to stick with public education when others head for the exits. [25] Only politics offers a way around the problem; here the loyal Japanese middle class may yet finds its voice.

Others have claimed that it is demography, not class, which holds the key to Japan's future. Japanese youth, it is said, are alienated and restless. Their elders grew up during the postwar decades of privation, when everyone felt that they were in the same boat. Now, however, young people are disinterested in the security offered by big Japanese companies (it requires too much conformity) or they are working as part-timers and temps ("freeters") and forced to live with their parents. It's risky to extrapolate cohort attitudes into the future, however. Over thirty years ago, Charles Reich, Kenneth Keniston, Daniel Moynihan and others predicted that major changes would occur in American society when the anti-establishment baby-boomers became the dominant group among adults. But two things happened to confound those predictions. First, the boomers grew more like their parents as they aged. Second, the cohort after the baby-boomers--who came to maturity during the Reagan years--turned out to be one of the most conservative generations of the century. So, while there is no doubt that values have changed in Japan, straight-line extrapolation is likely to distort predictions about the future.

III. Inequality

Over the past twenty-five years there has been a substantial rise in income inequality in the United States. The causal suspects include education and technology, weaker unions, declining minimum wages, and international trade. As I argue in the book, part of the increase also has to do with changes in corporate governance, which affects labor's share of income, the distribution of that share between executives and employees, and returns to shareholders via dividends and buybacks. With the exception of the late 1990s, when labor markets were tight, labor's share has steadily declined since 1979, which is also when income inequality started to rise. Meanwhile, executive compensation and payouts to shareholders have increased. Corporate restructuring, including

downsizing, has been driven by efforts to reslice the corporate pie, with efficiency often a secondary concern. That's one reason M&As have a mediocre long-term performance record. [26]

If Japan is moving to a U.S. model of capitalism, to what extent is this registering in income data? Since the late 1990s, Japan has seen an extraordinary outpouring of magazine articles and books on income inequality. Major newpapers run regular series on the issue, with titles such as "Divided Japan" and "Light and Darkness," which suggests that middle-class readers are both fascinated and troubled by inequality. [27]

That inequality has risen in Japan is clear. While the country lagged the OECD average in growth of income inequality as measured by the Gini coefficient from the mid-1980s to the mid-1990s, it led the OECD from the mid-1990s through 2000. Japan's overall Gini coefficient now is greater than the OECD average. Government transfers to reduce poverty play a less important role in Japan than many other OECD countries, so a change in labor-market conditions has a more direct effect on after-tax inequality. One source of labor-market inequality has been the slow growth of regular jobs and the rapid rise in temporary and other irregular forms of employment that offer neither benefits nor full-time earnings. For young male workers aged 20-34--the group most affected by rising inequality since the mid-1990s--the shift to irregular employment has been the major cause of rising within-group inequality.[28] Another source of labor-market inequality is, as Dore notes, the weakening of the shunto system. This, however, is not a recent change but one that started in the mid-1970s. It was then that enterprise unions first began to give more weight in pay setting to a firm's economic situation, diminishing the spillover from the annual pattern. One result has been widening pay discrepancies between large and small firms. Within firms, egalitarian pay norms, such as seniority have been partially displaced by performance-based pay systems and this, too, has contributed to inequality. [29]

Yet most inequality in Japan is not the result of changes in the labor market. An important determinant of Japan's Gini coefficient is the aging of its

population. Although inequality has risen for Japan's young adults, much higher levels of inequality exist among the elderly (those over 60). This means that inequality automatically increases as the population ages, and Japan has the fastest aging population in the world. The effect contributes far more to rising inequality than do changes in the labor market. When inequality is calculated for market income earned by the working-age population, Japan's Gini coefficient is less than the OECD average, even less than Sweden's. Of course, Sweden's government is more redistributive than Japan's. [30]

A crude way to gauge the effect of changes in corporate governance is to examine upper-tail income shares. Changes in corporate governance that affect the incomes of executives and shareholders will register in the upper tail, which is where those groups are situated. Upper-tail shares in Japan and the United States followed parallel paths for much of the twentieth century. The shares were large prior to the 1930s and 1940s, when both countries had low taxes and shareholder-oriented governance systems. In 1925, income shares for the top 1 percent in Japan and the U.S. were the same (around 18 percent). But by the early 1950s--as a result of tax and ownership changes, unionization, and other factors--the top share fell sharply in both countries. From 1951 through 2002, Japan's top 1 percent share remained virtually unchanged at around 7-8 percent. In the United States, too, the top 1 percent share was stable for much of the postwar period, at around 8 percent. However, between 1980 and 2004 it made a remarkable leap, doubling to 16-17 percent, which is about where it stood in 1925. The data are consistent with the observation that corporate governance has changed more modestly in Japan than the United States since 1980. [31]

