*Eighth Edition*

# Social Stratification and Inequality

## *Class Conflict in Historical, Comparative, and Global Perspective*

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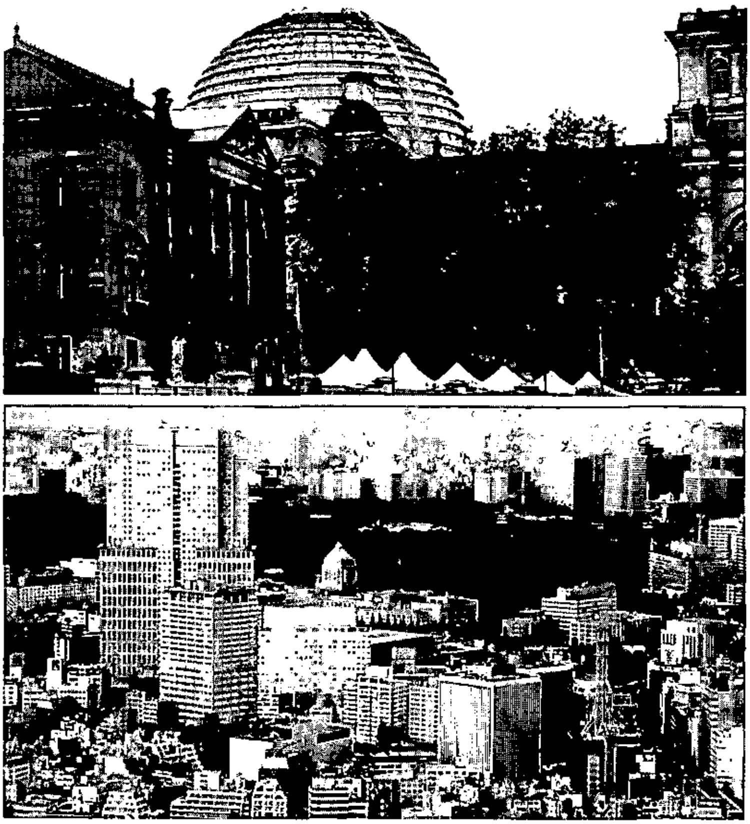
# Social Stratification in Japan and Germany: Contrasting Forms of Political Economy



Germany's new parliament building with its glass dome (*top*) symbolically represents the transparency of Germany's political system. The bottom photo shows the Japanese pyramid-shaped Parliament in Tokyo with the emperor's palace grounds behind it, all surrounded by tall buildings. Germany and Japan are advanced industrial democracies like the United States, but these three countries have significant differences with respect to their political, economic, and stratification systems.

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## Chapter Outline



Although there has been much comparative information throughout this book, with the exception of the previous chapter our primary focus has been on the United States. The United States is still the largest capitalist industrial nation, with Japan and Germany the second and third largest, respectively. It seems logical to include a chapter on social stratification in these two countries, one the first fully postindustrial society in Asia, and the other the biggest economic power in Euorpe. There are important reasons to include a chapter on social stratification in Japan and Germany. As noted previously, since the cold war, Americans have tended to assume that all capitalist nations are basically alike with respect to such characteristics as wage inequalities, the wealth and power of capitalists, and the influence of workers. Some exceptions might be understood in the case of Japan, because it is Asian. But, one might think, the main competitor to the United States in Europe, located in the general geographic area where capitalism and industrialization began, should certainly conform to the American model of political economy. Otherwise, how could Germany have such a strong economy? This assumption, however, is wrong on many points; in fact, Japan is in some respects is more similar to the United States than is Germany. In contrast to what I have called a more corporate-dominated political economy in the United States, comparative research has shown that Germany has a more cooperative form of political economy. Japan established a more uniquely Asian model that emerging political economies in Asia (including China) are following in most respects. As we have seen in Chapters 7 and 14 (see especially Table 7-5), these different types of political economies have profound effects on the nature of stratification systems.

## ❖ Ranking in Japan: Some Preliminary Observations

A Western traveler to Japan encounters a country that at first sight seems like any other modern nation. True, the written language on the signboards and trucks is certainly different than that found in any Western advanced industrial society, and everything seems somehow smaller to Americans—the trucks, the rooms, portions of food in the restaurants, and even the people (at least the older people). Still, the people go about their work much like we would expect in other industrial societies. They talk about marketing, problems with financing, the technical problems associated with designing a new product, conflict between management and labor in wage discussions, and the ever-present advanced society problems such as traffic, pollution, smog, and urban crowding. Upon closer analysis, however, there are what some people might see as puzzling aspects of the society. With respect to our subject of social stratification, for example, it is interesting to note how the Japanese seem obsessed with ranking and hierarchy (Pharr 1990; Eisenstadt 1996; Kerbo and McKinstry 1998; Christopher 1983; Taylor 1983:42). Corporations are ranked; universities are ranked; all educational programs are ranked; in fact, almost anything that can be ranked is ranked, with magazines and newspapers reporting on the ranking. One of the first things a foreigner may learn to say is *Ichi ban,* which means, roughly, "Number one!"

This stress on ranking and hierarchy is not limited to things and institutions—it carries over to people. There is concern with a relative status ordering of people that makes it difficult for Japanese people to interact with each other as equals. Japanese people are unable to sit, talk, eat, or drink with other people until the relative ranking order of those present has been reasonably ascertained. Within this social context the practice of exchanging business cards (or something like them), called *meishi,* has developed (Nakane 1970:30). There is a ritual involved with the exchange of these meishi. The point is to carefully study the business card so that each person can show the proper level of respect to the other. (After *ichi ban*, one of the next things a foreigner is likely to learn to say is *Watashi no meishi des*—"Here is my business card.") Once the status-relevant markers such as age, gender, education, occupation, and place of employment have been established among all present, the business of eating, talking, drinking, or whatever can proceed in an orderly manner that is unlikely to offend someone who expects greater status deference. It is to be expected that in such a society the language will be well developed to express deference, respect, and informality or formality as the situation calls for. There are, in fact, few languages that are as extensive as Japanese in allowing people to express levels of status, respect, and formality (Miller 1967; Goldstein and Tamura 1975). It is not an overstatement to say that almost every word uttered by one Japanese person to another indicates some aspect of their relative status ranking (whether that rank is superior, inferior, or equal to that of the person spoken to).

With this concern for ranking and formality that could easily disorient a laid-back Californian, we might expect Japan to be a society with a high degree of inequality in every aspect of life. But such expectations are far from accurate. There has been some flux in the income inequality of Japan in the last three decades, with inequality in Japan dropping in the 1960s (Mouer and Sugimoto 1986) to one of the lowest levels in the world, then rising slightly with the "bubble economy" of the late 1980s to the present. With economic slowdown and even stagnation since the "bubble burst" in the early 1990s, there was some indication that income inequality was again going down in Japan (Shirahase 2001:2), but as we will see later in this chapter, by 2010 inequality and poverty are up again. While incomes of top corporate executives in the United States continued their rapid rise in the 1990s and 2000s, the incomes of Japanese executives actually dropped by almost 8 percent, and the gap between corporate executives and the average worker in Japan was reduced. By one recent estimate, while the average top executive in Japan has an income 12 times that of the average Japanese worker, the average U.S. executive has an income 300 times or more that of the average American worker (see Table 2-6). Furthermore, much of the recent increase in inequality in Japan is accounted for by the rapid increase in the percent of the population over 65 years of age that does not have the Social Security protection found in the United States (Shirahase 2001). A main point, therefore, is that income inequality in Japan has been consistently lower than in the United States since the 1960s, and generally low among other industrial nations. Although it increased during the bubble economy of the late 1980s and early 1990s, when the economy slowed, the top executives took cuts in pay along with workers rather than lay off workers.

It is tempting to conclude that the primary difference with Japan is simply that the Japanese have a tradition of unequal status ranking, but with relatively more equality in material things. We must not, however, be tempted to draw such a conclusion. Yes, the language showing deference and status ranking has developed over the centuries, but the income inequality figures for Japan were rather different less than 100 years ago. Going back only to the 1920s, we find not a 17-to-1 gap or an 8-to-1 gap within major corporations in Japan but a 100-to-1 gap (Hara and Seiyama 2005:xxi; Abegglen and Stalk 1985:191). During the 1930s in Japan, about 16 percent of the people had over 50 percent of the income, and the top 0.0019 percent of the people had 10 percent of all income (Hane 1982:11).

## Social Stratification in Germany: Some Preliminary Observations

While there is a rich mixture of similarities and differences between Japan, Germany, and the United States with respect to aspects of social stratification, let's begin with a description of one set of key differences in Germany. We can do so by presenting a fictitious example of a German industrial corporation that, like any other in the capitalist world, is making decisions about increasing competitiveness through more efficient production and the introduction of new production technology.

