

Economic restructuring and state regulation: contradiction and coordination for partnership-entrepreneurial regulation in contemporary Japan*

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Abstract. *Regulatory methods of urban and regional economies have changed considerably in the context of changing economic circumstances in Japan in the past three decades. This paper examines the structures and main characteristics of regulation of the Japanese government, and assesses their possibilities and limitations in dealing with the economic restructuring processes. Mediated by accelerating globalization and accompanying administrative reforms, government regulation shifted from Keynesianism toward entrepreneurialism in the 1980s. While the notion of entrepreneurialism has yet been intensified in the 1990s, there is a backwash of Keynesianism in dealing with the financial and economic crises of that decade. What characterizes government regulation in contemporary Japan is entrepreneurialism cum welfarism, and the regulation could be called partnership-entrepreneurial regulation. It is argued that a contradiction and coordinated division between central and local governments exist in the partnership-entrepreneurial regulation, and the division is associated with divisions of production in both global and local contexts.*

Introduction

Economic restructuring and globalization which have proceeded the past three decades have brought about considerable effects on urban and regional economies of world capitalism. As world economic systems have accelerated, local/regional economies are more vulnerable than before to international trade, investment decisions of multinational corporations and swift movement of money capital across borders.¹ The accelerating globalization of production and finance has resulted in relocation of manufacturing bases from old industrial regions in core nations to abroad, bringing about regional problems in those nations. While regions of traditional industries are suffering a "hollowing out" of their economies, others are successful in creating new industrial areas. The development of information and telecommunication technologies has enabled a massive flow of information

and finances over the globe, creating world class cities of finance and service industries (Sassen, 1991). The rapid move of money capital and incapable financial systems brought about a financial crisis across the world in the 1990s in Latin America, Europe and Asia. Access to advanced technologies of telecommunication and information is also limited mainly to people in developed nations, and not available to most people in developing economies (Castells, 1993). New international divisions of labour and consumption have thus been created across nations and regions.

States have also acted in the processes of economic restructuring and globalization.² Governments of industrial nations have made an effort to coordinate international institutions to deal with financial and economic problems resulting from globalization, while they have also endeavored to promote freer movement of goods and services over the globe. Within each nation, both central and local governments have attempted to deal with regional economic problems resulting from restructuring and globalization processes. Conscious policies have been undertaken to transform industries from traditional ones that have failed to absorb working populations to new ones that may create jobs. In some ways, such a transformation is often attributed to a successful transformation from Fordist to post-Fordist regimes (Scott, 1988; Scott and Storper, 1989; Amin and Malmberg, 1994), or to a revival of flexible production systems (Sabel, 1982; 1994). In these cases, the government is often expected to play an important role in the regional economic processes.

It is, however, debatable to what extent successful transformations of regional economies can be attributable to the role of state intervention, in particular, the question about whether or not the state can manage economic processes is indeterminate (Kitajima, 1998b). Nonetheless, the state should not be dismissed if one attempts to fully understand regional economic processes. This is not only because methods of government regulations have changed in accordance with changes in economic circumstances, but also because political processes also consist of restructuring processes of regional and local economies.³ Namely, the restructuring processes of the world economy are the outcomes of countervailing forces operating on various scales (Thrift, 1989), and in this regard, it is important to understand the forces which operate on those scales. To examine what kind of governances are sought for at different regions and localities is a way to understand economic restructuring processes which are manifested differently throughout regions and localities over the world.

The purpose of this paper is to consider the role of state regulation in an economic restructuring process. The paper examines state regulation in Japan in the past three decades. By examining how state regulation has been changed in accordance with changes in economic circumstances, and accessing whether or not the regulation was successful in managing the restructuring process, it explores the possibilities and limitations of state

regulation in the restructuring processes. The regulation does not specifically refer to one of urban and regional economies, but as will be shown, it is inevitably related to spatial contexts.

The first part summarizes state regulations and restructuring processes in industrial nations in the past three decades. By doing so, it attempts to understand the general trend of the interrelation between state regulations and economic restructuring processes in advanced capitalist economies. It then examines the restructuring process of the Japanese economy and state regulation in the past three decades. The concluding part assesses the attributes of the regulation, and explores implications for the question about interrelationships between state regulation and restructuring processes.