Another way of assessing changes in corporate governance and bargaining power is to examine labor's share. In contrast to the United States (and Germany), labor's share of net value-added in Japan rose slightly during the 1990s, perhaps as a result of layoff avoidance and deflation. From 2000 to 2004, when real wage gains turned negative and profits rose, labor's share declined. [32]

It's likely, however, that cyclical factors will reduce inequality in Japan, just as they had the opposite effect in the 1990s. Full-time employment rose in 2005 as employers faced labor shortages; part-time employment is still rising but at a decreasing rate. With wages up in 2005 and 2006, it's possible that labor's share of income will increase in the future. These wage gains have caused more attention to be paid to shunto than in recent years, with automotive companies serving as the standard setters. Although pay levels in small and medium-sized enterprises continue to lag, relative pay rose in 2005 and 2006. Within roren (enterprise union networks), there is still coordination of bargaining across firms of different size. [33]

To sum up: inequality is rising in Japan but disparities are more muted than in the United States. Discussions of inequality must distinguish between institutional causes and those due to swings in the economy and in demography. The latter are responsible for a relatively large share of inequality's growth in Japan. Still, perceptions of inequality are as important as reality. What is striking about Japan is that a relatively modest change has generated a great deal of controversy. Part of this is due to weak social safety nets; part of it, I believe, reflects the continuing strength of egalitarian norms among the middle class. Linking Koizumi's structural reforms to rising inequality is proving to be a popular way of criticizing his administration. One of the prosecutors in the Horie case made a striking statement implicitly linking inequality, corporate governance, and Koizumi (Horie's former champion). He said, "We cannot let this become a society where people who sweat from their labour, or who want to work but can't because of restructuring, can be taken advantage of." [34] Perhaps I am seeing the situation through rose-color glasses, but I am cautiously optimistic that the recent past need not be prologue.

IV. Methodology

Professors Lane, Marsden, and Nitta discuss inferences that can or can not be drawn from case studies. I accept Lane's point that it is risky to generalize from case studies to population characteristics, as both Marsden and I do in our discussions of the Japanese and U.S. cases. Both of us wanted to make the

same point: that an ideal-typical “variety of capitalism” is difficult to perceive when one is peering up from the mass of conflicting details found at the corporate level. Case studies force us to pay attention to a population’s diversity, reminding us that ideal types highlight certain features and ignore others. Cases allow us to identify common cross-national dimensions such as industry, ownership, and size.

One dimension emphasized by Nitta is the structure of HR departments: the way in which they balance the interests of white- and blue-collar workers. In the United States, as discussed in chapter 4, the distinction is made between labor relations (union) and employee relations (nonunion or white-collar) departments; the former has declined or become absorbed into the latter, usually now called the human resources department. In Japan, the distinction is between romu-bu and jinji-bu; trends are similar to the United States. Historically the romu-bu were strongest in industrial sectors like manufacturing and were closely tied to unions and to welfare services such as housing. In part due to hollowing out, employment in these sectors is shrinking in Japan (although less rapidly than in the United States) and HR is coming to resemble the service sector, where the romu/jinji distinction was and is less salient.

The book analyzes four Japanese firms with large numbers of non-university employees. Of these, two (in the electrical manufacturing industries) have experienced so much hollowing out that a majority of their employees are now white-collar workers. Their romu-bu are shrinking and being absorbed by the jinji-bu. The other two firms (auto parts and package delivery) continue to have a majority of non-university employees. But they have long sought to “white collarize” HR policies for their blue-collar workers, including the possibility of promotion to management. In these companies, it is not uncommon for senior executives to previously have been active in the enterprise union. White-collarization has meant a blurring between romu and jinji and a more cooperative orientation of the enterprise union.

In addition to cases, the book relies on historical analysis and national surveys. The historical and survey data, which Marsden does not discuss, allow

us to speak more confidently about central tendencies. It is worth noting that almost all of the national differences in HR structure and policies are statistically significant. The survey data are mostly cross-sectional but also include some historical variables that indicate more sluggish change in Japan.

Taken as a whole, where does the study come down on the four hypotheses mentioned by Marsden? For those with a low tolerance for ambiguity, the news is not good: there is evidence consistent with all four hypotheses. First, Japan has moved towards the U.S. model (although in the book I am at pains to emphasize movement in the opposite direction, as with relational supplier contracting and employee involvement). Second, there is evidence of wider within-country dispersion, weaker national institutions, and cross-national convergence at the industry level, which support the converging divergences story. Third, Japan and the United States are moving in the same direction, although at different speeds. Hence the United States, a country that has changed considerably in recent years, displays weaker path dependence than Japan. Whether this means that Japan is experiencing institutional adaptation or nascent transformation is, as I said earlier, a difficult question to answer.