> The company in question will be called IG Hintzmann, a publicly owned corporation with many financial and family stockholders, that produces mostly spark plugs for a wide variety of German automobiles. There are more than 4,000 employees of IG Hintzmann, most of whom are machine workers producing the spark plugs in two large plants located in Duisburg and Essen. In recent years the company has experienced a decline in profits and productivity compared to its competitors, primarily, it seems, because of new production technology that IG Hintzmann is yet to utilize.
>
> The corporate supervisors for IG Hintzmann (similar to the U.S. corporate board of directors) have recently met for many hours analyzing information related to productivity and the effects new production machinery would have on productivity. The impact such machinery would have on IG Hintzmann's workers—for example, whether redundancies (i.e., layoffs) would occur, whether work hours and wages would be affected, as well as whether new training would be required—has been considered in detail because of questions by one-half of IG Hintzmann's board of supervisors who are *by law* workers elected by their fellow workers as representatives.
>
> After these supervisors have been assured that changes are in the best interests of the workers, and that workers' jobs and pay will be protected, the next step is to consult with the powerful labor union, IG Metall, for its support.

Finally, before new machinery is purchased and sent to the shop floor, it is equally important, and the laws require, that the 15 works council representatives on the shop floors of both large plants in Duisburg and Essen be consulted. As stipulated by German labor laws, these works councils, made up of shop floor workers elected by their fellow employees, must be consulted about anything affecting workers on the shop floor, such as the hiring and firing of workers by management, changes in the hours worked, the organization of work, criteria for promotions, and so on. Only with great difficulty, time, and resources can management of a corporation such as IG Hintzmann go against a decision of the works council. Thus, management must keep the works council fully advised and assured that the interests of shop floor workers will be protected by any management decision.

As in most other German corporations of this size, average pay is much higher than it is in other countries, especially the United States, and IG Hintzmann's employees work an average of just over 35 hours a week. Most IG Hintzmann employees have been with the company for more than 20 years and realistically expect to be employed by the company until they retire with a comfortable pension.

IG Hintzmann, though imaginary, is typical of the thousands of large to medium-sized corporations all over Germany, and about as untypical of American corporations as one could find in the world. Moving away from the imaginary, we have already seen some of the figures indicating that German workers have obtained benefits and conditions of employment far better than those of workers in the United States. Table 15-1

TABLE 15-1

**Hourly Labor Costs for Industrial Workers Compared to the United States, 2007***

| | |
|---|---|
| Norway | 180 |
| Germany | 166 |
| Denmark | 156 |
| Austria | 141 |
| Finland | 130 |
| The Netherlands | 129 |
| Belgium | 127 |
| Sweden | 127 |
| Switzerland | 125 |
| France | 123 |
| United Kingdom | 120 |
| Ireland | 117 |
| Italy | 105 |
| United States | 100 |
| Spain | 80 |
| All European Union | 129 |

*Base income is set at 100 percent of U.S. industrial worker hourly wages.

*SOURCE:* U.S. Bureau of the Census, *Statistical Abstracts of the United States, 2010* (Table 1318).

shows that working-class hourly wages in Germany are among the highest in the world. In addition, while the average hours worked per year in the United States was almost 1,804 in 2006, and 1,784 for Japanese, the average for Germans was just over 1,400 (Mishel, Bernstein, and Shierholz 2009: Table 8.4).

By the late 1990s and early 2000s, however, corporate leaders and conservative politicians in Germany were painting a different picture of what is happening in the typical German corporation such as our imaginary IG Hintzmann. Faced with increasing competition from the U.S. corporate resurgence, these German corporate elites were charging that the high German wages and benefits are making their products too expensive compared to those of other countries. Also, corporate and individual income taxes (at about 50 percent for most), which are needed to pay for the high level of welfare, medical, and other benefits to the German people, are said to hinder German corporate performance. Further, the power of German labor unions, plus work laws giving workers extensive influence within each company, are making it almost impossible to lay off workers in order to cut costs and keep corporate profits up, again in contrast to what American companies are able to do. In addition, these corporate leaders in Germany claim that the continuing high unemployment in Germany, even in the face of strong improvements in the German economy in the early 21st century, is caused by these German work laws preventing easy layoff of workers. They claim this keeps German companies from hiring new employees they would not be able to get rid of later, again as U.S. companies can do easily. Finally, these corporate leaders are threatening (with some threats already carried out) to move factories out of Germany to low-cost countries, such as the United States.

By 2010, however, union and worker influence in Germany was not diminished significantly. The German people elected a liberal Social Democratic and Green Party coalition government in 1998 and again in 2003. (I should probably clarify that in 1998 Germans voted in a new government specifically *to keep* welfare programs, government spending, and taxes at their previously high levels.) The more conservative party, Christian Democrats, were able to win back a conservative coalition in the parliament (*Bundestag*) with national elections in 2005 and again in 2009, but there have been only small reductions in the wages and benefits of German workers, and their average working hours remain among the lowest in the world. Neither have they seen a massive loss of jobs like the outsourcing experienced by American workers in recent years. They still have the power to make it much too costly for German companies to close plants and move them to countries such as China.

## The Structural Bases of Social Stratification in Japan

We have seen that the most important bases of social stratification in the United States are the occupational structure, authority structure (economic and political), and property structure. We found that most kinds of rewards (such as income) are distributed through these structures, and that the intersections of these three structures form the bases for the class positions in our industrial society.

What about Japan? If the theories are correct that advanced industrial societies, especially capitalist industrial societies, have these similar bases in their stratification systems, then Japan should also fit. Japan is clearly an advanced industrial society, as figures on Japan's GDP (gross domestic product) and competitive position in the world economy indicate today. And it should be noted that Japan was closest to the United States with respect to the percentage of private (in contrast to state) ownership of basic industries.

In summary, Japan does generally fit the pattern, but with some important differences. As pointed out in previous chapters, all advanced industrial societies are expected to have relatively minor differences in their systems of social stratification. Japan has more of these differences than most, but the differences, as we will see, are as much related to the timing of Japan's economic development as to its differing cultural values. It is time to examine Japan's occupational structure, authority structure, and property structure, in turn.

## Occupational Structure

Like all industrial societies, Japan has doctors, lawyers, corporate managers, scientists, medical technicians, computer programmers, truck drivers, and so on. This much is rather obvious when we consider how well the Japanese make cars, stereos, DVD players, and just about any other product sold in the United States. But we need to consider other aspects of the occupational structure in Japan that are not so apparent. For example, we need to know the distribution of these different kinds of occupations, how people are placed in them, and the relationship between important rewards in the society (such as income) and these occupational positions.

### *Occupational Distribution*

The occupational distributions of Japan and the United States are roughly similar. There are some differences, and these differences do matter; but again, they are relatively minor. For example, we find that more people are in farming occupations in Japan (Hara and Seiyama 2005: Chapter 3; Ishida 1993; Ishida et al. 1987). Another significant difference in the Japanese occupational distribution is the larger number of retail workers and small shop owners (or petite bourgeoisie). As any visitor to Japan can easily see, Japan is still a country of small shop owners. This image is confirmed by Wright's comparative study of class (Wright 1997:45). Following Wright's class categories we find a much larger petty bourgeoisie in Japan compared to the United States (23.2 percent of Japan's working population compared to 6.8 percent in the United States). But also there is a smaller working class in Japan compared to the United States (47.9 percent versus 56.7 percent) as measured by Wright's class categories, in part because Japan is a late-developing economy that skipped over a stage with a greater number of working-class jobs.

Another way to compare the occupational structures of the United States and Japan is to compare the occupational status scales of the two countries. You will remember from Chapter 5 that occupational status studies of the United States and other industrial nations indicate a remarkable consistency through time and across cultures. The meaning of occupational status and what these studies measure can be questioned, but it must be stressed that whatever they measure, they do so consistently. In comparing the occupational status ranking in the United States and Japan, Treiman (1977:87) has found a 0.90 correlation (1.00 is a perfect correlation) between the occupational status rankings carried out in Japan and the United States. Also significant is the strong 0.85 correlation between the educational level of occupants of similar jobs in Japan and the United States (Treiman 1977:110). Again, when we find that all advanced capitalist industrial societies have these high correlations, it is clear that Japan's occupational structure fits.

## *Dual Economy*

Japan's dual economy presents another similarity in United States–Japanese occupational structures. To an even greater extent than in the United States, in fact, Japan's economy is divided between large firms with higher profits, more market control, higher wages, and more unionization, and smaller firms having all of these characteristics in much lesser degrees (Hara and Seiyama 2005: 67–69; Ishida 1993:224; Lincoln and Kalleberg 1985, 1990; Kalleberg and Lincoln 1988). This aspect of Japan's dual economy must be kept in mind when we hear stories of lifetime employment and extensive worker benefits, such as company housing, in Japanese corporations. These things do exist in Japan (though we must qualify the "lifetime employment" in discussing age in the following section), but primarily for the 30 percent of Japanese workers in the core sector of the dual economy.