Growth processes and state regulations in advanced industrial economies

Advanced industrial economies underwent one major turning point in their growth processes in the postwar period. During the 1950s and 1960s, they had enjoyed a relatively long-term economic boom, which was characterized by a production system based on the Taylorist labor process, whose main features are the tasks conducted on the assembly lines for standard commodities and the separation between conception and performance, and accompanying mass consumption based on wage increases for mainstream workers and government spending. This period, which some identify as the Fordist regime of accumulation (Aglietta, 1987; Lipietz, 1987), has been stabilized by a corresponding mode of social regulation, by which the norm of mass consumption, modes of behavior, and institutions have been adjusted at a national level. In particular, governments played an important role in absorbing the social cost of production by creating aggregate demands and providing welfare systems in accordance with productivity increases in factories and workers. In this regard, the regulation can also be identified as the Keynesian regulation of the state. By the end of the 1960s or the early 1970s, however, the Fordist growth regime was in crisis, as evidenced by high unemployment rates and costly welfare states. The Keynesian regulation appears to have reached its limitation, and a new way of state regulation has since been explored in advanced capitalist economies.

Although a stable, hegemonic post-Fordist regime has not been yet established, the attributes of post-Fordist regulation are observable in the form of state regulation and in state systems. As the growth processes of capitalist economies encountered limitations in the early 1970s, the governments explored a regulation aimed at promoting the innovation of production and strengthening national competitiveness. By undertaking neo-liberal

policy and privatization in the 1980s, austere measures were sought, allowing local governments to be more responsible for taking care of local social and economic issues. The Keynesian regulation was to be replaced by another kind, which was characterized by supply side innovation, the strengthening of national competitiveness, and social policy which reflects the needs of a flexible labor market.⁴

The changes in central governments' regulation have involved a transformation of state systems as well as changes in local government regulations. The "hollowing out" of the nation-state can be observed as central governments have retreated in some areas by shifting their role to a supra-state and local governments. Within the Fordist regime, each local government, by acting as an extension of the Keynesian welfare state of the central government, provided infrastructural supports for the Fordist mass production, collective consumption and welfare policies. However, in facing the problems of the Fordist growth regime, such as de-industrialization and high unemployment, local governments had to pursue more actively than before economic policies for survival of local/regional economies. To deal with the problems arising in the course of a crisis of Fordism, such as de-industrialization, unemployment and budget cuts, the local governments initiated economic revival policies designed to strengthen competitiveness of regional/local economies (Basset, 1990; Jessop, 1993; 1994; Mayer, 1994).

In this context, entrepreneurialism⁵ has become a dominant mode for the governments to deal with problems of the restructuring processes. As it was derived from the neo-liberalism in the 1980s, entrepreneurialism is a national and even international phenomenon. But in term of its implementation, it is targeted towards local/regional economies. By forming coalitions of local organizations, entrepreneurialism lets local governments become quasi-corporations in dealing with economies. In particular, public-private partnerships or quasi-states organizations are an important basis for the entrepreneurial mode of regulation. By forming alliances with the organizations of businesses, trade unions, and education, local governments initiate projects of regional investments, technology transfer, and workers' training and education. Central governments also undertake entrepreneurial-partnership projects in initiating science and technology policies and assisting international business alliances. Partnerships have thus become the primary machinery of the entrepreneurial regulation, which, according to Harvey (1989), can be seen as a new mode of regulation suited to a new path of capital accumulation. The government regulation of contemporary capitalist economies can be characterized as partnership-entrepreneurial regulation.

There is, however, a contradiction between partnerships and entrepreneurialism. Partnerships, by definition, should be characterized by involvement of all constituents of the state, including labour and civil organizations. However, the basic attribute of

entrepreneurialism is profit generation, not participation of all segments of state constituents nor distribution within welfare framework. But local entrepreneurialism must be based on local coalitions or partnerships. That the entrepreneurialism contains an internal contradiction reveals the difficulty of contemporary capitalist economies, and in this regard, it is important to analyze how each government would regulate the restructuring process of its economy.

