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Trouble in Paradise: Institutions in the Japanese Economy and the Youth Labor Market

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THE ECONOMIC AND SOCIAL organization of capitalist societies is one of the most classical of sociological subjects, as the editors of this volume point out. Pioneers of economic sociology such as Weber were fundamentally comparative, but the comparative analysis of the institutions governing capitalism in different cultural contexts has unfortunately received relatively short shrift within the new economic sociology of the late twentieth and early twenty-first century (Swedberg, this volume). Instead, much of this terrain has been implicitly ceded to political economists working in the newly-developed "varieties of capitalism" framework (see discussions in Brinton 2005, and Swedberg this volume). The geographical center of attention in this line of analysis has been Europe and the principal analytical focus has been the complementarity between a country's "production regime" and the system of social protection (e.g., employment, unemployment, and wage protection) offered by employers and the state (Hall and Soskice 2001; Hollingsworth and Boyer 1997).

The varieties of capitalism agenda is ambitious. But it leaves many areas of interest to economic sociologists wide open. As Swedberg's chapter notes, the way labor is organized in capitalist societies and the implications for social stratification patterns is a field to which economic sociologists should be able to make major contributions through their expertise in social network and institutional analysis. Likewise, Fligstein (2001) cites the comparative study of countries' "systems of employment relations"—labor market rules and practices and the educational institutions that feed into them—as central to economic sociology but as a relatively untouched field. As he notes, employment relations have a logic derived from the configuration of state, employer, and worker interests at the time of industrialization, a logic that is not set in stone but that nevertheless sets the

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parameters for future change in labor market practices. The importance of such path dependence for institutional change is consistent with other work in the new institutional economic sociology (Nee 2003).

The present chapter takes as its point of departure the recognition that employment systems are embedded within the context of particular capitalist societies and, by the same token, that changes in these circumstances create pressures for institutional change. In keeping with this volume's emphasis on the impact of globalization on the institutions of capitalism, I ask how employment institutions are being affected in an economy that was one of the most productive and vibrant of the late twentieth century: Japan. The employment institutions I consider are among the most resilient and purportedly effective ones in the Japanese labor market, dealing with the recruitment and allocation of new graduates into the economy. The system of school-firm relations that orchestrates the training and recruitment of labor in Japan has been regarded as a hallmark of effective labor market policy by a number of Japanese as well as Western scholars in economics and sociology (Freeman and Katz 1994; Kariya 1998; Rosenbaum and Kariya 1989; Ryan 2001). In this chapter I focus less on the origins of the particular institutions governing school to work and more on the way these institutions operate and the pressures they currently experience in the wake of global pressures for Japanese industry to restructure and for Japanese firms to downsize.

The first section of this chapter puts the study of Japanese labor market institutions in the context of Japanese economic institutions writ large, suggesting that prior analyses have generally assumed a correlation between the particularities of these institutions and Japan's phenomenal economic growth throughout most of the post-World War II era. In the rest of the chapter I evaluate the performance of school-work institutions across changed economic circumstances.

INSTITUTIONS AND MARKETS IN JAPAN

The institutions governing economic transactions in Japanese society have been of special interest to many sociologists, with the general perception being that they are quite different (perhaps qualitatively so) from those in other capitalist economies. Scholars both Japanese and foreign have frequently pointed out that economic life in Japan seems unusually governed by social relations and long-term implicit contracts.¹ The literatures on *keiretsu* (intercorporate groups), *shitauke* (subcontracting relationships between manufacturers and suppliers), and *shūshin koyō seido* (the so-called "permanent employment system") are cases in point (Cole 1979; Dore 1983, 1987; Fruin 1998; Gerlach 1992; Gerlach and Lincoln 1998; Lincoln 1990; Lincoln et al. 1996; Murakami and Rohlen 1992; Sako 1991, 1992).

Research on the social embeddedness of market exchange in Japan has generally focused on one of two theoretical questions: (1) the *historical origins* of the institutions that seem particularly distinctive in the Japanese economy, and (2) the *effect* of these institutions, especially their supposed contributions to economic efficiency, growth, and productivity, as well as to a relatively high level of economic equality among social groups.²

The literature on the first question—institutional origins—is very extensive, and includes comparative institutional analysis within East Asia and vis-à-vis Western capitalist economies (Fruin 1998b; Gerlach and Lincoln 1998; Hamilton 1998; Hamilton and Biggart 1988; Murakami and Rohlen 1992; Schwartz 1992). Meanwhile, decades of strong economic growth and relative income equality coupled with seemingly stable institutional arrangements in Japan have often seemed to make the answer to the second question—on institutional effects—self-evident.³ For example, a scholar of subcontracting relationships in Japanese manufacturing wrote in the early 1990s, "It has become an accepted view that long-term continuous transactions which characterize such buyer-supplier relationships account for the international competitiveness of manufactured goods in Japan" (Sako 1991: 449). Similarly, a recent book on network organization in East Asia opened with the strong assertion, "Indeed, network forms of organization are part of the reason why Japan, South Korea, Taiwan, and other high-performing Asian economies have done so well in the past" (Fruin 1998a: v).

But times have changed. Japan scholars as well as those who track the global economy know the situation of Japan's economy well by now. Between 1955 and 1992, the Japanese economy and real GDP grew at a robust and consistent rate; the average growth rate from 1955 to the early 1970s was 10 percent per annum. The labor force also expanded at a relatively stable rate of 1 percent per year until 1992. But when the "bubble economy" of the late 1980s–early 1990s burst, the economy entered a period of crisis from which it has yet to emerge. In 1998 the Japanese economy recorded *negative* growth; the growth rate recovered only slightly in 1999, to ½ of one percent. The record has improved little since the beginning of the present century.

The advent of the deepest economic recession in Japan since World War II during the past decade is now forcing academics, social pundits, and policymakers to take a new look at the oft-assumed stability of Japanese institutions as well as the assumed correlation between those institutions and economic growth, efficiency, and equity. Granted, there have always been some naysayers, and there has often been considerable muddiness in the level of analysis at which analysts are dealing. If Japanese *keiretsu* are an efficient form of organization, are they efficient for individual member companies, for the *keiretsu* as a group, or for the economy as a whole? If, as one prominent Japanese economist (Aoki 2001) has claimed, there is an isomorphism between financial markets and labor markets, has Japan's

supposedly distinctive main-bank financing system resulted in the most efficient management of human resources in the labor market and in firms, or instead, one that is inefficient (leading to lower productivity)? More baldly stated, is there *any* causal relationship between Japanese-style corporate governance—purportedly involving implicit long-term contracts among firms, between firms and their “main bank,” and between employers and workers—and the positive economic outcomes of Japan in the three decades preceding the recession of the 1990s?⁴

In this chapter I join a growing number of Japanese and foreign scholars who argue that it is time we abandon the presumed ironclad causal relationship between Japanese institutional arrangements in the economy on the one hand and positive economic consequences on the other hand. Rather than asking, and indeed often *assuming*, how particular Japanese institutional arrangements have contributed to economic efficiency, growth, and equality, I propose instead that we use the natural experiment produced by the recent economic recession in order to evaluate institutional performance under radically changed conditions. In the process, I consider the social and economic pressures for institutional change that have accompanied the slowdown and reversal of Japanese economic growth over the past decade.