The negative impact of this dual economy for workers in the small firms is actually getting worse. In order to cope with an economy stagnate for over 15 years, smaller firms, and even some larger companies, have reverted to hiring more part-time workers instead of regular employees who are less likely to be laid off. In the past decade the percentage of the labor force in part-time or temporary employment more than doubled to almost 35 percent (*International Herald Tribune* February 8, 2009). This is more than double the rate for the United States, but like the United States, these temporary jobs often pay below Japan's poverty line, which is set at about $25,000 per year for a family of 4 (close to the U.S. poverty line).

## *Age Ranking*

We now come to an interesting difference in the Japanese occupational structure. As with all advanced industrial societies, there is a positive correlation between education and occupational level in Japan; that is, a higher-level job (doctor, lawyer, accountant, etc.) usually requires a higher level of education. However, at the younger age level (25 years old), workers with less education actually make *more* money than the college-educated (Lincoln 2001:38–41). As we move up the age levels we find that higher education pays off. But this payoff operates primarily by the relationship between higher education and attaining a job in the core sector of the dual economy. Japan is a highly age-ranked society. Thus, there is a stronger correlation between age and income than between education and income (Woronoff 1980:164; Kalleberg and Lincoln 1988).

In what is called the *nenko* system in Japan, once a person lands a good job in a major corporation (because of educational attainment), that person will probably be promoted along with the same age group every year. In other words, merit counts in getting that job, but merit is less important for further promotions in that job (though this is changing in some Japanese corporations but not in public-sector bureaucracies; Clark 1979:45; Abegglen and Stalk 1985; MacMillan 1985).

There is an element of merit always at work in the background, however, that we need to consider. When employees in the core sector reach about age 55 to 60, the jobs toward the top suddenly become fewer. Everyone cannot be promoted together after this. Thus, those employees most highly evaluated by the company are promoted and the others are forced to retire. This is the major amendment to the concept of lifetime employment noted earlier.

## *Income Inequality*

One last aspect of the occupational structure in Japan must be explored. It is in contrast to that of the United States, though not necessarily in equal contrast to other industrial nations (which suggests that the United States is as much or more the deviant case compared with other nations as is Japan). While inequality increased in the late 1980s and early 1990s, during the early 1980s Japan had the lowest level of income inequality of any industrial nation. As can be seen from Table 15-2, the Gini index of income inequality in Japan stayed in the low 0.30 range from 1961 to the late 1980s, moved to the 0.36 range through most of the 1990s, then moved up to the 0.38 range after that. (Remember that 0.0 means complete equality, while 1.0 means one person or family has all the income.) It is difficult to get more recent data on the Gini index in Japan, but the figure for Japan is likely much closer to that high figure for the United States today. During this time the Gini index moved from 0.38 to 0.46 by 2009 in the United States.

TABLE 15-2

**Gini Index of Income Inequality in Japan, 1961–2002***

| | |
|---|---|
| 1961 | 0.344 |
| 1967 | 0.328 |
| 1972 | 0.314 |
| 1975 | 0.346 |
| 1978 | 0.338 |
| 1981 | 0.314 |
| 1984 | 0.343 |
| 1987 | 0.338 |
| 1990 | 0.364 |
| 1993 | 0.365 |
| 1996 | 0.361 |
| 1999 | 0.381 |
| 2002 | 0.381 |

*Income distribution after taxes and transfers.

*SOURCE:* Tachibanaki (2006).

Unlike what we saw in Chapter 2, this is in contrast to European nations, which keep income inequality lower through government policies. In Japan, most of this changing income inequality is produced within the economy rather than through government action, such as tax and welfare policies (Verba et al. 1987:274). For example, the minimum wage in Japan is now lower than the U.S. rate of just over $7 per hour. Also, as noted above, there has been a big increase in temporary workers in Japan with very low wages (about 35 percent of the labor force today). As a result of all this, Japanese were shocked to learn that the relative poverty rate (below half of median income) in Japan has risen to 15 percent of the population, which compares to about 19 percent for the United States (*International Herald Tribune* April 21, 2010). It turns out that the Japanese government ministry bureaucrats had been withholding this poverty data for years. However, it is important to note that the rising income inequality in Japan since the late 1980s has not been exclusively due to the occupational structure but is also an aspect of age stratification in Japan. While age brings status and respect in Japan, it does not bring as much political power as in the United States, which is to say Japan lacks the kind of Social Security system that, as we saw in Chapter 9, has been successful in reducing poverty among older Americans.

Currently Japan has over 22 percent of its population over 65 of age compared to 13 percent in the United States, with 32 percent of the population in Japan projected to be over 65 by 2050 (U.S. Bureau of the Census 2010b: Tables 8 and 1298; Keizai Koho Center 2002:13). Thus, because the Japanese population is aging rapidly, there are more elderly people as a percentage of the population, resulting in more income inequality (Hara 2007; Shirahase 2001).

Finally, we have seen figures showing that the gap between top executives' salaries and the new employees' salaries in Japan is much smaller than in the United States, which has the largest gap. Figures like these suggest that income inequality in Japan is rising because the bottom (temporary workers and the aged) is getting less, and not because the top is getting more. One recent estimate is that the average Japanese top executive makes from $300,000 to a high of $500,000, compared to more than $10 million for the average U.S. executive in the top 300 corporations. The figures cannot be dismissed by saying that the many fringe benefits Japanese executives receive are ignored. While U.S. executives receive many extras, such as stock options, which increase their total income, stock options for Japanese executives are prohibited by Japanese law (Hara and Seiyama 2005; Abegglen and Stalk 1985:187; Kerbo and McKinstry 1995: Chapters 1 and 4). Thus, when we consider these extras, the income gap between U.S. and Japanese executives becomes much larger.

## Bureaucratic Authority Structures

When most people think of bureaucracy, they think of countless rules and legions of bureaucrats enforcing these rules, so that it takes a longer time to get anything done, at much greater effort. We think of the rules at the U.S. Post Office, where packages must be the correct size and weight, and we must fill out many forms if anything out of the ordinary is requested. Any U.S. citizen who has lived for a time in Japan will tell you that you haven't experienced anything like bureaucracy in a post office until you come to Japan. The postal service in Japan, however, should not be singled out, as such bureaucracy is a characteristic of all government and corporate agencies in Japan. We will look at bureaucratic authority structures first in the economy and then in the Japanese government agencies.

### *Corporate Bureaucracies*

Like any other industrial capitalist nation, Japan has large corporate bureaucracies. There are top managers, mid-managers, supervisors, and so on. However, compared to the United States, Japan has relatively fewer managers (Wright 1997:45). In other words, in the United States there are more people watching over other people doing the work. In this case, though, it is the United States that is untypical when compared to Canada, Norway, Sweden, and England in Wright's study (1997). But compared to the United States, corporate bureaucracies in Japan are noted for having more ranks and levels than in most other nations (Lincoln and Kalleberg 1990; Gerlach 1992). In other words, while the United States has more people managing others, Japan creates more rank divisions among the people doing the managing.

This would follow observations made earlier that the Japanese seem particularly concerned with ranking, and that extensive age ranking exists in core corporations in Japan (that is, there must be many ranks to keep promoting people into). But it is also interesting that there tend to be fewer observable rank distinctions in Japanese corporations (Clark 1979:215), even in overseas operations of Japanese corporations with foreign employees (Kerbo et al. 1994a, 1994b; Lincoln et al. 1995). In many ways, higher management is not treated so differently; managers eat in the same places as workers, they do not have large and separate offices, or executive washrooms. However, as we will discuss later, the status difference given to top executives by lower-ranking employees in Japan is more extensive than in the United States.

### *Political Authority Structures*

Like the United States, Japan today has a political authority structure in which questions of who gets what, and why, are influenced by a process of conflict. And, as in the United States, some groups have more resources with which to try to influence the state to protect their interests. But the Japanese political system is by no means a carbon copy of the U.S. system. All political systems have their unique aspects, with Japan having probably more than its share. As the Liberal Democratic Party and the *Diet* (parliament) in general were in disarray because of scandal in the early 1990s, a 1994 political cartoon in Japan described the situation quite well: Under a picture showing emergency workers and medical personnel running around outside the office building for Diet members, one emergency worker says to another, "It is too bad about that gas leak killing all Diet members at their desks." The other emergency worker responds, "Yes, but it is lucky no important functions of government were harmed."

