

# Responsibility and Membership: “SENIORITY” Versus “SEISYAIN-STATUS” in a Comparative Historical Perspective

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## 1. INTRODUCTION

Although, under the current climate of globalization, employment practices and industrial relations have been changing and moving toward a more market-mediated relationship, the gap between the U.S. and Japan remains unchanged (Jacoby 2005). Focusing on the core employment practices of “seniority” (the U.S.) and “*Seisyain* status” (full-member status; Japan), this paper investigates how the differences between the practices of the two countries emerged and why these differences persist<sup>i</sup>.

When large companies share risks with their employees and offer them a path for career progression, it is referred to as “welfare capitalism.” Recently, companies, especially in the U.S. have been shifting a greater amount of risk to their employees (Dore 2000); and shortening the employee’s career path in a company (Baumol et al. 2003; Osterman et al. 2001). The question that arises, then, is why Japanese welfare capitalism seems to be more robust.

The difference between the two countries could be attributed to business strategy, corporate governance, and union activities (Jacoby 2007; Kaufman et al. 2003; Blair and Roe 1999). Financed by “patient capital” under the stakeholder-type corporate governance system, large companies in Japan are more likely to adopt a resource-based strategy than those in the U.S. Also, labor unions in Japan generally prioritize seeking employment security in exchange for the acceptance of the wider management’s discretion regarding the placement and utilization of union members.

The question that this paper attempts to answer is how these different union strategies—“Job-Control Unionism” in the U.S.<sup>ii</sup> and the “White-Collarization Model” in Japan<sup>iii</sup>—are related to the welfare capitalism of each nation. The “collar line” should be taken into consideration. In contrast to their U.S. counterparts, Japanese blue collar regular employees are usually subject to exactly the same personnel practices and compensation systems as those of white collar workers.

The methodology of this paper is as follows. The twentieth century was the era of the internalization of labor in the corporation. This internalization process appears to have been characterized by two major factors: (1) the company’s responsibility, expressed as the degree

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of risk sharing with their employees, and (2) the membership of employees within a firm, which might be understood by the extent of career development. Responsibility is related to the company's aim of acquiring a stable labor force as well as the labor force's aim of securing stable employment and income. On the other hand, membership is related to the company's aim of systematically controlling the labor force as well as the labor force's aim of obtaining respect.

The hypothesis of this paper is depicted in Figure 1. Welfare capitalism in the U.S. possesses the characteristic of a high degree of risk sharing, but career development opportunities are not enough because the collar line is very distinct. Thus, the U.S. has "responsibility-driven" welfare capitalism. However, Japanese welfare capitalism is "membership-driven" in that the degree of risk sharing is not very high, but the career development path is broader because the collar line is more discreet.

	The U.S.	Japan
Risk sharing degree	⊙	□
Career development opportunities	□	⊙
Collar line distinctness	⊙	□
	Responsibility-Driven Welfare Capitalism	Membership-Driven Welfare Capitalism

Figure 1 Two Types of Welfare Capitalism

Because the logic behind the company's responsibility is not the same as that behind the employee's membership, it is critical to recognize that the origin of and process by which the company's responsibility and employee's membership are developed or weakened are different. We will trace the historical trajectory of both, focusing on the era between World War I and the 1950s.

## 2. Internalization Process in the U.S.

### Until the 1920s

Generally speaking, internalization began earlier for white collar employees than it did for blue collar workers. Until World War I, many large firms established several means to attain and retain good quality white collar staff such as guaranteeing high and stable salaries, following internal promotion practices, offering employment security, pensions, health and life insurance, thrift plans, housing aid, and paid vacations. The Internalization of blue collar workers began in the early twentieth century with the shortage of skilled labor and the increasing demand for semi-skilled operators. The emergence of a new type of unionism that organized several types of workers within a single manufacturing unit, and mass strikes

during World War I were other pressing factors of internalization. However, the remaining influence of craft unionism, the distinct collar line, and the traditional job centered hiring/allocation practices based on job-wage attachment somewhat restricted the internalization process, especially for blue collar workers.

Internalization progressed considerably during the 1920s, when the labor turnover rate dropped sharply and the length of service of core blue collar employees became far longer than it had been previously. Consequently, long-term employment relations or “proto-seniority practices” for blue collar workers were established (Sekiguchi 2004). Length of service became a sort of universal criterion for the treatment of blue collar workers. Therefore, an employee with a longer service record, for example, more than five years, had a far greater chance of escaping layoff than an employee without seniority. Large firms also shared the risks at work by extending welfare policies to their blue collar workers, such as pension plans, health insurance plans, and paid vacations, which had previously only been offered to the white collar employees.

Internalization proceeded with the theme of responsibility. Gerard Swope of General Electric Co. said, “Nothing can take the place of an adequate conception of the responsibilities of industry to the employees who are giving the best that they have—their lives—to their work, and no stable foundation can be laid that does not adequately recognize that” (General Electric Co. 1930). At the same time, internalization was attended with rapidly changing consciousness of blue collar workers into “participatory paternalism” and “corporate citizenship.”