INSTITUTIONS IN THE JAPANESE LABOR MARKET

My analysis centers on a set of Japanese labor market institutions that reflect an unusual degree of government regulation and encouragement of implicit contracting. The institutions governing the youth labor market, especially the transition of high school graduates into work, have been especially strong, especially “unique” compared to other capitalist industrial societies, and, many have argued, especially effective (Kariya 1998; Lynch 1994; National Research Council 1994; Okano 1993; Rosenbaum and Kariya 1989; Rosenbaum et al. 1990; Ryan 2001).

I begin by outlining the nature of the institutional arrangements governing the transition from school to work for Japan’s youth, and discuss claims made in the late 1980s and 1990s for the efficiency and fairness of school-employer networks in allocating jobs to new high school graduates in the second half of the twentieth century. I then turn to the aggregate economic outcomes—the levels of youth unemployment and job turnover—that have been used as evidence that the system works well. I argue that Japan does not look nearly as good on these indicators in a comparative context as many have assumed. More importantly, I suggest that only one of these two measures—turnover rates—is substantively related to the job-matching mechanisms inherent in Japan’s school-work system. A third measure—the rate of youth idleness (defined as the proportion of young

people who are neither employed nor enrolled in school) captures the inability of either schools or the labor market to engage youth. I demonstrate that not only has this measure been ignored by foreign admirers of the Japanese high school-work system, but it has been underestimated by the Japanese government.

I look more closely at the issue of idleness by drawing on data from my current empirical research on urban Japanese labor markets. Calculations from school-level data produce high rates of idleness for youth currently graduating from public high schools, particularly those in the lower tier of the highly delineated school hierarchy. I suggest that high idleness rates were not evident during Japan’s high-growth period of the 1970s and 1980s, *not necessarily because of Japanese institutional arrangements but because economic growth and labor demand were so high*. The concurrence of these two phenomena in the earlier period—persistently high labor demand for high school graduates, and a set of institutional arrangements that match youth to jobs—perhaps made it natural for observers to claim a major role for Japanese labor market institutions and to downplay the role of the economy in facilitating a smoothly functioning youth labor market. But Japan’s recent economic woes make it possible to see how its labor market institutions fare under radically altered circumstances. These include economic circumstances that more closely resemble those endured by other OECD countries one decade earlier as well as cultural changes that reflect the increasing absorption of global youth lifestyle ideals into Japanese society.⁵

THE YOUTH LABOR MARKET IN COMPARATIVE PERSPECTIVE

The youth labor market is a particularly appropriate site for the study of how labor market institutions differ across capitalist economies. The transition from school to work is an area of great concern for labor economists and sociologists interested in the large wage gap between high school and college graduates and the high rates of unemployment and idleness among less-educated youth; both are problems that have increasingly afflicted postindustrial economies (Neumark 1998; Ryan 2001). Youth labor markets in industrial and postindustrial societies were arguably in disarray at the start of the twenty-first century. In most member countries of the OECD (Organization for Economic Cooperation and Development), the employment and earnings prospects for young workers were considerably worse than they had been two decades earlier. For example, the average unemployment rate for the male population aged fifteen to nineteen in OECD countries rose from just under 14 percent in 1979 to nearly 19 percent in 1997, and was over 30 percent in a number of countries.

Some commentators, and reports by the OECD as well, have consistently suggested that social institutions can play a significant role in dampening youth unemployment. Notably, countries with institutionalized school-work programs had some of the lowest unemployment rates for new school-leavers in the late 1990s (OECD 1998; Ryan 2001). These included countries with apprenticeship or "modified apprenticeship" systems (identified by the OECD as Austria, Denmark, Germany, Luxembourg, and Switzerland) and one country with a strikingly different school-work system, Japan.

School-Work in Japan: Comparisons with Other Systems. The high school-work transition system in Japan is one of the most coordinated and highly structured set of labor market institutions in any highly industrialized country. While scholars of Japan have often labeled as "unique" various institutional arrangements that comparativists find ready analogies to in other countries, this is not the case for the high school-work system in Japan; it is indeed unusual in comparative perspective. Its principal uniqueness stems from the fact that it does not encompass a vocational training component but rather, it is at root a system of screening and matching prospective graduates to firms seeking young, full-time workers. Apprenticeship systems such as the German one prepare students for particular occupations (Kerckhoff 2000; Mortimer and Krüger 2000). In Germany, Austria, and Switzerland, training is jointly organized by schools, firms, and employer organizations, and is clearly geared toward the provision of occupationally oriented skills (Allmendinger 1989; Maurice et al. 1986; Shavit and Müller 2000). The Japanese system has no apprenticeships, and a large proportion of high school graduates who enter the labor market do so from general academic high schools rather than vocational ones (typically industrial or commercial). Currently, just under 20 percent of all high school students intend in their senior year of schooling to enter the labor market in a full-time capacity when they graduate. Secondary schooling is principally geared toward the acquisition of general human capital rather than human capital geared to a particular occupation, although vocational high schools do impart skills that equip graduates to work in particular industries.

If Japanese high schools are not connected to employers through the conceptual link of the occupation, then what is the content of their connection? The recruitment linkages between Japanese schools and firms purportedly are an example of the "relational contracting" typical in Japanese businesses, where partners engage in repeated exchanges over an extended period of time. As outlined above, throughout the extended period of high economic growth in Japan, such relational contracting was heralded as contributing to the smooth functioning of the economy (Dore

1987). In a similar vein, the high level of involvement by Japanese high schools in the labor market placement of their graduates has been cited as a highly effective way to organize the youth labor market (Rosenbaum and Kariya 1989; Rosenbaum et al. 1990; Hansen 1994; Lynch 1994).