Restructuring processes and government regulation in Japan

1. Growth processes of the post-war Japanese economy

The post-war Japanese economy underwent at least two major turning points. After the higher growth period in the 1960s and 1970s, the first turning point occurred in the early 1970s. Triggered by higher prices of primary products (energy), acute inflation occurred during the years 1973-75, with a sharp decrease in manufacturing and mining production. Although the real growth rate had remained at about 10% in most years until 1973 (though it was 4.7% in 1971), there was negative growth in 1974, and it was less than 5% during the years 1975-1977. While it slightly recovered (to a little more than 5%) during the years 1978-1979, it again fell to about 3% in the early 1980s (1980-82) (Somucho, 1998, 138-9). Real wages have been stagnated since the latter half of the 1970s, with a sharp decrease in consumption expenditures.⁶

In the 1980s (since 1983), the Japanese economy attained a certain recovery, thanks to the flexible management system of Japanese corporations and stagnation of real wages for most workers (Ito, 1992, 127). There was a surplus trade balance, large firms experienced financial improvements, and the unemployment rate became relatively low (mildly increasing to 3.0% by 1987). However, in part under international pressures to amend the trade surplus, the government initiated economic policy to stimulate domestic demands by adopting a hyper-low interest policy. For the most part, investments were directed toward land and stocks, which in turn created a "bubble economy" in the late 1980s.

This phenomenal recovery soon collapsed at the end of the 1980s, and the second turning point occurred in the early 1990s. While stocks had already been falling since 1989, land prices in both metropolitan and non-metropolitan areas also had fallen sharply since 1991 (Somucho, 1998, 75). The growth rate of (real) GDE (Gross Domestic expenditure) rapidly decreased; it became 1% in 1991, and less than 1% in 1993 and 1994 (Somucho, 1998, 139). While the growth rate somewhat recovered in 1995 and 1996 (1.5 % & 3.9%), the Japanese economy entered into a critical phase in the late 1990s without seeing any substantive recovery. In 1997, the growth rate of (real) GDP became minus (minus 0.7%), the second time following 1974 (minus 0.5%). The ratio of available jobs for

job seekers decreased from 1.4 in 1990 to 1.0 in 1992. It became 0.69 in 1997 (Keizai Kikaucho, 1998). The perfect unemployment rate also increased from 2.1% in 1990 to 3.5% in 1997 (Keizai Kikaucho, 1998, Shiryo-hen, 5). It became 4.1% in April 1998 (Somucho, 1998, 166), which was the worst since 1953 (the year when comparable data is available), and 4.9% in July 1999 (August 2, 1999, *Nihon Keizai Shinbun*). In particular, the number of employees in manufacturing decreased for five consecutive years from 1993 to 1997 because of the higher value of the yen (endaka) and competition from abroad (mainly Asia). Finally, triggered by the persisting recession, depreciation of land prices, and globalization of the financial industry, a financial crisis took place in 1997. As banks withdrew lending for firms, in particular for small and medium ones, firms restrained investments. Until recently, there is little convincing signs of economic recovery, although the latest data show some signals of economic recovery.

Alongside the cyclical move of the growth process, there was an industrial restructuring over the decades. Restructuring from a secondary to service economy is apparent in terms of the ratio to nominal GDP. From 1970 to 1996, the ratio of agriculture and fishing decreased even further, from 6.1% in 1970 to 1.9% in 1996. Manufacturing also decreased from 36% to 24.3% during the same period. On the other hand, real estate increased from 8.0% in 1970 to 13.2%, and service from 9.6% to 17.5% during the same period.⁷ In the middle of the 1990s, industries that enjoyed a higher ratio of value added also included services such as real estate, telecommunication and broadcasting, and banking and security (Somucho, 1998, 152).

The restructuring toward a service economy is also apparent in terms of the number of employees. Due to the strong yen and competition from abroad, the number of employees in manufacturing decreased for five consecutive years from 1993 to 1997.⁸ A rapid decrease in textile and electronics industries has occurred since 1993, while the number of employees in service industries has increased by 2.4% on average. In 1994 the number of employees in service (15.4 million) exceeded that of manufacturing (14.96 million) (Somucho, 1998, 168). The white collarization of the labour force has thus been promoted in the 1990s.