### **During the 1930s**

The Great Depression reversed the internalization process. Successive mass layoffs and the suspension of or curtailing of spending on welfare programs caused ordinary employees to lose confidence in corporate policies and seek external unionism. Newly organized industrial unions gradually established firm footing in the workshops as the “exclusive representatives” for collective bargaining, and made the “union shop contract” a common practice. Thus, the industrial unions took over the labor policies of welfare capitalism.

The major achievements of the corporate labor policies including proto-seniority practices constituted the starting point of the union’s bargaining policy on seniority rules. Unions attempted to reform past practices and establish new union-based practices. Establishing objective rules that would govern employment practices was a major concern of the unions. However, several constraints such as weak union power, persistent resistance from management, and the enduring effects of the Depression hampered this effort. Hence, the reformation process was a gradual one.

### **During and after World War II**

During World War II, government labor policies provided unions with a far stronger standpoint than ever before and accelerated the standardization of labor practices in many industrial relations including salaries and job assignments. However, the impact of World War II was almost quantitative, not qualitative as in the Japanese case. For various reasons, major unions abandoned the agenda about production, such as restriction of output. Union policies finally began concentrating on relatively narrow economic and shop related matters. With the Taft-Hartley Act (1947), which prohibited foremen's unions, the possibility of an alliance between foremen and the rank and file disappeared. The segregation of the blue collar workers from the other employees was firmly established. "Job control unionism," which was a kind of adverse but stable and business-like collective relationship, was established in the major manufacturing industries.

After many national agreements were reached in a series of negotiations during the 1940s and 1950s, the contemporary seniority clause was finally completed. Layoffs and recalls were effected on the basis of seniority with broader unemployment protection (Supplemental Unemployment Benefits offered by unions) than was offered during the prewar period. While transfer and promotion were substantially accorded on the basis of seniority, the employment ladder was short and the aspirations for status advancement among blue collar workers was weak. The abolishment of the collar line and the establishment of integrated single status was no longer on the agenda of either management or the labor force. As for wages, the rate structure between skilled jobs and unskilled jobs was compressed and the wage level within an industry was standardized after a periodic increase by the Cost of Living Adjustment (COLA) and the Annual Improvement Factor (AIF).

Unlike in Japan, each blue collar worker in the U.S. is assigned to a particular job according to the established shop rules (such as "entry level job," promotion standard, promotion ladder, job entry qualification, demarcation, etc.), which have been agreed upon by the union and management. Each worker has the option of accepting or not accepting offers, and the corresponding shop rule including the formal grievance procedure might determine who should seize that opportunity if multiple candidates are qualified for the same job.

### **3. Internalization Process in Japan**

#### **Before World War I**

Until World War I, large firms in Japan implemented a set of centralized control functions, one of which was personnel management. The personnel department molded the hierarchy structure, which comprised four ranks: *Syain* (members of the enterprise), *Jyun-Syain* (semi-members of the enterprise), *Koin* (blue collar workers), and *Yoin* (sub-contracted workers). *Syain*, who are ordinarily college graduates, and *Jyun-Syain*, who are usually middle school graduates, were given the prototype of lifetime employment with *nenko* (seniority-based) salary.

With regard to blue collar workers, their status was more diversely stratified. They

were divided into several groups. The leading workers were given the status of salaried employees, similar to *Jyun-Syain*. Some skilled workers were contracted for a defined term, usually five years, and given expiration allowances that corresponded to the withdrawal allowances of the white collar workers. As management introduced a policy change, these workers gradually became regular workers. Other workers were contracted on a daily basis; however, this did not mean that they were real day laborers, but rather that the company was not obliged to protect them against various risks though they were employed comparatively for a long time. In fact, these workers became temporary workers who were not accorded withdrawal allowances.

This hierarchy played a unique role in the Japanese control system. Each rank not only displayed its particular benefit but also the specific control power that it could exert. For example, *Syain/Jyun-Syain* had the power to supervise *Koin/Yoin* not because they were placed in the appropriate positions but because they were regarded as possessing the proper abilities. Hence, the intention of Japanese management was to control the labor force through the employee ranking system, unlike the job ranking system in the U.S.

### **From World War I to World War II**

Labor movement developed, however declined during this era. Japanese workers who were stimulated by hyperinflation, democracy, socialism, and their own improved social status drove the labor union movement around the beginning of the 1920s. This push failed in the end because workers split into several sects and labor union law was not being enforced. Instead, enterprise unions or factory council committees were established in large firms. As the war with China intensified in the 1930s, union movement was suppressed and finally dissolved into the “*Sampo* movement” (the patriot movement calling for service to the state through hard work).