To recruit new high school graduates, Japanese employers are legally required to provide a detailed description of their job openings (*kyujinhyō*) to the local public employment security office.⁶ The average jurisdiction of such offices is about 800 square kilometers; Japan has a total of 480 such local offices spread throughout the country (OECD 1996).⁷ Job listing forms are standardized nationally and can be submitted by employers any time after June 20 each year for openings available to students graduating and entering the labor market the following spring. The Japanese school year typically ends in early February, and new graduates begin employment in April.

The local public employment security office must approve the job description and working conditions listed on each employment form. Employers are then permitted from early in the school year to personally deliver or send the notices of job openings to high schools from which they are interested in recruiting graduating seniors. Teachers in the career guidance section of each school counsel workbound students as to the appropriateness of the specific companies and the jobs they are offering to potential applicants from the school. Students are not permitted to contact employers or apply directly for jobs; rather, they must receive their school's recommendation before being invited for an interview by the employer (Okano 1993; U.S. Department of Education 1996). The selection of students for jobs is based on the student's own preference, parents' preferences, and the homeroom teacher's and guidance section's knowledge and opinion of the student. Most schools traditionally have selected only one student to recommend for a given job in order to forestall direct competition between multiple students for the most desirable jobs. Competition occurs between students from different schools only if the employer has submitted copies of the job opening notice to multiple schools. The school recommendations are forwarded to firms beginning in early September, at which point the interviewing and selection process begins. Informal employment commitments (*naittei*) can legally be announced only after October 1; they more or less guarantee employment as of the following April, the traditional starting date for new employees in Japanese companies.⁸

To an outside observer it may seem puzzling how employers select schools from which to attempt labor recruitment. But unlike students in American public schools, students in Japan are extensively sorted through ability-testing at the point of high school entrance (LeTendre 1996; Rohlen 1983). In this sense the Japanese educational system bears more

similarity to the systems in a number of European countries than to the U.S. system. Student ability at individual high schools is considerably more homogeneous than is the case in the United States. Compulsory education in Japan ends with junior high school, and admission to public high school is governed largely by one's score on the prefectural standardized entrance examination and, to a lesser extent, by junior high school grades. As I will show shortly, within each school district there is a finely graded hierarchy of public, general academic high schools and vocational high schools.⁹

Assessments of the Japanese school-work system in the English-language literature in the social sciences are almost uniformly positive, stressing the effectiveness of long-term implicit recruitment contracts (*jisseki kankei*) between high schools and employers. Rosenbaum and Kariya, the most widely cited and positive of the advocates, claim that the reliance of employers on particular schools continues unabated through economic downturns because firms prefer stable and reliable sources of labor rather than shopping around for workers. Rosenbaum and Kariya suggest that employers' attempts to minimize transaction costs lead them to "try to maintain their hiring relationships with contract schools [schools with whom they have implicit contracts] *even if they do not need new workers*. Although they may try to reduce the numbers they recruit from contract schools, they try to maintain their contracts by hiring some graduates from these schools" (1989: 1346; italics mine). Further, Rosenbaum and Kariya laud the meritocratic nature of the system, arguing that teachers allocate the most high-performing students into the most desirable jobs. I consider the structure of competition and the degree of meritocracy more closely elsewhere (Brinton and Tang 2005). In the following, I examine the performance of the system based on the aggregate economic indicators Rosenbaum and Kariya and other observers have used.

THE HIGH SCHOOL-WORK SYSTEM IN JAPAN: INDICATORS OF PERFORMANCE

Discussions of school-work systems in the social science literature often are placed in the context of two aggregate economic outcomes: youth unemployment rates and turnover rates. For better or worse, research referring to the Japanese system is quite consistent with this emphasis; Rosenbaum and Kariya (1989) point to Japan's good showing on both of these measures relative to the United States. They cite statistics demonstrating that Japan had a lower youth unemployment rate relative to adult unemployment than the U.S. in the 1980s, and the same for youth turnover rates in the 1960s. While they comment on the difficulties of

controlling for differences in the economic environments of the two countries during these periods, they nevertheless come out strongly supporting Japan's institutional mechanisms vs. the more open, spot-market situation faced by young workers in the United States. Yet leaving the macroeconomic context out of the discussion of comparative youth unemployment rates is clearly problematic, as I detail below.

Youth Unemployment. Employment growth in Japan in the 1960s, 1970s, and 1980s lay between the very strong growth in North America and the weaker growth in the nations of the European community. But job growth in Japan during those three decades was in sectors that traditionally have welcomed high school graduates, whereas this was not true in the U.S. Japan was one of only two OECD countries (the other being Greece) that experienced growth in manufacturing jobs in the 1980s. As is well known, the U.S. experienced a large loss in this sector. Japan also experienced greater growth than the U.S. in those parts of the service sector for which a high school education was sufficient, whereas service sector growth in the U.S. was much stronger in the areas of finance, insurance, real estate, and business services, where a university credential is typically required (OECD 1994).

Given such an economic context, if one wished to use the youth unemployment rate as a rough indicator of the performance of a school-work system, Japan had every reason to look good relative to the U.S. and most other industrial economies in the late 1980s to the mid-1990s *with or without a system of institutionalized job matching*. Was this borne out?

Figure 1 shows the youth unemployment rate in Japan in 1990 compared to that in other industrialized countries. This figure shows the unemployment rate for males age fifteen through nineteen in 29 OECD countries, with countries coded "1" if they have an institutionalized school-work system and "0" otherwise.¹⁰ As indicated, Japan had a low male youth unemployment rate relative to countries without an institutionalized school-work system. But it did not have the lowest rate, even during the "bubble economy" and the high labor demand conditions of the late 1980s to early 1990s. Figure 2 shows the ratio of youth unemployment to adult unemployment in 1990; notably, Japan had the *highest* figure among the group of countries with institutionalized school-work systems, and one of the highest figures among all industrialized nations.