But the white collarization of the labour force is not the same as what was also seen in the early growth period. The form of employment in (new) service industries differs from that of regular workers in manufacturing factories and office work. The increase in the number of service employees meant an increase in the flexible labour force. As a result of the advance of factory automation and office automation, a surplus of skilled, regular workers has occurred, and these workers have been replaced by irregular, part-time workers who are mostly women.⁹ Since 1994, the number of regular workers has declined, while that of part-time and temporary workers has increased. The rate of organization of

trade unions had also decreased toward the end of the 1980s (from 33.1% in 1973 to 25.9% in 1989) (Somucho, 1998, 128).

2. Shift in regulation: From Keynesianism to entrepreneurialism

To deal with the crises of the growth process, the government adjusted its mode of governance. Despite some differences between Japan and other industrial nations, the growth period during the 1950s and 1960s had basically been accompanied by a sort of Keynesian mode of governance, which provided basic welfare measures for the nation's population in accordance with productivity increases of industries and workers (Kitajima, 1998a). However, as in other nations, the Keynesian model faced a limitation in managing economies, as shown by the country's inability to recover the economy in a timely fashion and by an increase in government debts.¹⁰ Limitations of existing ways of state intervention were advocated, and as other developed industrial nations, Japan also turned to neo-liberalism in the 1980s. To trim government engagement in economic activities and stimulate the private sector economy, privatization policies and administrative reforms were undertaken. Public corporations such as national railways were privatized, with some marginal lines being transferred to quasi-government organizations. Financial supports for health services and various subsidized programs were also shrunken. While the model of the central government regulation was not formed firmly in this decade, emerging entrepreneurialism can be identified as shown by their the government's eagerness to call on the private sector's involvement via partnerships.

But privatization does not mean one-dimensional retreat of the state from the private sphere. The retreat of the state has taken place in complicated and controversial manners. Although the formal retreat of the state has taken place, the state still holds powers in such critical areas as international relations and finance. More importantly, the state maintains control, or is required to participate in even the areas from which the state has retreated. The creation of quasi-state institutions to deal with the problems of privatization of national railways designates the still important role of the state in the new mode of regulation. As will be discussed later, the increase in public-private partnerships testifies to this controversial role of the state in the economy (Kitajima, 1998 a, b).

3. Local entrepreneurialism

Administrative reforms involved changes in local governments' regulation as well. Due to decreases in budget allocation from the central government and shrinkage of local tax bases, local governments were under budget constraints. Indeed, the financial conditions of local governments were no better than those of the central government's. By following

central government policy to prioritize economic recovery, local governments had over-issued municipal bonds, which amplified the debts of local governments.¹¹ Due to over investment during the bubble economy, local government debts grew to 176,000 billion yen, the highest since WWII (24 November 1998, *Nihon Keizai Shinbun*). At the same time, it was necessary for local governments to be more responsible than before for social and economic issues of localities, in particular, as the central government shifted part of its prior work to local governments via administrative reforms.¹² Thus, local governments were now under siege between financial constraints and increasing burden for local social and economic issues.

Under these circumstances, local governments must manage local economies in a different style from those of the 1960s and 1970s. Under the necessity to secure budgets, and also motivated by incentives (both regulatory and financial) by the central government, local governments have begun to look for money in the private sector and to cooperate with private industries. In this context, public-private partnerships became a prevalent means of local governance in the 1980s. By investing in (quasi) corporations aimed at generating profits, local governments (theoretically) are supposed to act in a business way. Thus, also in Japan, entrepreneurialism has become a main characteristic of government regulation. As partnerships are the basis for entrepreneurialism, the regulation could be called partnership-entrepreneurial regulation.

There are three interrelated reasons for local governments' orientation toward entrepreneurialism. First, due to the decrease of the central government's financial supports for local governments, they have had to revitalize local economies by themselves. Utilizing private funds appears to be a substitute for the decrease in funding supports from the central government. Secondly, the accelerated international spatial division of production and labour have led local states to orient themselves toward the global economy (globalization of local states). Each locality has had to compete aggressively for its position in the global economy, and the philosophy of entrepreneurialism has fit the circumstance of local competition toward the global economy. Most important, thirdly, various incentives have been offered by the central governments. As will be discussed later, this is crucial for partnership-entrepreneurial regulation to be prevalent in contemporary Japan.