One might be inclined to junk hypotheses that seem incapable of falsification. Nevertheless, concepts like path dependence, convergence, and varieties of capitalism remain useful. They permit us to gain analytic purchase on the institutional systems associated with nation states. Those systems are ideal types grounded in history; appreciating their complexity is more realistic than ignoring it. But doing so requires that we give up some of the generality achieved through the other main comparative method: hypothesis testing of structures conceived as variables. [35]

We do not have to choose between methods, however. The study's strategy was to examine complexity through a small window: the headquarters HR departments of major companies. That made it feasible to pursue a synthetic approach combining comparative case studies, historical narrative, and variable analysis. [36] Survey variables permitted testing of hypotheses about cross-national patterns (e.g., the relationship between the status of the HR function and

organizational outcomes); case studies and historical analysis focused on complexity and diachronic causality. There is nothing here that is novel or that constitutes a methodological breakthrough. Rather, the hope is that others will study similarly mundane topics using multiple methods so that we develop a more precise yet synoptic approach to comparative political economy.

REFERENCES

[1] Geoffrey M. Hodgson, *How Economics Forgot History: The Problem of Historical Specificity in Social Science* (Routledge, 2001). Also see Sanford M. Jacoby, "The New Institutionalism: What Can It Learn from the Old?" *Industrial Relations,* vol. 29, no. 2 (1990), pp. 316-340.

[2] Allan G. Gruchy, *Comparative Economic Systems: Competing Ways to Stability and Growth* (Houghton Mifflin, 1966). Also see Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (Oxford University Press, 1965).

[3] Phillipe Schmitter and Gerhard Lehmbruch (eds.), *Trends Toward Corporatist Intermediation* (Beverly Hills, 1979); Robert Flanagan, David Soskice, and Lloyd Ulman, *Unionism, Economic Stabilization, and Incomes Policies: European Experience* (Brookings Institution, 1983).

[4] For example, see Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America* (Morrow, 1992).

[5] Peter A. Hall and David Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford University Press, 2001); Richard Whitley, *Divergent Capitalisms: The Social Structuring and Change of Business Systems* (Oxford University Press, 1999).

[6] Talcott Parsons, *The Structure of Social Action* (Free Press, 1949); Louis Althusser and Etienne Balibar, *Reading "Capital"* (NLB, 1970).

[7] Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Cornell University Press, 1985).

[8] Ronald Dore, "Goodwill and the Spirit of Market Capitalism," *British Journal of Sociology*, Vol. 34, No. 4 (1983), pp. 459-82; Kathleen Thelen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan* (Cambridge University Press, 2004).

[9] Philip Scranton, *Figured Tapestry: Production, Markets, and Power in Philadelphia Textiles, 1885-1941* (Cambridge University Press, 1989); Timothy Bresnahan and Alfonso Gambardella (eds.), *Building High-Tech Clusters: Silicon Valley and Beyond* (Cambridge University Press, 2004).

[10] Paul David, "Clio and the Economics of QWERTY," *American Economic Review,* vol. 75, no. 2 (1985), pp. 332-37; W. Brian Arthur, *Increasing Returns and Path Dependence in the Economy* (University of Michigan Press, 1994).

[11] Randall Collins, *Conflict Sociology: Toward An Explanatory Science* (Academic Press, 1975).

[12] Paul Pierson, *Politics in Time: History, Institutions, and Social Analysis* (Princeton University Press, 2004), p. 103.

[13] Mancur Olson, Jr., *The Logic of Collective Action: Public Goods and the Theory of Groups* (Harvard University Press, 1965).

[14] Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny, "Law and Finance," *Journal of Political Economy,* vol. 106, no. 6 (1998), pp. 1113-1155.

[15] Thelen, *How Institutions Evolve,* pp. 35-37.

[16] Cass R. Sunstein, "Social Norms and Social Roles," *Columbia Law Review,* vol. 96, no. 4 (1996), pp. 903-68.

[17] Lynne G. Zucker, "Institutional Theories of Organization," *Annual Review of Sociology*. vol. 13 (1987), pp. 443-64; Sushil Bikhchandani, David HIrshleifer, and Ivo Welch, "Learning from the

Behavior of Others: Conformity, Fads, and Informational Cascades," *Journal of Economic Perspectives,* vol. 12, no. 3 (1998), pp. 151-170.