Given that Japan's school-work system does not involve job creation, I would argue that the level of youth unemployment (either absolute or relative to adult unemployment) is not a very appropriate indicator of the system's effectiveness in any case. The prevalence of internal labor markets in large Japanese firms and the emphasis on external hiring at the entry level mean that young people are disproportionately affected by economic

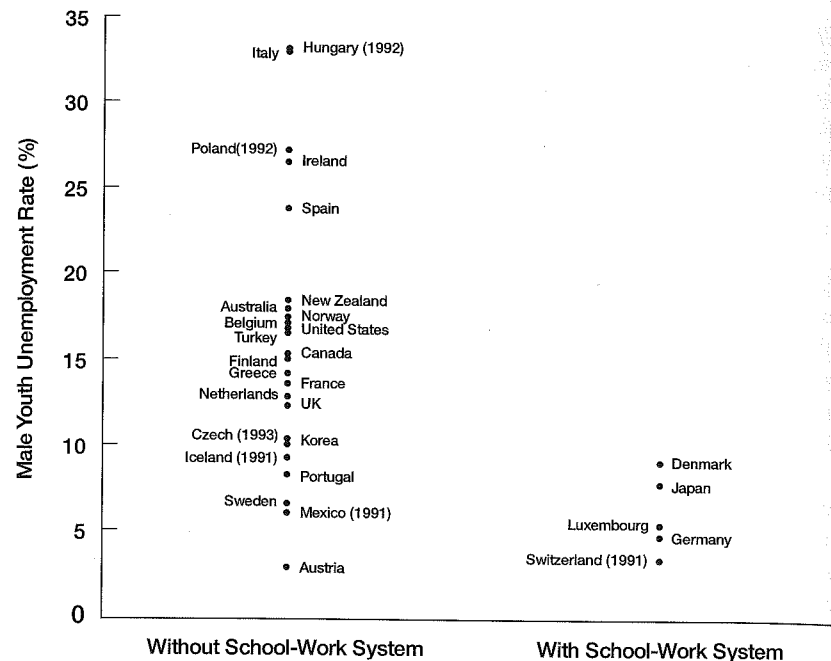


Figure 1 Unemployment rate for males age 15–19 (1990). Switzerland data are for males age 15–24. (source: OECD Labor Force Statistics 1982–2002).

stagnation; it is *their* jobs that are cut. Despite the absence of written contracts between large Japanese employers and their “core” male workers, employers exerted considerable efforts in the 1990s (as in prior, less severe economic slowdowns) to avoid laying off mid-career full-time male employees. The implications of this implicit job protection are particularly severe for female workers of all ages (the vast majority of whom are not promised implicit permanent employment) and entry-level workers, both male and female.

Appropriateness of Job Matches. A more appropriate measure of a school-work system like Japan’s that consists primarily of a set of job-matching mechanisms is the turnover rate. Comparative Japan-U.S. statistics cited by Rosenbaum and Kariya for the 1960s indicate that youth job turnover rates were lower in Japan, both in absolute terms and as a ratio of total turnover across age groups. However, Japanese Labor Ministry estimates, based on employment insurance data, consistently indicate that about 50 percent of new high school graduates separate from their jobs within the first 3 years of employment (Ministry of Labor, November 1999).¹¹ This is hardly a low level of labor market “churning.” Labor

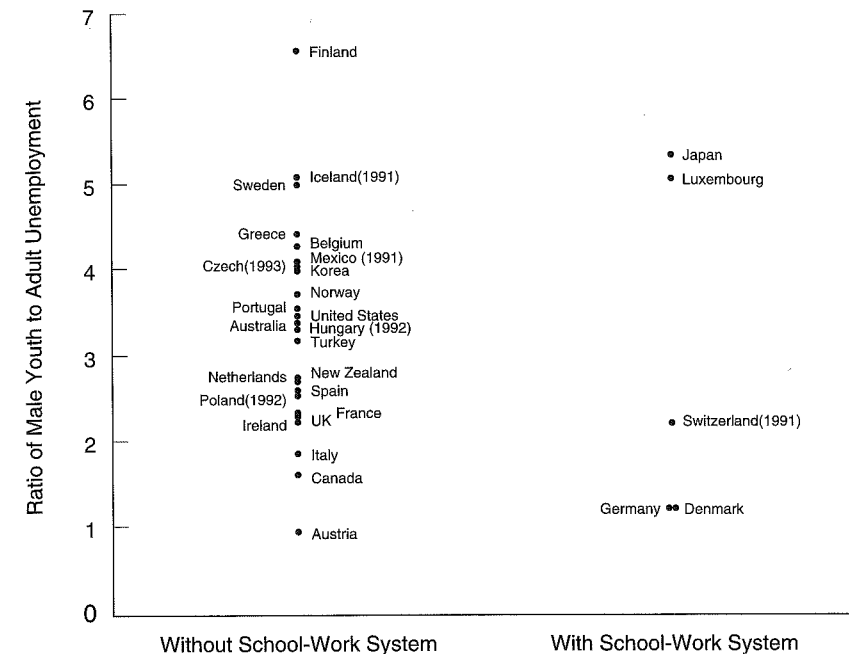


Figure 2 Ratio of male youth (15–19) to adult (25–54) unemployment (1990) (source: OECD Labor Force Statistics 1982–2002).

economists stress that voluntary turnover may be regarded in either a negative or a positive light. On the negative side, it represents labor market friction. But on the positive side, it may result in better job matches. Whichever viewpoint one adopts, it is certainly not the case that the Japanese high school-work system can boast placing the majority of graduates into anything resembling “permanent employment” or a situation involving a long-term implicit contract that both the employer and the worker consider satisfactory. This is reinforced in a recent comprehensive article on school-work systems. In his otherwise positive review of the Japanese system, Ryan argues that “The comparative evidence is however less than conclusive about the merits of school-to-work institutions. Although the Japanese system has been praised for reducing the need for job search by young workers, its qualitative efficiency is questionable” (2001: 60). Ryan goes on to point out that over 80 percent of unemployed workers aged fifteen to twenty-four in Japan in 1998 who had previously been employed had quit their last job (citing Mitani 1999). As he eloquently puts it, “At its worst, it [the Japanese school-work system] simply bangs square pegs into round holes. Japan’s need for more search and matching in the youth market appears to be making its mark, as youth turnover rises” (2001: 61).

In sum, long-term implicit contracts between Japanese high schools and local employers have been claimed to effect both *more* and *better* job matches than would occur under conventional market mechanisms (Rosenbaum and Kariya 1989; Rosenbaum et al. 1990). But the youth unemployment rate is but a crude measure of the effectiveness of school-work institutions such as Japan's that do not involve job creation; moreover, Japan does not appear to be exceptional in terms of low youth unemployment. The job turnover rate for young workers, arguably a better indicator of the effectiveness of the school-work system, does not paint an unequivocally good picture of Japan either. How well, then, do the educational system and the labor market perform in terms of keeping Japanese youth from idleness?

POSTINDUSTRIAL DIFFICULTIES

Japan's worsening economic environment during the last decade of the twentieth century had three fundamental impacts on youth employment: employers became less likely to offer long-term employment guarantees to young full-time workers, especially the less-skilled; the skill mix of available jobs underwent modification, with those jobs that were traditionally occupied by high school graduates suffering a severe numerical decline; and the proportion of all employees who were part-time showed a significant increase.