What does local entrepreneurialism try to do? In past regional development planning, local governments attempted to develop regional economies via manufacturing locations, mainly of heavy-chemical industries. They provided infrastructures (mainly physical) for industries and lobbied the central government to designate their regions or localities as industrial cores. Now, partnership-entrepreneurial regulation is oriented toward service industries, which include not only traditional types such as retail, commerce and tourism,

but also new types of knowledge industries such as information, science and technology, and culture. Physical infrastructural provisions, such as providing information fiber networks, is still an important measure to support service industries. But primarily due to the amount of necessary capital, this should be done by the central state. Thus, via entrepreneurialism, local governments attempt to revitalize local economies mainly by "soft" supports for industries rather than providing a manufacturing basis for firms. Creating institutions to support (technically and financially) local firms, including supports for initiating venture businesses and technological innovation of local firms, are the primary means of this.

4. Contradiction of partnership-entrepreneurial regulation

Partnership-entrepreneurial regulation raises two important questions. The first one is about its ability to manage the current economic crisis and the restructuring processes. As indicated by research on quasi-states, this kind of regulation intervenes into such areas as urban services provisions, science and technology, education, and culture. It appears that these quasi-states would be a mechanism to transfer industries from obsolete types to new ones. It should also be noted that in the accelerating globalization of contemporary capitalist economies, local entrepreneurialism aims to make local/regional economies competitive by incorporating them in global economies. Whether or not entrepreneurial-partnership regulation can manage the restructuring process is yet to be seen.

The second question centers around its class character. In most cases, these quasi-state interventions were called for "locally from below," as shown by the call for non-profit organizations not from local dominant strata but also from ordinary civil organizations. That is, local entrepreneurialism appears to be formed by "collations of all classes." Certainly, there is a functional requirement in the emergence of the quasi-states. Nonetheless, the question of class initiatives in the quasi-state mechanism is controversial.¹³

As far as seeing partnership-entrepreneurial projects exercised in a Japanese context, they appear not to have a promising role in the current economic crisis and the restructuring. In the first place, partnership projects exercised in urban and regional contexts have failed, mainly because of internal contradiction of organizational character of partnerships (Kitajima, 1998a, b). As partnerships are the prior model of entrepreneurialism (in utilizing private sector's involvement), and still are the basis for entrepreneurialism, the ability of entrepreneurialism in managing the restructuring processes may also be questionable. Regarding the second question, entrepreneurialism, as in the case of partnerships, may not be a locally from below model, initiated by local ordinary people and participated in by all classes. As demonstrated by partnership projects undertaken in the

1980s, coalitions for partnerships were created selectively (Kitajima, 1998b). The same can also be said for the partnership entrepreneurial regulation by the local governments (Kitajima, 1999).

These attributes of partnership-entrepreneurial regulation can be drawn from its structural position. Despite its ideology of market economy primacy, entrepreneurialism depends on the state. In the first place, the central government took initiatives in triggering entrepreneurialism by offering regulatory and financial measures (in particular for creating partnerships), and it continues to do so (Kitajima, 1998a). Given the initiatives taken by the central government, local governments actually promote the entrepreneurialism by creating partnerships with local industries. Thus a coordinated division is undertaken in mobilizing partnership-entrepreneurial regulation across the country.

Indeed, neo-liberalism did not simply mean a withdrawal of the state from the economy. While the government retreated from direct intervention in welfare areas by encouraging self-help of citizens and investments by the private sector, it still kept or even intensified intervention in key critical areas, such as science and technology policies, education, and international affairs (Kitajima, 1998a). In addition, under the recession since the early 1990s, the central government again initiated various welfare programs, as shown by the unemployment allowance and job creation programs to deal with the unemployment issues (Kitajima, 1999), and nursing insurance systems to deal with the aging population.