As we will see later when considering the nature of Japan's power elite, in a major contrast to the United States, the most powerful agents of government in Japan are unelected ministry bureaucrats. In each government agency in Japan, such as the Ministry of Finance, Ministry of International Trade and Industry (MITI), Ministry of

Justice, and so on, the vice ministers and their employees are far more powerful than elected politicians in the Diet (Colignon and Usui 2003; Koh 1989; Johnson 1982; Kerbo and McKinstry 1995: Chapters 5 and 6; Hartcher 1998; Gibney 1998). The minister of each government bureaucracy is a temporary political appointee and therefore is no match to the power of the vice minister of each agency. These vice ministers are the people who write most of the laws and then decide how to administer the laws. These ministry officials are career bureaucrats with much more experience than politicians and many more staff to carry out government functions. Another way to understand this difference between Japan and the United States is to consider how many people a new American president appoints after being elected to office compared to a new Japanese prime minister coming into office. A new American president appoints as many as 4,000 people (often from corporate positions) to help run the government. A new Japanese prime minister appoints about 20, all elected officials from the parliament. As one after another prime minister in Japan comes and goes, the government ministry civil servants remain, running the most important functions of government.

In Japan today, therefore, the competition to obtain favorable government action or protection is carried on by corporate elites and Diet members elected by citizens who must go to powerful government ministers for favors and protection. In this sense, while Japanese people vote in far greater numbers than Americans (over 70 percent compared with 50 percent or less), there is less democracy in Japan. A new political party took control of the Japanese parliament (Diet) in 2009 and has taken a few successful steps to reduce some of the power of these unelected government bureaucrats. But it will take many years, if not decades, before the power of ministry bureaucrats is effectively reduced in the Japanese political system.

## Property Structure

In the United States one of the major sources of inequality is the ownership of the major means of production by a few versus the lack of such ownership by most people. There are certainly degrees of ownership (in terms of overall amounts), but because most privately held corporate stock is concentrated in the hands of less than 1 percent of the U.S. population, it can realistically be divided into those who own major amounts of corporate stock (which gives them much wealth, income, and power) and those who have very little or none.

Japan, like the United States, is a capitalist industrial society. This means that there is little government ownership and/or control of the major means of production. But it becomes a bit more complex in the case of Japan. Families who could be said to make up an upper class in Japan (either old upper class or new upper class) today own much less stock than in the United States. Whereas half of all corporate stock is still controlled by families and individuals in the United States, this number is estimated to be 25 to 30 percent in Japan, and much less than this when we look only at the largest 1,000 or so Japanese corporations (Kerbo and McKinstry 1995:63–68). As we saw in Chapter 2, while the most wealthy 10 percent of Americans owned 70 percent of the wealth in the United States, the richest 10 percent of Japanese owned only 39 percent of the wealth in their country, the lowest wealth inequality of all industrial nations (Davis et al. 2006). There are some Marxian analyses of Japan that continue to use the old term *upper class* in the original Marxian sense of capitalist ruling families (Halliday 1975; Steven 1983), but this terminology has much less application to postwar Japan. Let's consider some of the data.

As early as 1966, data on the stock ownership patterns of the largest 466 companies (all with assets of more than 5 billion yen) show that only 8.8 percent (or 41) of these companies have enough family-held stock to be considered family or individually controlled. Dore (1987:112) presents data on stock ownership by various categories of owners for all the corporations listed on the stock exchanges in Japan for 1983. We find that of all this corporate stock, only 27 percent of shares are held by families or individuals. The next biggest share is the 26 percent held by industrial and other commercial corporations, then 18 percent held by banks, and 17 percent held by insurance companies. Counting the amounts owned by stockbroking companies and investment and other financial companies, we find that 66 percent of all corporate stock is owned by corporations in Japan.

Research by Kerbo and Nakao (1991) considered ownership patterns in the largest 100 industrial corporations and 25 largest banks in Japan. Focusing on the number one stockholder in each of the 100 largest industrial corporations, we found only 10 of these companies had a family or individual as the number one stockholder: 47 companies had an insurance company or other financial firm as the number one stockholder, while in 16 it was a bank, and in 19 it was another industrial corporation. As for the top 25 banks, 84 percent had an insurance company or other financial institution as the number one stockholder, while in 12 percent of the cases it was another bank, in 4 percent an industrial corporation, and in no case was the number one stockholder an individual or family. Further, we found only 8 families or individuals had much corporate stock in these 100 top industrial corporations and none among the top 25 banks who had 10 percent or more of the stock in a company.

Finally, in comparison to the United States we must stress a key point: This stock is *owned* by these other corporations, in contrast to the huge amounts of stock *controlled* by U.S. financial firms that are in reality owned by worker pension funds. Before World War II most major corporations in Japan were owned or controlled by a few wealthy family firms combined into groups called **zaibatsu**. Wealthy families were forced to sell off their holdings and reduce their control of the economy by the U.S. Occupation reforms. These firms that were once controlled by families are still in operation and have partially reformed their groups of powerful corporations now called *keiretsu*, but family ownership is no longer significant (Clark 1979:75; Abegglen and Stalk 1985:189). As an example, Table 15-3 lists the main corporations in the Mitsubishi group and the stock they control in each other. The primary reasons for the lack of ownership by families and individuals today must begin with the forced breakup of the old zaibatsu after World War II. When this stock was forced to be sold to break up these family groups, other corporations were among the only ones in a position to buy. Second, unlike in the United States, top corporate managers are prevented by law from being paid with stock options in their companies (Abegglen and Stalk 1985:187). Thus, while this practice accounts for some of the individually owned stock in the United States, there is almost none of this manager-owned stock in Japan. Finally, in Japan, when a corporation has important business deals with another corporation (as a supplier, retailing the product, holding or

TABLE 15-3

**The Mitsubishi Group of Interlocked Corporations**

| Company of stock issue | Percentage of stock owned by other top 20 firms in the Mitsubishi group |
|---|---|
| Mitsubishi Bank | 26.9% |
| Mitsubishi Trust Bank | 32.3 |
| Tokyo Marine | 21.7 |
| Mitsubishi Heavy Industries | 23.2 |
| Mitsubishi Corporation | 42.2 |
| Mitsubishi Electric | 16.3 |
| Asahi Glass | 29.3 |
| Kirin Beer | 12.7 |
| Mitsubishi Chemical | 24.5 |
| N.Y.K. Shipping | 27.5 |

*SOURCES:* Table constructed from data presented in Lincoln (2001:193); Clark (1979:75).

giving financial loans, etc.), the practice is to buy significant amounts of stock in the corporate business partner (and vice versa) as a show of support and to maintain good relations. A result has been the keiretsu groups of corporations so famous in Japan today, which we discuss in some detail in the next section on power elites in Japan.

During the late 1990s and the first years of the 21st century, however, we must recognize that this Japanese corporate structure is changing. How much it is changing is not yet clear, but there has been a new trend of corporate mergers in Japan that have gone across the old keiretsu circles. Although nothing like the merger wave in the United States in the last two decades, the mergers of large banks from separate keiretsu groups in Japan have made this corporate structure more fuzzy, with less distinct circles by 2010.

In Chapters 6 and 7, we found that institutional investors control most stock in major U.S. corporations. This development has cut into the ownership and power of an old upper class of families and created the basis for what is called the *corporate class* of top executives, who not only control their own corporations but also have extensive influence across major corporations, as well as much influence in the government. To what extent do we find this corporate class in Japan? This is our next subject—Japan's power elite.

## Japan's Power Elite

In many ways the configuration of elites in Japan fits the view of a "power elite" described by C. Wright Mills better than the elites in any other country. There is a "triumvirate of elites," what the Japanese often refer to as the "iron triangle," which is more powerful, more united, and more in control of the country than anywhere else among modern industrial societies. Likewise, among nonelites in Japan, there is something closer to a "mass society" of powerless and politically inactive people described by Mills than can be found among any other of the leading modern nations today. The primary qualification in Mills's power elite thesis when applied to Japan is that the triumvirate of elites does not include the military. Rather, the iron triangle is made up of the corporate elite, the bureaucratic elite in the government ministry, with the political elite of leading politicians coming in as a distant third with respect to power in today's Japan. In what follows we present a small part of the evidence indicating the power and unity of Japan's power elite.

## The Corporate Class

The corporate class of this triumvirate of elites is based in Japan's postwar keiretsu corporate structure described earlier. With the fall of the powerful zaibatsu corporate groups soon after World War II, there was a slow emergence of what are today called keiretsu corporate groups. The fundamental difference is that the keiretsu groups of corporations are seldom owned and controlled by wealthy families, but in fact own each other. Sitting on top of the keiretsu groups are corporate executives who collectively run the economy with more authority and independence than can be found in other capitalist nations (Kerbo and McKinstry 1995: Chapter 4).

Before we consider the positions of these corporate executives, the importance of the keiretsu corporate groups themselves must be considered. While the number of keiretsu corporate groups seen as most important may be in dispute, and there are a few mergers going across keiretsu lines in recent years, there is clear agreement over the six most powerful keiretsu. These "big six" contain approximately 193 main corporations, accounting for about 15 percent of all corporate assets in Japan, including 40 percent of all banking assets, 53 percent of all insurance assets, and 53 percent of the real estate business (Ōsono 1991; Gerlach 1992:87; Morioka 1989:49). On average, each of the 193 corporations within one of the big six groups is linked through stock ownership with 54 percent of the other corporations within the group, with an average of 21.6 percent of the stock of each of these corporations held collectively by other corporations within the specific keiretsu. With economic crises and pending bank failures during the late 1990s, the keiretsu system is in something of a flux. Some of the big banks have had to merge, in essence merging some other corporations into the keiretsu as well. But as of 2000, the cross stock holdings among the big six keiretsu had gone down only slightly (Lincoln 2001:192–193).