Job Openings. The ratio of job applicants to job openings for Japanese high school graduates entering the labor market has fallen dramatically during the past decade. As a result, in September 2001 the *naitairitsu* (rate of promised employment) to high school seniors due to graduate in spring 2002 was only 37 percent, 5.5 percentage points lower than the previous year. By November, by which time the majority of companies have traditionally completed their hiring decisions for the following spring, the rate had risen to 63.4 percent. But this was still the lowest rate of promised employment since 1987, when the government first collected such data (Japan Institute of Labor 2002a). The *naitai* rates were lower than the prior year for every region of the country, and in some regions had dropped by more than 20 percent in just one year (Japan Institute of Labor 2002b). Particularly hard hit were regions of the country that had previously been able to attract manufacturing industries to local areas. This reflected in part the accelerated rate of manufacturing plants' relocation to China, where hourly wages are as low as one-twentieth the rate for Japanese workers. The rate of youth unemployment reflects the dramatic decline in job openings. Figure 3 shows unemployment figures by sex and

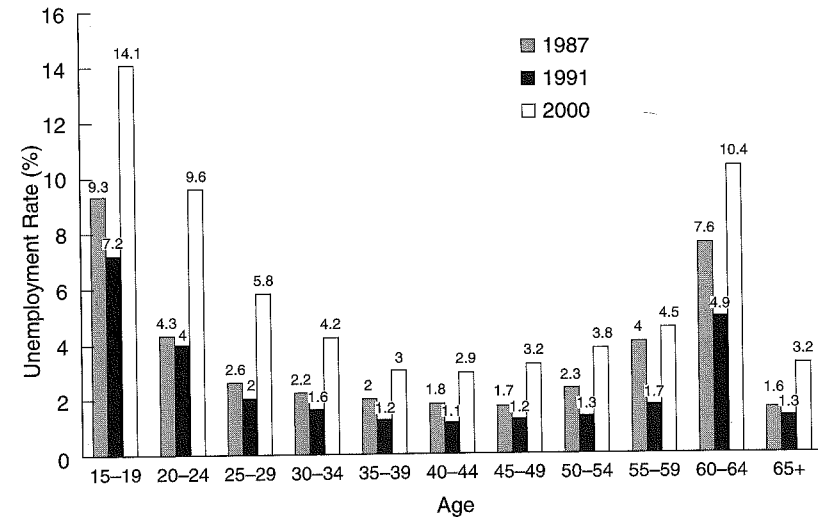


Figure 3 Changes in the Japanese unemployment rate, by sex and age group (source: Japan Institute of Labor, *Monthly Labor Bulletin*, 2001).

age group since the late 1980s. The figure for males age fifteen to nineteen had risen to 14 percent by 2000, and the rate for this age group continued to remain high throughout 2001.¹²

Changes in Skill Mix. In tandem with the economic recession of the past decade, important structural changes in the Japanese economy have radically altered the mix of jobs available to high school students—both full-time post-graduation jobs and part-time jobs while they are still in school. With the shift to a postindustrial economy, the old “good” jobs such as those in large automobile firms and other manufacturing firms are many fewer than in previous years. Figure 4 shows yearly changes in the numbers of Japanese employed in each of the major industries. Only the highly heterogeneous service industry has shown any substantial net increase in employment levels over the past decade. Manufacturing and construction, the two industries that traditionally have been the most likely to hire high school graduates, suffered major employment losses over the past decade.

Increase in Part-Time Employment. As the stock of industrial jobs traditionally earmarked for high school graduates has dwindled, a variety of low-paying, part-time jobs in the service sector have been created. Prior to 1997, part-time and “nonregular” workers (the latter a euphemism for workers without implicitly guaranteed lifetime employment) had been the

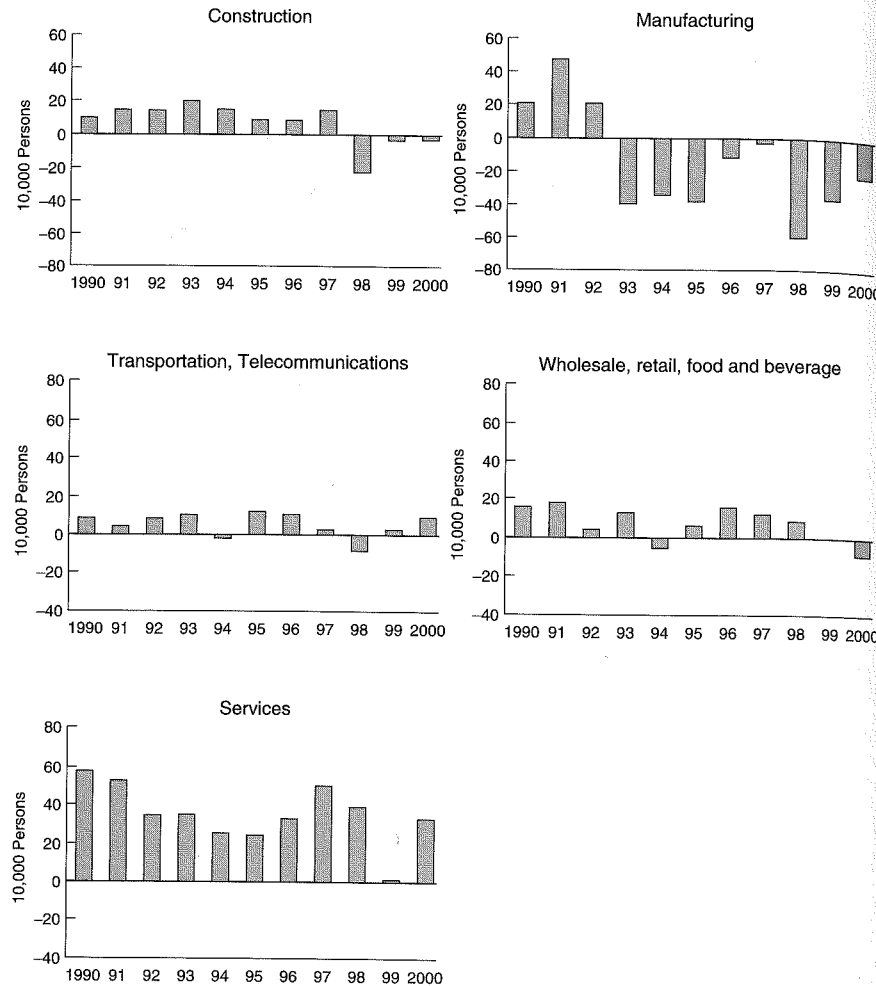


Figure 4 Yearly increases and decreases in Japanese employment, by industry (source: *Report on the Labor Force Survey*, Management and Coordination Agency of Japan, 2000).