What is important is that the coordinated division between the central and local governments is necessary for entrepreneurial-partnership regulations to be achieved. As shown by the regulatory and financial incentives for partnerships, the central government has had initiatives in devising the regulation (Kitajima, 1998a). But in terms of their implementations, most partnership programs are charged with the local governments, which can mobilize partnerships of local organizations. However, those local coalitions are often based upon *corporatist integration of mainstream organizations and selective choice of mass demands at the expense of marginal groups* (Hirsch, 1978; Kitajima, 1993; 1998 b). Furthermore, somewhat strategic kinds of partnerships, in such fields as science and technological innovations, are undertaken by the central government often via international coalitions. In this regard, the coordinated division for partnership-entrepreneurial regulations would be associated with a division of production and labour in both local and global contexts.

Concluding Remarks

Entrepreneurial-partnership regulation is based upon an articulation of the Keynesian welfare regulation. This articulation is enabled by a coordinate division between central and local governments, a division which is ultimately related to the division of production in both global and local contexts. Whether or not the regulation would be successful in economic restructuring is yet to be examined. But given the fact that most partnership projects have been unsuccessful, and the continuing financial difficulties for central and local governments, the success of the entrepreneurial-partnership regulation appears to be slight. If it would not be catastrophic, it will be based on corporate integration of mainstream organizations and selective choice of mass demands at the expense of marginal groups. If an alternative regulation is to be devised, it should be based upon a recognition of such a selective mechanism behind this seemingly integrative apparatus.

Notes

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¹ Here globalization is not assumed as a universal, unanimous process. See Goldon (1988) and Hirst and Thompson (1996) about critique of such a view.

² Here, the word state means a set of institutions that executes not only legal and jurisdictional power, but also informal roles and hegemony (Caporaso and Levine 1992: 10). Thus, although the core institutions of the state consist of central and local governments, the judiciary, police and armed services (Pickvance 1981: 231), the state can also include cultural and academic institutions.

³ This argument should be associated with that of the regulation approach. This approach explains the development process of a capitalist economy as a structural coupling between the regime of accumulation, which is defined as a conjunction of production and consumption (RA), and a corresponding institutional structure called mode of social regulation (MSR), which consists of basic social relations such as money form, labor relations, and state forms (Lipietz, 1987; Boyer, 1990; Jessop, 1991). See also assertion of Peck and Tickell (1994, 280) that "the feverish search for local solutions is a symptom of a crisis itself."

⁴ Jessop (1993; 1994) identifies these changes as a shift from the Keynesian Welfare State (KWS) to a Schumpeterian Workfare State (SWS). In addition, see Esser and Hirsch (1994) and Mayer (1994) concerning similar attributes of changes in the form of state intervention.

⁵ Entrepreneurialism is often used in an urban context. It is characterized by pro-growth local economic development, and by an organizational and institutional shift from urban government toward urban governance (Hall and Hubbard, 1998). In this paper, entrepreneurialism is defined by profit-

orientation and innovational attitudes in conducting projects/investment.

⁶ Real increase rates in consumption expenditure were 4.7% in 1965-70, 2.9% in 1970-75, 1.2% in 1975-80, and 0.7% in 1980-85 (Somucho, 1998, 53).

⁷ But in terms of the ratio to real GDP, service was not promoted as in the case of nominal GDP. The ratio of manufacturing has increased from 25.9% in 1970 to 27.0% in 1996, and that of service slightly increased from 14.5% in 1970 to 16.8% in 1996. This reflects the differences in relative prices (e.g. manufacturing reflects relatively cheap import prices). The service industry rather reflects an increase in service prices (Somucho, 1998, 142).

⁸ A decrease in manufacturing employees also took place during the first oil crisis. But the loss in steel and textile industries was made up for by an increase in electronics and automobile industries at that time (Somucho, 1998)

⁹ 95% of part-time workers were women in 1998 (Somucho, 1998, 168).

¹⁰ The issuance of government bonds rapidly increased since 1973 as a result of social security reforms and the oil crisis. Since 1975, a deficit covering the bonds began to be issued.

¹¹ In 1998, special tax money allocated to local governments increased to 30,000 billion yen (19 April, 1999, *Nihon Keizai Shinbun*).

¹² For instance, local governments began to take care of marginal rail lines by investing in public-private corporations. These lines were not sold to the JR corporations which were created to manage privatized national railways.

¹³ As shown later, this question is interrelated to the role and nature of the state.

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