In addition to the big keiretsu, or what can be called horizontal keiretsu, are many more *vertical keiretsu*. Each of the big corporations within a horizontal keiretsu dominates many smaller corporations, sometimes numbering in the hundreds, who supply the dominant corporations with parts or services vital to operations. Thus, through the interlocking big six keiretsu, there is a web of thousands of corporations tied together when we count the smaller corporations in the vertical keiretsu of the giants. By way of example, Table 15-4 contains the list of the main and affiliate corporations in the powerful Mitsui keiretsu, one of the big six. Selecting Toshiba within this keiretsu for further example, there are more than 200 additional companies in the web that are lower members of the Toshiba vertical keiretsu (Kerbo and McKinstry 1995: Chapter 4; Ōsono 1991; Gerlach 1992:88).

TABLE 15-4

**Example of Companies in the Mitsui Keiretsu**

| Main companies | |
|---|---|
| Mitsui Manufacturing | Toshiba |
| Mitsui Real Estate | Toyota |
| Taiyo-Kobe/Mitsui Bank | Mitsukoshi Stores |
| Mitsui Toatsu Chemicals | Mitsui Maritime Casualty |
| Mitsui Storage | Tore Industries |
| Mitsui Trust Bank | Oji Paper Products |
| Mitsui Shipbuilding | Sanki Heavy Industries |
| Osaka Shipping/Mitsui Shipping | Japan Steel Co. |
| Mitsui Metals and Ore | Japan Flour Products |
| Mitsui Construction | Onoma Cement |
| Mitsui Mines | |
| Mitsui Life Insurance | |
| Mitsui Petrochemical Industries | |

| Associate companies | |
|---|---|
| Mitsui Leasing Enterprises | Electrochemical Industries |
| Mitsui Information Development | Ishikawajima/Hamima Heavy Industries |
| Mitsui Liquid Gas | Toyo Engineering |
| Mitsui Homes | Tomen Corporation |
| Mitsui Aluminum | General Petroleum |
| Mitsui Agricultural Products | |

| Group | Main companies | Affiliate companies | Presidents' club |
|---|---|---|---|
| Mitsubishi | 28 | 93 | Kinyo kai (Friday Club) |
| Mitsui | 24 | 92 | Nikikai (Two Pillars Club) |
| Sumitomo | 21 | 95 | Hakusuikai (White Water Club) |
| Fuji | 29 | 74 | Fuyo kai (Lotus Club) |
| Daiichi Kangyo | 47 | 45 | Sankinkai (Three Gold Club) |
| Sanwa | 44 | 27 | Sansuikai (Three Waters Club) |

Heading these big keiretsu corporations are executives who run their own companies but also belong to cross-keiretsu organizations that help manage and protect the interests of the keiretsu corporations collectively. Among the most important of the cross-corporate organizations are *shacho-kai,* or "presidents' clubs," found in each keiretsu. The members of the presidents' clubs normally meet once a month to consider common problems, plan business ties, consider the problems of any company having trouble within the keiretsu, and organize joint political action to influence government policy. Table 15-4 lists the big six keiretsu, the number of main corporations and lesser affiliated corporations in each group, and the name of the presidents' club (Kerbo and McKinstry 1995:71–72).

There are a few organizations in the corporate class in Japan, however, that cut across all of the big keiretsu to help deal with common problems and especially direct the political action for them all. *Keidanren* (or Japan Federation of Economic Organizations) is by far the most important, a kind of super business establishment, or, as some say, the "parliament of big business" with the Keidanren chair as the "prime minister" of the business world—and likely the single most powerful person in Japan (Kakuma 1981a; Atsuta 1992; Okumura 1978, 1983; Woronoff 1986:152; Kerbo and McKinstry 1995:Chapter 7). There are approximately 900 members of Keidanren who come from less than 1 percent of the corporations in Japan. However, this inner group of the corporate class who are Keidanren members come from corporations accounting for 40 percent of all sales and 50 percent of all corporate assets in Japan. Until 1997, the chair of Keidanren was Eiji Toyoda, also director and former CEO of Toyota Motor Company. It is especially in Keidanren that the inner group of the corporate class, called the *zaikai* in Japan, coordinates the economy and applies political pressure on the government in ways that often would be illegal in the United States.

## The Bureaucratic Elite

As noted earlier with respect to power in Japanese government, it is the top personnel in the main ministries who are most important and have the most influence. The key government ministries include the Ministry of Finance and the Ministry of International Trade and Industry, with the most powerful person in all of these ministries being the vice ministers, not the ministers. The vice minister and all of the ministry personnel below this person in each ministry are career bureaucrats who started in the ministry right out of college and worked their way to the top. The minister in each government ministry, on the other hand, is a political appointee, knows little about the agency compared with the other personnel, and is in office for only 3 or 4 years at most, and most often in recent years for less than 1 year (Colignon and Usui 2003; Kerbo and McKinstry 1995:Chapter 5; Koh 1989).

Neither can the politicians be considered all that influential over the bureaucratic ministry elite in Japan. Japanese ministers of parliament have few staff, and over 80 percent of the legislation passed in parliament was written and pushed by the ministry elite. The laws that are passed give the ministry elite broad interpretation when acting on their authority, as well as what is called "administrative guidance" to pressure people in all sectors of the society to follow their dictates. But beyond this, the ministry officials issue their own ordinances to direct all sectors of the society, which outnumber the laws from the Diet by nine to one (Koh 1989:206–207).

## The Political Elite

The political elites in Japan today are in retreat, and will be for many years to come. Before 1993, and going back to 1955, the political elites from one political party—the Liberal Democratic Party (LDP)—dominated Japanese politics. But these people finally became so corrupt and such an embarrassment to their corporate elite supporters that the party lost control of the Diet in 1993. It wasn't just the $50 million in gold bars found hidden in leader Kanemaru's home safe from the latest bribery scandal in the late 1980s that did the LDP in—that was only one of the final embarrassments. The corporate elite, often through the big business organization Keidanren, before 1993 had given the LDP over 90 percent of its campaign funds; after 1993 these funds were cut off but only briefly. By 1994 the LDP was back in control of the lower house of the Diet, although its control is less complete compared to the pre-1993 years (Kerbo and McKinstry 1995: Chapter 6). Campaign reform laws, which were finally passed in 1993 and 1994, and the new single-seat districts, which came into effect in 1994, have also left Japanese politics in turmoil. Finally, in 2009 the Democratic Party in Japan won a majority of seats in the lower house of the Diet to stop rule by the LDP. The new prime minister, Yukio Hatoyama, began attempts,—with some limited success as of 2010—to reduce the power of the government ministry. But there is unlikely to be much success for many years, if decades.

The Diet and those politicians in top positions in the Diet are not now, nor were they ever, powerless. Among other things, laws must be passed—even if they are mostly written by ministry officials—and tax revenues must be allocated. But the postwar Japanese political elite can be best described as playing a supportive role for the corporate and ministry elite.

## Social Stratification in Germany: Some Similarities—and Key Differences

We should begin this section by noting that our reference points are Germany and the United States, with some comparison to material from Japan in the first half of this chapter. This is important to note because many people, including many sociologists in the United States and Europe, have assumed that European class structures are more or less the same, with the United States and England placed in contrast to the continental European countries (Haller 1990:xi). Renewed attention to this question in recent years has brought research indicating the contrary (see especially Teckenberg 1990). There are many significant differences among the nations of continental Europe, though it is generally true that there are more similarities when contrasted to England and the United States.

Throughout the previous chapters of this book we have addressed the many issues of social stratification with comparative data—often with European data. In the first half of this chapter on Japan, we again covered the many issues of social stratification with Japan, the United States, and other Western nations as points of comparison. Thus, in this section we proceed rapidly through a series of major issues in social stratification so as not to belabor points made elsewhere.

### Structures of Social Stratification: Occupation, Authority, and Property

We have noted that all societies have some differences in the distribution of occupational categories that must be taken into consideration when comparing mobility rates.

Compared with the United States, there are some differences in Germany: For example, Germany has more industrial workers compared with a larger service sector in the United States. There is a large difference in the number of managerial workers, with under 5 percent of workers for Germany compared with over 13 percent in the United States (Kappelhoff and Teckenberg 1987:5–8). (This difference is no doubt related to the work laws, which are examined later in this chapter.) However, despite some differences, a main point of recent research on the class structure of Germany is that the class categories made up of occupational position, authority position, and property holdings are equally useful for understanding social stratification in Germany.