first to be cut during recessions. But between 1997 and 2001, the number of “regular” employees declined by 1.71 million and the number of “non-regular” workers, including temporary and part-time workers, increased by 2.06 million. While the trend toward part-time or temporary work was particularly marked among female workers, it was by no means restricted to them. As one commentator noted, “The implication of such analyses is that part-time and other nonregular employees are not being used to adjust employment levels nor as a buffer, but as substitutes for regular employees;

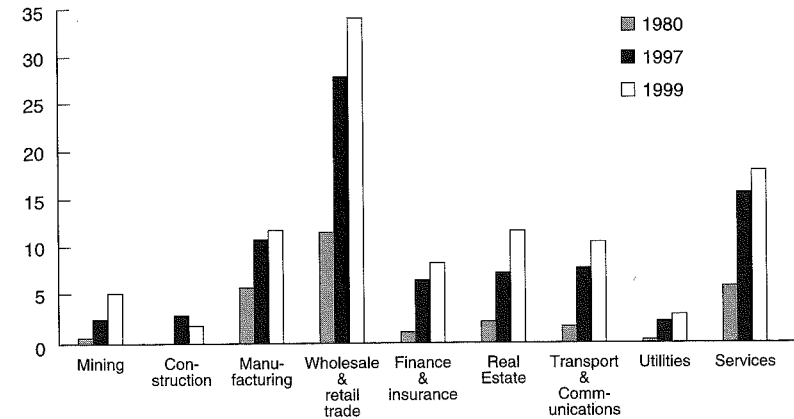


Figure 5 Change in percentage of all employees that are part-time, by industry (1980–1999) (source: Management and Coordination Agency of Japan, 2000).

that is, enterprises are beginning to replace the former kind of workers with the latter” (Wakisaka 2002).

Figure 5 documents the rapid growth in the share of all employees who are part-time, by industry, since 1980. Particularly notable is the increase in the service sector and, even more so, the wholesale and retail trade sector. While this part-time employment is comprised of both married women and young single men and women, the willingness of small retail outlets in urban Japanese centers to hire high school students on a part-time basis *while they are still in school* is readily apparent to any observer. Large numbers of high school students engage in *arubeito* (the Japanese term for a part-time job for students, coined from the German word *arbeiter*). High school teachers I interviewed in the mid-1990s at low-level public general high schools in Yokohama-Kawasaki shrugged their shoulders when I asked about school policies prohibiting *arubeito*, commenting that their school had either given up the policy altogether or still had the policy but found it to be unenforceable. Students desiring to have spending money could quite easily find jobs as gasoline station attendants, dishwashers, cash register clerks at convenience stores, or in the illicit economy (for young women, prostitution and its variants). While job benefits are nonexistent in part-time, temporary positions in the service sector, the hourly wage is large enough to be appealing to high school students living with their parents and desiring spending money for the luxuries of adolescence (which in Japan, as elsewhere in the postindustrial world at the beginning of the twenty-first century, included cell phones, baggy jeans, cigarettes, and the newest CDs).

But amidst the worried pronouncements of the Japanese government concerning the dismal employment situation of the early twenty-first century,

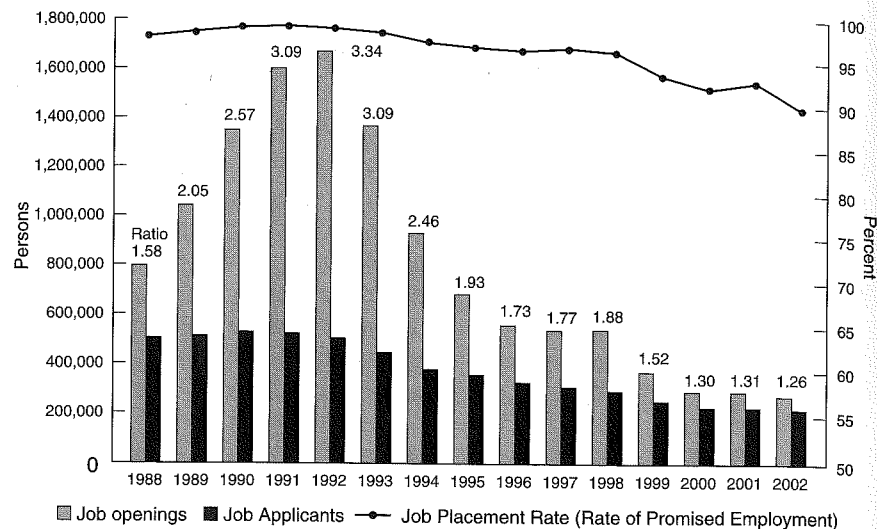


Figure 6 Job opening–applicant ratio and job placement rate for new high school graduates in Japan, 1988–2002 (source: Kanagawa-ken Public Employment Security Office, 2002).

a surprising number of young people remain missing from official statistics. Figure 6 shows data I obtained in June 2002 from officials at the *shokugyō anteijo* (public employment security office) for Kawasaki, one of the major cities in Kanagawa prefecture. The *kyujin bairitsu*, or ratio of job openings to applicants, for high school graduates soared as high as 3.34 in 1992, then plummeted to its current level of 1.26. The graph also shows the job placement rate for graduating high school seniors throughout Japan in March (just prior to employment commencement on April 1), across the years 1988–2002. As indicated, during the “bubble years” of the early 1990s, the placement rate was over 99 percent. Even in the dire current economic environment, the government reports that 89.7 percent of all high school graduates who sought jobs obtained a commitment from an employer by the end of their senior year. This economic outcome seems oddly rosy compared with the unemployment and turnover rates cited earlier in this paper. Why is this the case?

Uncertain Destinations: The Hidden Rate of Idleness. I argue that when we look beyond unemployment statistics and consider the proportion of Japanese graduating high school seniors who have made no concrete employment or enrollment plans, nor plan to spend the ensuing year as *rōnin*, the picture is sobering. (In Japan’s case the state of being a *rōnin*, defined as sitting out of school for a full year or more to prepare for the

following year’s university entrance exams, is an additional category of post-graduation activity.) Youth who do not fall into any of these groups fall into the category of having an “uncertain” destination. It is worth reiterating that in Japan it is standard for students to graduate and begin work at only one time point during the year, unlike in the U.S. Therefore, if one does not secure a commitment from an employer for a full-time job that will start immediately after graduation, one is likely to encounter especially severe difficulty securing full-time work. This adds increased significance to the state of being “idle” in the Japanese economy.