[18] Ben Agger, *The Discourse of Domination: From the Frankfurt School to Postmodernism* (Northwestern University Press, 1992).

[19] Sanford M. Jacoby, "Are Career Jobs Headed for Extinction?" *California Management Review,* vol. 42, no. 1 (1999), pp. 123-145; John K. Galbraith, *American Capitalism: The Concept of Countervailing Power* (Houghton Mifflin, 1952).

[20] Patricia L. Maclachlan, "Storming the Castle: The Battle for Postal Reform in Japan," *Social Science Japan Journal,* vol. 9, no. 1 (2006), 1-18; Steven K. Vogel, *Japan Remodeled: How Government and Industry Are Reforming Japanese Capitalism* (Cornell University Press, 2006).

[21] Hideaki Miyajima, "The Performance Effects and Determinants of Corporate Governance Change in Japan" in Masahiko Aoki, Gregory Jackson, and Hideaki Miyajima (eds), *Corporate Governance in Japan* (Oxford University Press, forthcoming.)

[22] Sanford M. Jacoby, "Institutional Investors as Norm Entrepreneurs: The Case of CalPERS in Japan," working paper, UCLA, July 2006.

[23] Tetsuji Okazaki and Masahiro Okuno-Fujiwara (eds.), *The Japanese Economic System and Its Historical Origins* (Oxford University Press, 1999).

[24] Leonard J. Schoppa, *Race for the Exits: The Unraveling of Japan's System of Social Protection* (Cornell University Press, 2006).

[25] J. Anthony Lukas, *Common Ground: A Turbulent Decade in the Lives of Three American Families* (Knopf, 1985).

[26] Alan B. Krueger, "Measuring Labor's Share" *American Economic Review,* vol. 89, no.2 (1999), pp. 45-51; Harry DeAngelo, Linda DeAngelo, and Douglas J. Skinner, "Are Dividends Disappearing?" *Journal of Financial Economics*, vol. 72, no. 3 (2004), pp. 425-56.

[27] Norimitsu Ohnishi, "Revival in Japan Brings Widening of Economic Gap," *New York Times*, 16 April 2006, p. 1.

[28] Marco Forster and Marco Mira d'Ercole, "Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s," working paper, 10 March 2005, Paris: OECD; Kiyoshi Ota, "Rise in Earnings Inequality in Japan: A Sign of Bipolarization?" working paper, Tokyo: Japan Research Institute, September 2005.

[29] Tsuyoshi Tsuru, "Shunto: The Spillover Effect and the Wage Setting Institution in Japan," working paper, Geneva: International Institute for Labour Studies, 1993; Tsuyoshi Tsuru, Masuhiro Abe, and Katsuyuki Kubo, *Nihon Kigyo no Jinji Kaikaku: Jinji Deta niyoru Seikasyugi no Kensyho* [*Transforming Incentives: Evaluating Pay for Performance in the Japanese Firm*], (Toyo Keizai Shinposha, 2005).

[30] Fumio Ohtake, Nihon no Fubyodo: Kakusa Shakai no Genso to Mirai [Inequality in Japan: Illusion and Future of the 'Gap Society'], (Nihon Keizai Shimbun, 2005); Forster and d'Ercole, op. cit., p.26.

[31] Chiaki Moriguchi and Emmanuel Saez, "The Evolution of Income Concentration in Japan: 1885-2002: Evidence from Income Tax Statistics," working paper, Northwestern University, August 2005; Thomas Piketty and Emmanuel Saez, "The Evolution of Top Incomes: A Historical and International Perspective," *American Economic Review*, vol. 96, no. 2 (2006), pp. 200-205.

[32] Gregory Jackson, "Stakeholders Under Pressure: Corporate Governance and Labour Management in Germany and Japan," *Corporate Governance,* vol. 13, no. 3 (2005), pp. 419-228; Fumihide Takeuchi, "Causes of Decline in Labor's Share in Japan," report no. 43, Tokyo: Japan Center for Economic Research, 2005.

[33] Mari Sako, *Shifting Boundaries of the Firm: Japanese Company-Japanese Labour* (Oxford University Press, 2006).

[34] "The Rising Sun Leaves Some Japanese in the Shade," *The Economist,* 17 June 2006, p. 47.

[35] Charles C. Ragin, *The Comparative Method: Moving Beyond Qualitative and Quantitative Strategies* (University of California Press, 1987).

[36] Sanford M. Jacoby, Emily Nason, and Saguchi Kazuro, "Corporate Organization in Japan and the United States: Is There Evidence of Convergence?" *Social Science Japan Journal*, vol. 8, no. 1 (2005), pp. 43-67.