Several studies using recent German data have employed the Wright (1985, 1997) class categories we have used in previous chapters (for example, Holtmann and Strasser 1990; Terwey 1987; Haller 1990). As in the United States and other major industrial nations, such issues as the distribution of income by class categories and gender in Germany, as well as class consciousness, can be understood with reference to the class categories outlined by Wright (1985, 1997).

## Corporate and Bureaucratic Elites

As late-developing capitalist powers, defeated and largely destroyed after World War II, Japan and Germany invite all manner of comparisons. With respect to corporate elites, there have been, in fact, a number of similarities—both before and after World War II—but there also have been many differences. Among the similarities are some very wealthy families emerging at about the time of rapid industrialization in the second half of the 1800s, though Germany never had as much concentration of wealth in the prewar period as represented in the largest six Japanese zaibatsu.

Also among the similarities, most of the German upper class lost much of its wealth after World War II. Here, however, the comparison to Japan must certainly be seen as a matter of degree: There was much more continuity of wealth in pre– and post–World War II Germany than in Japan, and very few of the big German corporations were broken up as were the largest zaibatsu in Japan (Broom and Shay 1992; Spohn and Bodemann 1989:85–87). There was the 1952 "equalization of burdens law" (*Lastenausgleichgesetz*), which took some of the wealth from Germans, but only a small percent. Thus, upper-class and corporate-class power remains in Germany, somewhat more like in the present-day United States. But again there are some differences that must be outlined if we are to understand the position and power of current corporate elites in Germany.

While the United States has come to dominate the list of the richest people in the world, there are still wealthy families in Germany. In fact, before the American upsurge because of the booming U.S. stock market and longest economic boom in American history during the 1990s, in 1991 Germany ranked third in the list of world billionaires. In overall numbers the United States has more than twice as many billionaires compared with Japan and Germany, but despite war devastation, Japan and Germany have their share. Also interesting is that Germany actually has a slightly higher concentration of billionaires per population than the United States or Japan, though even with this statistic Germany is still third in billionaires behind Hong Kong and Switzerland.

Equally important to note is that unlike in Japan, where most billionaires today are post-war in origin and generally not the most powerful people in the economy (Kerbo and McKinstry 1995: Chapter 4), German billionaires show much more continuity and have more corporate power. Of the 43 billionaires in Broom and Shay's (1992) data set from Germany (and 1 from Switzerland affected by the Nazis), well over half of the family fortunes date back before World War II, and sometimes much further back. Six of the billionaire families originated before the 19th century. For example, "the youngest billionaire on the *Forbes* and *Fortune* rosters, 8-year-old Prince Albert von Thurn und Taxis, is 12th in a family line that founded the Holy Roman Empire's postal service" (Broom and Shay 1992:4). Another of the richest families in Germany today, the Haniels of the Ruhr industrial area of Germany, "date back 235 years to an ancestor to whom Frederick the Great granted the right to build a Duisburg warehouse" (Broom and Shay 1992:5). Today, Haniel family members hold about $5.3 billion in assets. We should not forget the Krupp family wealth, so important to Germany in arms production during many wars. The last Krupp family member died in 1986, though he had dropped the Krupp family name by 1966 and had renounced his inheritance because of Krupp corporate support of Hitler and building of concentration camps during World War II (though he did agree to keep an annual allowance of $900,000). The Krupp wealth dates back to the Thirty Years' War (1618–1648), when they made gun barrels for the German government. As for a more recent billionaire family, the Bosch family fortune was established by Robert Bosch, who began making such items as spark plugs and other electrical devices in 1886.

The real takeoff for these pre–World War II family fortunes goes back primarily to the second half of the 1800s with Germany's industrial expansion, even for most of the families who had wealth before this time. Three of the most wealthy families after World War II (Krupp, Thyssen, and Haniel), for example, made much of their wealth during the second half of the 1800s in the Ruhr industrial area around Duisburg, Essen, and Düsseldorf. But there was also great wealth emerging from the growth of big German banks at this time. The biggest of them all today, Deutsche Bank, was established by famous upper-class families of today such as Siemens (Broom and Shay 1992:5–6).

We have learned in previous chapters, however, that great wealth does not always equal great economic power. While there is much continuity of wealth in Germany through the past two centuries, there also has been great change in the German corporate structure since World War II. The rise of institutional investor stock control (to an even greater extent than in the United States), interlocked corporations with banks in central positions, and government ownership of much stock in big corporations are among the most important of these changes.

## *German Corporate Structure*

When we examine large corporations in Germany, family stock control has become less extensive in the post–World War II period. However, a rough examination of the data indicates that there is still more family control of large corporations in Germany than in the United States, and certainly much more than in Japan (Liedtke 1994). As we have already seen in the United States, there has been a rise of institutional investor stock control in the hands of investment banks, trusts, and other institutional investors in Germany. However, we will see later in this chapter that because of German laws, especially labor laws, stock control in a German corporation does not confer quite as much power in many cases as it does in the United States.

There is one more important difference between the German and American corporate structures that must be noted in the beginning: Unlike in the United States, and even Japan, big banks in Germany can also directly own large percentages of stock in big corporations. With the combination of institutional investor stock control and stock directly owned by banks, the big German banks—such as Deutsche Bank, Commerzbank, and Dresdner Bank—are the real powerhouses in today's German economy (Liedtke 1994). It is now not uncommon to hear of Germany's *bank keiretsus* (in reference to the Japanese keiretsu) to describe the groups of German corporations linked by powerful bank stock control, loan dependency from these big banks, and interlocking directorates coming from these big German banks (Thurow 1991:34; Craig 1991:115; Glouchevitch 1992:73–75). One important reason for this is that in contrast to Japan and the United States, German banks are not so restricted in how much stock they can hold in other corporations, plus they also can act directly as stockbrokers to control more stock (Glouchevitch 1992:75).

We can focus on the biggest bank today, Deutsche Bank. To list some examples of powerful corporations, Deutsche Bank holds 25 percent of the stock in Daimler-Benz, 10 percent of the leading insurance company (Allianz), 10 percent of another leading insurance company (Munich Re), 10 percent of Germany's leading department store (Karstadt), about 26 percent of Germany's leading construction company (Philipp Holzmann), among many others, just a few of which are also shown in Table 15-5 (Liedtke 1994). Executives from Deutsche Bank can also be found on the corporate boards (supervisory boards) in over 150 large corporations in Germany (Glouchevitch 1992:73). There is another big difference in Germany's corporate structure compared with those of Japan and the United States: The German government also

TABLE 15-5

**Examples of German Bank *Keiretsu* (% of Stock Owned by Bank)**

| Deutsche Bank | Dresdner Bank |
|---|---|
| Allianz (10%) | Allianz (10%) |
| Munich Re (25%) | Bilfinger & Berger (25%) |
| Daimler-Benz (25%) | Hapag-Lloyd (10%) |
| Karstadt (10%) | Verba (5%) |
| Philipp Holzmann (26%) | BMW (5%) |
| Klockner, Humboldt, Deutz (41%) | Munchener Ruck (10%) |
| Linde (10%) | |
| Munchener Ruck (10%) | |
| Sudzucker (17%) | |
| Hapag-Lloyd (10%) | |

*SOURCE:* Data from Liedtke (1994).

owns significant percentages of stock in major corporations. This government ownership of stock in Germany is on both the federal and state (Lander) government levels. Overall, the German government owns about 7 percent of all corporate stock in the country (Garten 1992:113), though in many cases the amount held in particular corporations is much higher. For example, the central government owns 52 percent of the big airline, Lufthansa, and large portions of the Bundesbahn (railroad), and Telekom (the national phone system, though much of this government-held stock will be sold soon). For another example, one of the states, Lower Saxony, owns 20 percent of Volkswagen. Overall, the German government directly owns more corporate stock than the government of any other industrial nation today (Thurow 1991:36).

## *The Bureaucratic and Political Elite*

At the upper levels of power and social stratification, it is among the bureaucratic elite where we find most similarities between Japan and Germany. While there are some important differences today that must be considered, it is useful to note that Japan specifically used the German state and bureaucratic elite structure as a model for its own development from the early Meiji period when Japan started its industrialization in the second half of the 1800s (Dietrich 1991:273).

In Germany, by the early 1800s it was already assumed that the state needed to direct the economy, and even in some cases to own and control corporations for economic development (Bendix 1978:413). Also like the Meiji Restoration of the late 1800s in Japan, from the middle 1800s Germany experienced something like a revolution from above, with sections of the elites pushing for basic change so that Germany could catch up to the other dominant powers of Europe at the time (Spohn and Bodemann 1989:76). While it is Bismarck who is often described as the founder of the German bureaucracy, it developed much earlier: Frederick William I, who ruled from 1713 to 1740, in many ways can be better described as the founder (Dietrich 1991:274–278). At that time, of course, most bureaucratic elites came from the *Junker* aristocratic upper class, but even then these people had to be rather well educated and talented to obtain such positions. Probably nowhere else in Europe does the bureaucratic elite continue to have as much respect and status as in Germany (Smith 1984; Dahrendorf 1979). Also like Japan, the German bureaucratic elite survived World War II intact more than did the corporate and certainly the political elite of Germany.