The idle population does not appear in unemployment or job turnover statistics and has not been systematically studied by the advocates of Japan’s institutionalized job-matching mechanisms. Indeed, the impression one gets from the English-language literature on the Japanese school-work system is that virtually all graduating seniors who desire jobs are matched with employers. Research reports that are otherwise highly sophisticated cite without question Japanese Ministry of Labor statistics such as those in Figure 6 indicating that, even in the depths of the recent economic downturn, 90 percent of workbound high school seniors had secured a job at the time of graduation (Ryan 2001). Similarly, I found that Japanese high schools typically reported in the mid-1990s either very high or perfect placement rates for graduating workbound seniors by the end of the school year. This perfection struck me as an impossibility for even the most effective school-work system, and it was something I inquired about in long, semi-structured interviews I conducted with teachers at public high schools in the Yokohama-Kawasaki area southwest of Tokyo in the mid-1990s. The next section reports those findings.

EVIDENCE FROM AN URBAN JAPANESE LABOR MARKET

Data from an urban Japanese labor market in the mid-1990s demonstrate graphically the problems in the youth labor market that began to appear early in the Japanese economic recession, problems that were not predicted by Western advocates of Japan’s unique school-work institutions.

The research site from which I draw data is the densely urban Yokohama-Kawasaki area of Kanagawa prefecture, directly southwest of Tokyo and contiguous to it. I chose this area as a research site in the mid-1990s because of its comparability with major metropolitan areas in the American Midwest and Northeast in terms of industrial composition. Kanagawa prefecture has been a typical manufacturing region in Japan, producing in the past decades a large quantity of durable goods such as electrical machinery, transportation-related machinery, and general machinery. Yokohama and Kawasaki, the two largest cities in the prefecture, are

connected to Tokyo by a dense network of public and private railway and subway lines. The prefecture had 243 public high schools in the mid-1990s, academic and vocational, distributed across 14 school districts. About 50 percent of graduating high school seniors in Kanagawa prefecture proceed directly to university, a rate that is comparable to other prefectures in Japan with major cities.

Estimating the "True" Rates of Idleness. In the interviews I conducted in 1996 at 16 public high schools sampled from three school districts in the Yokohama-Kawasaki area, teachers were helpful in demystifying the oddly perfect job placement rates I had encountered in published statistics. They frankly informed me that high school seniors who become discouraged in their job search are often taken out of the denominator when school-level statistics are calculated. Why? As the senior year wears on, if a student has been recommended by the school for a job but has failed the interview with the employer, teachers in the school's placement office must start over again and locate another suitable job opening for him or her. But once again the student may fail the interview. With several of these failures in hand, some students will ultimately give up and drop out of the discouraging placement process altogether. They may decide instead to go to *senmon gakkō*. This is the most likely educational alternative, as many *senmon gakkō* have low entrance requirements (sometimes matched unfortunately by very high tuition fees). In such cases, students are put into the tabulation of matriculants to *senmon gakkō*. If they drop out of the placement process orchestrated by schools and firms and do not decide to go on for further education, their post-graduation destination is listed as being "unknown." (Yet another alternative for some students is to find a job through a relative; in these cases, they are included in the workbound tabulation.) If all of the "non-successes" are artificially subtracted from the denominator of the job placement rate, the obvious result is a 100 percent success rate.

Pursuing this line further, I realized that it is possible to examine the proportion of graduating high school seniors in the category of "uncertain" destinations. I use school-level data from all school districts in Kanagawa prefecture. Data are drawn from the *Kanagawa-ken Jūken Annai*, a yearly publication from a private publishing company that gives school-level data on the outcomes for graduating seniors from each high school in Kanagawa prefecture. I use data from the 1998 publication, reflecting the destinations of the 1997 graduating class. This publication groups graduating seniors in each high school into the following categories: entrants to 4-year universities, entrants to 2-year junior colleges, entrants to 2-year training schools (*senmon gakkō*), job market entrants, and a residual "uncertain" category. The latter category is highly heterogeneous across school ranks, as it includes

rōnin and students who are neither continuing on directly to higher education nor have been hired by an employer to begin a post-graduation job. This latter group includes students for whom the highly structured school-work system has failed, for they were not placed into either a job or a higher educational institution by the time of graduation.

Data for the nearly 250 public high schools in Kanagawa prefecture indicate that 23 percent of graduating seniors go directly on to university, 34 percent go either to junior college or to 2-year training schools, 18 percent go into the labor market (having secured jobs), and 25 percent have "uncertain destinations." As pointed out above, this last category includes both those who will eventually go to university and those who are truly "idle," with no definitive employment or educational plan. In order to estimate the "true" percent going to university and the "true" percent idle, I performed the following calculations:

$$\text{True university} = \text{university} + [\text{university} / (100 - \text{uncertain})] * \text{uncertain} \quad (1)$$

$$\text{True uncertain} = \text{uncertain} - [\text{university} / (100 - \text{uncertain})] * \text{uncertain} \quad (2)$$

where "university" is the reported (observed) percent directly entering university and "uncertain" represents the reported percent uncertain in the data set. These calculations result in an upward revision of the percent going to university, as *rōnin* are now incorporated into that figure; likewise, the percent uncertain declines but now more accurately reflects the "true" percent idle.

Based on this estimation procedure, the mean "true" percent idle per school is over 16 percent; the figure varies between 10 and 48 percent across the 14 school districts of Kanagawa prefecture. Fully half the districts have true idleness rates for new high school graduates of 19 percent or higher. As we might expect, the true rates of idleness are significantly higher for the lowest-ranked high schools. The thumbnail way to measure a high school's quality in Japan is by its *hensachi* (exam cutpoint), the minimum score on the prefectural high school entrance exam that a student needed in order to enter that school the prior year. The Pearson correlation coefficient between exam cutpoint and true percent idle across the schools in Kanagawa prefecture is a whopping $-.83$ ($p < .001$), indicating that a higher proportion of students from lower-ranked schools are indeed "floating" or idle. The graduating class of one school in Kanagawa prefecture had an astounding 48 percent idle; in the Kawasaki school district that I have studied the most intensively, two of the twelve schools had rates above 30 percent.