Confronted with labor unrest around the 1920s, management tried to stabilize its labor forces by launching welfare programs including medical insurance and pension plans, while the almost only program before this era that protected workers against risks was the compensation for industrial injury. As for unemployment, in addition to the withdrawal allowances paid by management, most regular workers were given unemployment benefits by the mutual-aid society that was established in each company. However, almost temporary workers actually remained in the “free” world from company’s protection in spite of Workers’ Pension Plan installed by government in 1942.

During the interwar period, management attempted to solidify its control over its workers by institutionalizing internal promotions. Internal promotions were also the result of the labor force’s endeavor to obtain respect. Unlike its U.S. counterpart, Japanese management gave the promotion of ranks to some workers without changing their job positions. For example, in the mid-1930s, a quarter of the machinists in workshops were raised to the rank of *Jyun-Syain*, and a third of *Jyun-Syain* in operating jobs were promoted to

the rank of government official in the Japan National Railways (Woo 2003). During this period, *nenko* compensation schemes were more widely applied to blue collar workers. With the government's effort for wartime mobilization, most regular workers enjoyed the benefit of pay raises until the end of World War II.

### **After World War II**

When the Supreme Commander of Allied Powers (SCAP) dissolved *Zaibatsu* (the ruling conglomerates), the corporate governance structure changed drastically. With the enactment of labor laws, labor unions were broadly organized, and they were characterized by their inclusion of white collar workers such as middle management as well as blue collar workers. As the communist-driven radical union movement which aimed for self-managing at each enterprise failed around 1950, management reestablished its managerial prerogatives. Younger business leaders who had replaced the old style of management chose to reconstruct industries in collaboration with the labor.

In the process of the "democratization of enterprise governance," the status gap between white and blue collar workers decreased considerably, which formed the foundation of "single status" employment system. As the firing rights of management were restricted, blue collar workers acquired the privilege of lifetime employment as long as they were regular employees. While government-driven social security plans including unemployment insurance were systemized, enterprise-based welfare programs, especially withdrawal allowances, survived as the qualifications and benefits were equalized between white and blue collar workers.

As the mobility of labor settled down, blue collar workers' wages became dependent on both age and length of service, which solidified the establishment of the *nenko* wage system. The *nenko* wages were accepted by both management and the labor force because they could be compatible with both the increasing cost of living and growing capability of the worker. In exchange for equating the status of blue collar workers with that of white collar workers, management requested that the blue collar workers work similarly to their white collar counterparts. Blue collar workers accepted the requirement to diversify themselves beyond their special jobs/workshops/plants and develop their capabilities for the multiple job assignments that merited *nenko* wage schemes, which enabled the quick introduction of Western technologies and the flexibility to adapt to changing environments.

Though the status gap between white and blue collar workers narrowed, the gap between regular and irregular workers in big businesses widened. Blue collar workers were divided not according to skill but status, and the upper part of the division consisted of the *Seisyain*, while the lower part comprised atypical employees. Since the working conditions and status of workers in big businesses are much higher than those of small and medium enterprises, the gap between workers also widened according to the size of the business. By abolishing the intra-enterprise status system, Japanese management and the labor force

constructed another status system in the work force.

#### **4. Conclusion**

Between responsibility and membership, the latter came first in the history. Around the turn of the century, when almost all of the blue collar workers were outsiders of the firm, management in both the U.S. and Japan elevated the status of foremen to salaried employees. However, the course that would be taken after this era was quite different. Though welfare capitalism was installed in both countries to cover ordinary blue collar workers in the 1920s, the employer's responsibility played a vital role in the U.S., while the workers' membership was given higher significance in Japan. In contrast to the Americans, who were partial to the collar line, Japanese management tried to give ordinary blue collar workers the salaried status, relieving the firm of any responsibility for temporary workers.

Until the 1940s, unions expanded their influence over the entire manufacturing industry in both the U.S. and Japan. However, their impact was different in the two countries. In the U.S., unions assumed the employment practices that were traditionally followed by management. However, they were unsuccessful in obtaining full membership in corporations. On the contrary, in the wake of the purging of top managers by SCAP, Japanese blue collar workers acquired full membership of the company in most large corporations.

The differences between the two countries can be seen most clearly in the practices of "seniority" and "*Seisyain* status." Though the principle of seniority originally sprung from the employment practices based on the employer's responsibility, the principle of *Seisyain* status is based on employee membership. If a company assumes the responsibility of its employees, it is not necessary that the same company will recognize the employees' membership claim. Basically, American blue collar workers continued to be family servants while Japanese blue collar workers changed from family servants to family members especially after World War II (Gordon 1985), and this transformation process is what underlines this paper.

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<sup>i</sup> Though there is a great deal of literature on this subject that discusses convergence, Hall and Soskice 2001 and Whitley 1999 assert that the corporate systems and HR practices of each country do not simply converge on a single pattern.

<sup>ii</sup> As for Job-Control Unionism, see Katz 1985; Kochan et al. 1986; Sekiguchi 2007.

<sup>iii</sup> With regard to the White Collarization Model, see Koike 1988; Sako and Hiroki 1997; Woo 2009.