Where German and Japanese bureaucratic elite differ most is in the federal and state government division of responsibility already noted earlier in this chapter. While there are important bureaucratic elite positions on both federal and state (Lander) government levels, more central policy is developed on the federal level, and most of the actual work of guiding the economy and society falls to the state (Lander) levels (Mayntz 1984).

At the federal level, in each of the main government ministries there is only one main political appointee (as in Japan); the remainder are career civil servants. There are 20 main federal ministries with about 20,000 civil servants. Some 5,000 at the top are considered to be the "higher bureaucrats," with only 134 positions considered the very top (Dietrich 1991:278–282). These bureaucratic elites have gone to the best universities in Germany, and while only about 15 percent of Germans graduate from a university, in a figure unbelievable to most Americans, about *50 percent of all university graduates* in Germany start and end their careers with government positions—after they pass another difficult examination to enter the civil service, that is (Conradt 1978:167).

Unlike the preceding, significant differences exist between Japan and Germany with respect to their political elites. As noted earlier, although (and to some degree because) political parties were outlawed by Hitler, they made a big comeback after World War II (Dietrich 1991:282). German politicians actually do much governing and establishing policy, in contrast to their Japanese counterparts. They therefore provide a counterforce to the bureaucratic elite, and cooperation and compromises must be made in running the German state to a much greater extent than in Japan.

## German Workers and Codetermination Laws

With the preceding description of German corporate elites and the keiretsu-type corporate structure centered around large banks, one might assume that German workers have little influence in such a system. In contrast to the United States, however, such an assumption could not be further from the truth. How else are we to explain the high unemployment benefits cited earlier, or the low inequality figures already cited? At this point it is important to remember that Germany has some of the lowest levels of income inequality among industrial nations. As we saw in Chapter 2, the gap between the typical manufacturing worker's pay and the typical chief executive officer is 11 to 1 in Japan and 10 to 1 in Germany, while it is highest for the United States at 200 to 300 to 1 by various estimates. In other research comparing Germany, Japan, Canada, Italy, France, England, and the United States, the average manufacturing employee's income was highest in Germany, third highest in Japan, and lowest in the United States and England. As for the income of chief executive officers, however, it is highest in the United States, while executives in Germany receive one-half the income of U.S. executives and Japanese executives receive about one-fourth the income (not counting bonuses and stock options which put American corporate executives much further ahead in overall compensation).

While Germany and Japan are rather similar with respect to comparatively low pay for CEOs and high pay for average workers, the two countries line up very differently on some other figures: We have already seen that, except for American workers, Japanese employees work the longest hours per year among advanced industrial nations, while German employees are toward the bottom of average hours worked per year. The point is that German workers have few equals when it comes to wages and other benefits, short working hours, government protection, among many other conditions workers around the world can only look upon with envy. To put it crudely, the wealthy and corporate elites in Germany did not suddenly decide to give workers a better deal because they are "nice guys." It is our task at present to provide some explanation for why German workers are the envy of most workers in the world, and we must begin with a brief history of the "works constitution act," "codetermination laws," and other means of labor influence in Germany.

## A History of German Labor Laws

While conducting research on relations between Japanese managers and German employees in Japanese transplant corporations located in Germany during 1992 and 1993, we asked German personnel managers to explain some of the problems associated with their job in a Japanese corporation. In a common response, one of our informants stated, "Japanese corporate executives here do not think the position of personnel manager is such a complex job." He went on to describe how the job of personnel manager in Germany involves much more than hiring and firing of employees, especially because there must be continuous and complex negotiations with employees on almost every issue (Kerbo et al. 1994a, 1994b; Lincoln et al. 1995). Workers in Germany are not simply told what policies they must follow. Indeed, because of labor laws, it can be said that German workers have more rights and influence in what happens in the workplace, and often in the company generally, than any other workers in the world (see Thelen 1991; Turner 1991). These labor laws apply to any corporation setting up operations in Germany, whether the company is German, American, Russian, or Japanese.

The term **dual system** is used to describe the form of labor representation in Germany that has evolved since World War II. This dual system involves (1) legally mandated equal employee representation on the company board of directors, along with representation on the shop floor level by "works councils," and (2) the continued presence of powerful labor unions representing labor in wider issues above the individual plant level. Soon after World War II, labor unions were able to gain strength after having been destroyed by Hitler. By 1952, however, labor laws first pushed as early as 1848 were finally enacted by the German government, giving workers extensive rights and specific representation in each company, above the very smallest, through worker corporate board representatives and works councils elected by employees of the company (Hoffmeister and Tubach 1992:180). Fearing the consequences of greater labor union influence after World War II, the conservative German government at the time tried to weaken labor unions through laws it believed would isolate worker representatives in each corporation, creating something like "company unions." The idea backfired, however, when labor unions in fact did not decline in influence and worker support but learned to cooperate with works councils and worker board members in each corporation for influence on two fronts, from within each company and from without (Thelen 1991). With a more liberal government in the 1970s, these labor laws, or **codetermination laws,** were expanded in 1972, giving workers even more rights of "codetermination" about what happens in the workplace.

It is important to note that labor influence is said to be more legalistic, or formalized into law, in Germany compared with other industrial nations, even other countries in Europe such as Sweden and Austria that are known for strong labor unions. Compared with several other European nations, Germany, in fact, has a lower rate of unionization; but this is misleading. Despite the lower rate of unionization in Germany, workers have more influence because (1) the ties between works councils and unions are more important than the number of workers who actually join a union in the company, and (2) workers' rights' are more fixed in law and not as dependent on what kind of government happens to be in office at the time. With this situation, a division of labor has developed, especially between union leaders and works councils: The unions work for wage and other agreements affecting German workers generally—often through political action and threats of strike—while the works councils see that these wider agreements and already existing labor rights are upheld on each individual shop floor.

A few examples of the rights afforded workers under the codetermination laws will be useful for American readers, who will find the situation surprising compared with that in their own country. For example, under the expanded 1972 laws, workers must be given extensive information about all matters affecting them and the whole company; works councils must be consulted on any changes in policies affecting work time arrangements, overtime, work breaks, vacation times, plant wage systems, the introduction of new technologies and any other alterations in the work environment, as well as the hiring, transfer, reclassification, or firing of workers. Thus, corporate managers "must secure (in advance) the consent of the works council on a range of personnel decisions affecting individual workers, including job assignments, classifications and reclassification, and transfers [paragraph 99 of the Works Constitutions Act]" (Thelen 1991:101). After consulting with the works council on these issues, it is sometimes possible for managers to go against a vote of the works council; but to do so is very time consuming because of extensive rights for challenge given workers in a labor court system in Germany.

To make the point more clearly, we can provide a few details pertaining to the influence of works councils from the 239-page 1991 English version of the official *Codetermination Laws* (German Federal Ministry of Labour and Social Affairs 1991:18–19):

> [Works councils have] a genuine right of co-determination in a series of matters such as: working hours, e.g. the introduction of short-time work, the introduction and use of technical devices designed to monitor the behaviour or performance of the employees, the assignment of and notice to vacate company-owned accommodation, the fixing of job and bonus rates and comparable performance-related remuneration.
>
> Works councils have a far-reaching right of participation and co-determination in matters concerning the structuring, organization and design of jobs, operation and the working environment, manpower planning and personnel management as well as in-plant training.
>
> In the case of recruitments, gradings, re-gradings and transfers the employer must obtain the consent of the works council. If the works council refuses its consent it can be substituted only by a decision in lieu of consent by a labour court.
>
> Dismissals are effective only if the works council was consulted in advance. The works council may oppose a routine dismissal with the effect that the employer must keep the employee in his employment until a final court decision is given on the case at issue.
>
> The works council has the right to be informed on a large number of matters. Moreover, the finance committee, which is to be established in companies with more than 100 employees, and whose members are all appointed by the works council, has a substantial right to be informed and to be heard in financial matters.
>
> In the case of alterations, such as the reduction of operations, the closure or transfer of an establishment, the works council may require the preparation of a social compensation plan in order to compensate for any financial prejudices sustained by the employees.