Consistent with these troubling statistics, the Japan Institute of Labor began to pay increasing attention to "freeters" (a combination of the English word "free" and the German word "arbeiter," or part-time worker) by the late 1990s, making frequent reference to the increasing numbers of

young people who were in neither full-time education or employment. Government concern over the apparent ineffectiveness of high school-work institutions has continued to grow, and in 2001 the Ministry of Health, Labor, and Welfare and the Ministry of Education, Culture, Sports, Science and Technology set up a joint study group to consider how the system might be modified to be less rigid. Their report, issued in March 2002, recommended that schools relax the provision that a student be recommended for one and only one job at a time. This represented an attempt to reduce the tendency of students to become discouraged in their job search after sequential failures at job interviews. Instead, the report suggested that students either be allowed to apply for more than one job at a time or be restricted to applying to one employer until October 1, then be allowed to apply to more than one employer at one time if they were not accepted on their first try. By the end of 2002, twelve prefectures had changed the *hitori isshasei* (policy of one company per applicant) and adopted the recommended policy that allowed students to apply to more than one company at a time. Such changes are indicative of the growing recognition that the system is no longer working as smoothly as it once did.

CONCLUSION

Japan's institutionalized mechanisms of matching high school graduates to jobs may have functioned quite well under the favorable economic conditions that lasted into the early 1990s, marked by continued economic expansion coupled with growth in the manufacturing sector. But I have argued in this chapter that omitting these aspects of the economic environment from the analysis of the system's performance led to an overemphasis on Japan's unique institutional structure and the advantages of the embeddedness of labor recruitment in long-term ties between schools and firms. Simply put, it is difficult to measure the effectiveness of labor market practices under economic conditions that keep labor demand high. In the context of low or even negative economic growth, a different mix of jobs in the economy (fewer manufacturing jobs and a bifurcation of the service sector into low-skill and high-skill jobs) and changes in employers' preferences for hiring long-term workers, the system appears in a different light. As I have shown from disaggregated school-level data, rates of idleness among Japanese high school graduates are high and are disproportionately concentrated among schools at the lower end of the academic spectrum, where rates of higher education attendance are low and rates of labor market entrance have traditionally been high. Unemployment statistics do not completely reflect this, as young people who find part-time or

temporary jobs do not appear in these statistics, nor do those who become so disenchanted with the job search process orchestrated by their high schools that they become "discouraged workers."

This research raises critical questions about the efficacy of a set of institutional arrangements in the Japanese labor market that have been in place since shortly after the creation of the Labor Ministry, a half-century ago. More broadly, this case from Japan illustrates how crucial it is for social scientists to place their analysis of particular institutions—and especially their analysis of the *outcomes* or *effects* of those institutions—in the context of economic conditions and the broad institutional landscape. I have argued that in the analysis of institutions governing how new graduates move into the labor market, youth unemployment may not be an appropriate measure of institutional effectiveness; youth turnover in jobs may be a better measure, and rates of idleness (lack of attachment to either school or work) may be even better. Once economic sociologists better specify the outcomes that can be produced by the institutions they are studying, they are in a better position to theorize how these outcomes and ultimately the institutions themselves may change under new economic circumstances. Speaking to fellow economists, the labor economist Richard Freeman has made the point that "Analyses that examine how particular institutions work invariably consider those institutions in isolation, rather than as part of broader labor relations and economic systems" (Freeman 1994: 233). Economic sociologists have a comparative advantage in this respect, especially given that like other sociologists, they are often driven as much or more by deep knowledge of the phenomena and contexts they are studying as by abstract theory.

The last decade of the twentieth century sadly reminded us that Japanese social and economic institutions, from *keiretsu* to permanent employment to school-work institutions, operated in the enviable environment of high economic growth rates for nearly three decades and did not face the challenge of low or negative growth rates until the past few years. The "natural experiment" for the performance of these institutions is now truly underway and presents an excellent opportunity for research by economic sociologists.

NOTES

1. Gerlach, for example, describes as follows the relationship between financial institutions and large industrial firms in Japan: "Unlike the relatively fragmented, loosely organized ties typically discerned in the American corporate network, the reality in Japan appears far closer to one of coherent and enduring cliques among affiliated financial institutions and industrial firms" (1992: 135).

2. I use the standard economic definition of institutions, which includes the formal rules and informal constraints that structure interaction by defining the choice set and the incentives for actors (North 1991).

3. As Hein writes, "Finding the 'secrets' of Japanese economic success has driven nearly all work done on the economy since the 1960s" (1993: 99). This focus "has obscured all those aspects of Japanese economic history that have not directly contributed to Japanese success" (1993: 99–100).

4. Ramseyer and Miwa (2002a) pose an even starker question: whether implicit contracts exist at all in the Japanese economy. In a related paper, they make the similarly provocative argument that Japanese *keiretsu* "neither shape the Japanese economy nor illustrate anything about relational contracting or social embeddedness" (2002b: 170).

5. In related work I devote more attention to changes in Japanese youth culture that are at least partially traceable to globalization and that are leading to a rejection of traditional patterns of full-time employment (Brinton 2005; Tang and Brinton 2005).

6. The original legal framework, developed shortly after WWII, also applied to junior high school graduates. But given that Japan has achieved near-universal rates of advancement to high school, the legal guidelines are mainly relevant for workbound high school seniors.

7. In Kanagawa, the main prefecture I have studied, there are 15 of these offices.

8. Data from a cross-national survey conducted by the Japan Institute of Labor in 1989 throw into sharp relief the differences in the amount of help American and Japanese high schools provide to graduating seniors entering the job market. Nearly two-thirds of Japanese workbound high school seniors reported that they relied on their school to help them find their first full-time post-graduation job, compared to about one-seventh of American students. The latter were much more likely to report relying on friends and acquaintances and reading job advertisements. Moreover, Japanese high school students' job search was much more focused than Americans'. Over three-quarters of Japanese students said that they searched for jobs in only one field or industry, compared to just a third of American students who reported this. In short, Japanese high school students' job search is focused on specific fields and is carried out mainly with the assistance of their school. The job search process in the United States, as well-documented in many studies, is heavily reliant on whom one knows.

9. There are also private academic high schools and public vocational high schools. Consideration for admission to these is not governed by residence in the local school district as is the case for the public, general academic high schools.

10. I used OECD discussions of school-work transition systems as a basis for the categorization of countries. As mentioned earlier, those with apprenticeship or "semi-apprenticeship" systems are Austria, Denmark, Germany, Luxembourg, and Switzerland.

11. The Ministry of Health and Welfare and the Ministry of Labor merged in 2001. Since many of the statistics cited in this chapter come from pre-2001 Ministry of Labor publications, for consistency I simply refer to the Ministry of Labor throughout.

12. Comparing Japan to the U.S in the late 1980s, the youth unemployment rate had changed in opposite directions, reflecting economic growth rates that had

changed sharply in the two countries. Unemployment for high school graduates in the U.S. had fallen to 9.6 percent in 1995 and has since dropped lower (OECD 1998). It is not that the school-work system (or lack thereof) had changed in either country during the mid- to late 1990s; the economy had.

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