Finally, we must also stress that according to the Codetermination Act of 1976, large German corporations must have equal representation of workers on the "supervisory board." The supervisory board in a German company is similar to the board of directors that represents stockholders of the company in an American corporation in that these people have legal authority over corporate managers, and can set their salaries as well as fire managers for poor performance (though we have seen it is more complex than this in the American corporation in Chapter 7). But in striking contrast to the United States, under German law the workers of a corporation are considered to have equal rights, legal protection, and therefore equal authority with the stockholders. As noted earlier, this is where stock control in a German corporation may not bring as much power as it does in the United States or Japan. By German law, in large German corporations the supervisory board must be made up of 10 employee representatives and 10 stockholders' representatives (see Markovits 1986:56). Further, the 10 employee representatives on the supervisory board must include at least 7 staff members, from which at least 1 is a wage earner, 1 a salaried employee, and 1 a management employee, along with 3 union representatives from the shop floor.

With the long hours and low pay of American and other workers, it might seem that German workers would be unable to compete. With low-wage competition from the United States becoming more intense from the 1990s, more German corporate executives are claiming this to be a problem. But the situation is more complex than just comparative wages and benefits. Otherwise the German economy would not be the strongest in Europe, the third largest in the world, and still a strong competitor of the United States and Japan. Because of its importance to the question of world economic competition and the position and standard of living of workers, as well as because little of this is known in the United States, we must now turn briefly to the issue of benefits to German corporations and the German economy from the dual system.

## Labor Power and the Benefits of the Codetermination Laws

When first confronted with the array of German labor laws, legal rights, and labor costs, American, British, and Japanese corporate executives are likely to assume these are harmful to business, and wonder how German corporations are able to survive. But German corporations certainly do survive, and there is evidence that German labor laws, unions, and works councils actually help the competitiveness of German companies. Also, interviews with executives from major German corporations have recently indicated these executives now agree that codetermination laws have helped their business (Wever 1993; Thelen 1991; Kerbo and Strasser 2000:Chapter 4).

To understand one of the major benefits of works councils and strong German unions, the individualistic orientation of workers in Western industrial nations has to be acknowledged. Western child-rearing methods and Western culture will likely never allow the tendency toward identification with the company and the extent of cooperation with the work group found in Asian countries such as Japan (Pye 1985). But neither can all workers seek only their own individual interests without due regard for group needs if a civilization or a particular company is to survive. However flawed some of his ideas, Sigmund Freud outlined this dilemma of human societies in one of his greatest books, *Civilization and Its Discontents,* in 1930. Some means of organization and compromise of conflicting interests must be attained. Early German sociologists such as Georg

Simmel (1905/1955) and later sociologists such as Coser (1956, 1967) outlined similar principles of human societies in dealing with conflicting interests. These sociologists have shown how group conflicts, when properly managed and organized, can in fact have positive benefits for both parties in a conflict.

For example, it has long been pointed out that an organized opponent is much preferable to an unorganized one. With an unorganized opponent, solutions to a conflict or compromise are close to impossible. But with an organized opponent, negotiations and compromises can be made. *And,* most important, the compromise agreement can be carried out with an organized opponent whose leaders are able to keep their members in line. Recent studies of German corporate executives and their attitudes toward strong unions and works councils suggest many have read their Simmel, or more likely simply have discovered a universal principle first outlined by Simmel. As one representative of the Association of German Employers stated (Thelen 1991:34–35):

> As soon as you get splinter groups in the plant, you get unrest in the plant as well. We would rather deal with one union, with a unified works council. A single, unified opponent is more reliable and trustworthy [*verlasslich*]; more than one faction fosters competition among them as each tries to outdo the other. We would rather have a single strong and self-confident union to work with.

A logical calculation of winners and losers in the conflict or cooperation between management and labor supports the attitudes of German managers described above (Wright 2002b). With workers kept weak and uninfluential in the company as in the United States, corporate profits in the short run are higher. Wright (2002b) showed that as working-class power increases to challenge the capitalist-class power, in the short term, productivity and profits decline. But after a period of time there is a positive effect on both higher corporate profits and worker wages and benefits as workers' power helps capitalists solve the various kinds of collective action problems to increase production quality and productivity.

Despite the extensive individualism of Western workers, it is still beneficial *and* possible to obtain worker identification with the company, as well as the long-term needs and survival of the company. But such worker identification and cooperation in Western nations is more likely achieved by giving recognition to individualism rather than trying to suppress it.

This is in contrast to the lingering effects of philosophies such as Confucianism in many Asian nations, including Japan. In these countries subordinates are more likely to submit to authority figures in return for protection and rewards, which they expect will be given because of their submission (Pye 1985). In the more individualistic West, however, subordinates are more likely to demand rights and influence in what authority figures decide in order to assure themselves of benefits and protection. This is not to say Asian subordinates will remain passive when their expectations are violated; they certainly have rebelled throughout history, especially in Japan. But the point is that there are different approaches to authority figures by subordinates, and different ways of ensuring expected benefits.

German codetermination laws could not be further from Confucianism: German employees certainly do not wish to depend on the paternalism of corporate managers. But in providing worker rights and influence in matters affecting their jobs, labor–management cooperation can be achieved. When employees are brought into some of the decision-making process, they feel more confident their interests are being protected, and they are made to feel more loyalty toward the company, tied to the long-term profitability and survival of the company, much like Japanese workers in the most successful Japanese corporations. Because of the past treatment of workers and mutual mistrust between labor and managers in the United States, there is often the attitude of a "zero-sum game"; that is, if one side wins something, it means the other side necessarily loses, rather than both possibly ending up as winners. In our visits to union offices in Germany, on the other hand, we saw and heard many things suggesting a rejection of such a zero-sum game.

## Variation in Modern Systems of Social Stratification: A Conclusion

As we have seen in several places throughout this book, especially at the end of Chapter 7 (see Table 7-5) and Chapter 14, there are different variations of modern stratification systems today, related to what we can call differing political economies or different capitalisms. In this chapter we have seen more detail about how and why the German system of social stratification is related to what I have called "cooperative capitalism," and the Japanese system fits the "Asian model," both in contrast to the "corporate-dominated" form of social stratification in the United States. All systems of social stratification in modern industrial and postindustrial societies have some fundamental similarities: the occupational, authority, and property structures shape the ranks of modern stratification systems, there is social mobility (though with more variation today), and there is certainly income and wealth inequality in all of them. Still, there are important variations.

Of the three primary actors in modern capitalist systems, in Germany there is more of a balance of power between the corporate elite, the state, and employees. This greater balance of power is what gives German employees a much greater share of the valued resources compared to the United States. In Japan (as well as most other Asian nations), the state has always been more authoritarian, even when some democracy has been achieved. The state is much more involved in regulating aspects of the society, and especially economic activity. And it is primarily unelected bureaucratic officials who direct the state when it comes to economic planning (Kerbo and McKinstry 1995). Other East and Southeast Asian nations that have been experiencing rapid economic development in recent decades have been more or less following this Japanese model (Kerbo 2006, 2005, forthcoming).

With a much weaker state under the neo-liberal philosophy of the United States, a philosophy arguing that the state should be less involved in human affairs (especially economic activity), a corporate elite has come to be much more influential, especially since the Reagan era beginning in 1980 (Kalleberg 2009; Tope and Jacobs 2009; Birchfield 2008). Of course, the differences between the German system, following a more "cooperative capitalist" form, and the more corporate-dominated form found in the United States are aligned more like a continuum, with other Western industrial nations falling somewhere in between. And there has been movement among specific nations through history. Before the 1930s the United States had more of a neo-liberal (smaller state) form, then turned a bit toward the "cooperative capitalism" form during the Great Depression under Roosevelt's "New Deal" programs. Serious political and economic problems for the United States from the 1970s led to more corporate elite political activism in a time of economic insecurities for the general population as well (Useem 1984, 1978, 1979b). With growing inequality, job insecurity, not to mention two wars going badly, the 2008 economic crisis in the United States set the stage for movement back to greater government involvement in the economy (Domhoff 2010). The U.S. form of capitalism and political economy is very unlikely to move very far toward the cooperative capitalism represented in Germany. But it will be interesting to see how far the Obama administration will move away from the Reagan era during this second decade of the 21st century.

## Summary

This chapter has compared the stratification systems of both Japan and Germany to that of the United States today. As the world's second largest economy and the first fully modern postindustrial society in Asia, Japan provides one of the biggest contrasts to the United States. As the third largest economy in the world, and an advanced industrial society outside of both North America and Asia, Germany provides us with a further test of the similarities and differences of systems of social stratification in modern capitalist industrial societies. Among the biggest contrasts to the United States, Japan has less inequality and much greater involvement of the state in the economy. Most of the emerging economies in East and Southeast Asia are more or less following the Japanese form of capitalism. Among the most important differences in Germany are the low levels of inequality and the power of labor unions and the working class. After World War II, labor unions, once outlawed by Hitler, became powerful, and many new labor laws came into effect. These labor laws have given employees what is called codetermination in German corporations through extensive representation of workers on the corporate board and works councils elected by employees in the company or government agencies. Along with these work laws and the power of labor unions in Germany, we must add the expanded welfare state as creating a relatively low level of inequality and poverty in Germany today.