Neoliberal Cycles and Solidarity Economies:

– A comparative study of Argentina and Japan –

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Chapter II – Solidarity economies in Argentina and Japan

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Introduction

1. Subject and objective

Neoliberal programs and reforms have been implemented in both and Argentina and Japan with the belief that its policies would bring greater economic efficiency. This has not been the case as the imposition of neoliberal policies has led to the creation of particular business cycles, named neoliberal cycles, which have resulted in ever deeper economic, political and/or social crises characterized by growing unemployment, worsening labor conditions, a widening income gap, increase in poverty levels, etc. As a result, in both countries this has led to the establishment of solidarity economies which are cooperative grassroots movements formed by those people most affected and marginalized by the implementation of such neoliberal reforms. Solidarity economies originally date from the 19th century, but the recent movements have appeared as a consequence of neoliberalism. Some solidarity economies are previous to the implementation of neoliberal policies, but due to the new economic and social reality, they have had to change and adapt their perspective and field of action. This is the case of Niigata Medical Cooperative which was founded in the middle of a medical shortage in the Niigata area in the early 1970s and which in the present has strived to guarantee healthcare services to its local community amid the neoliberal healthcare reform.

Japan and Argentina are very different countries, with different cultures, ideals, beliefs, and histories. Nonetheless, they share a common trait in their recent history in that they have both been subjected to similar neoliberal reform programs. As a result of blindly imposing liberalization and deregulation, Argentina has suffered through two Lost Decades (1980s and 1990s) of dismal economic growth and social deprivation. Japan had its own Lost Decade during the 1990s with similar results (although with a different degree of severity). In some way, it may be said that Japan has gone through a process of "Argentinization" (Sano [2001a] p.179 & [2005] p.52).

In this respect, the objective of this dissertation is to offer a comparative analysis of the implementation of neoliberal policies in Argentina and Japan and the consequential emergence of solidarity economies in each country as a result of such policies. In chapter 1 the theory of neoliberal cycles, which have appeared as a consequence of the carrying out of neoliberal programs, will be introduced. Chapter 2 presents solidarity economies as a spontaneous countermeasure by those groups of people most affected by the flaws of neoliberalism. Finally, Chapter 3 discusses the Niigata Medical Cooperative as an example of a solidarity economy in the middle of the ongoing neoliberal healthcare reform imposed by the Japanese government. Connected to this is the mentioning of examples of medical cooperatives in Argentina. But first follows a short introduction to neoliberalism.

2. Neoliberalism

Neoliberalism is a theory of political economic practices that states that human well-being can best be attained by releasing individual entrepreneurial freedoms and skills within an institutional framework created and maintained by the state, characterized by strong private property rights, free markets, and free trade. The theory states that privatization and deregulation, coupled with competition enhances efficiency and productivity, improves quality, reduces costs by lowering the price of goods and services to consumers and by lowering the tax burden, and does away with bureaucratic red tape. In this way, state interventions should be kept to a minimum, since the state does not have enough information to correctly predict market signals and because of the danger of interest groups to distort and bias state interventions for their own benefit (Harvey [2005] pp.2 & 65).

Neoliberalism maintains that the social good will be maximized by increasing as much as possible the extent and frequency of market transactions. It also seeks to bring all human action under the domain of the market. The market is not only the most efficient way to allocate resources, it is also the most ideal setting for the achievement of human freedom. That is why government intervention in economic life threatens that freedom. Neoliberal theory, while guaranteeing personal and individual freedom in the marketplace, expects each individual to be held responsible and accountable for his / her actions and well being. This can refer to sectors such as welfare, education, healthcare, and pensions (Harvey [2005] pp.3 & 65 & Munck [2005] p.65).

Neoliberalism is a part of capitalism which has evolved to protect capital and capitalism and to reduce the power of labor. Redistributive effects and increasing social inequality are such persistent features of neoliberalism that they can be considered as being structural to the system. Neoliberalism can probably be interpreted as a "political project to reestablish the conditions for capital accumulation and to restore the power of economic elites", the former working as a system of justification and legitimation for the latter. However, it "has not been very effective in revitalizing global capital accumulation" instead succeeding "remarkably well in restoring or […] creating the power of an economic elite". Moreover, when neoliberal principles go in direct contrast with the need to restore or sustain elite power, they are either abandoned or modified beyond recognition (Harvey [2005] pp. 16 & 19 & Saad-Filho and Johnston [2005] p.3).

The turn towards neoliberal practices and thinking is quite perceptible since the 1970s. It has become hegemonic with pervasive effects to the point that it has become common sense in the way many people interpret and understand the world. The first experiment in forming a neoliberal state occurred in Chile after the coup d'état by Pinochet (backed by the CIA) in 1973. A group of economists known as the "Chicago Boys", followers of the theories of Milton Friedman, was summoned to reconstruct the Chilean economy, and free it from the regulatory or institutional restraints under the policies of import substitution. The latest experiment in neoliberal state formation is in Iraq, also implemented by force by the United States (Harvey [2005] pp.3, 7-8 & Klein [2007] p.7).

In Argentina, the advent of neoliberalism came through a military coup in 1976 backed by the

traditional upper classes followed by a fierce repression of labor and social movements (Harvey [2005] p.39).

In democratic countries, neoliberalism was legitimized by corporations, the media, universities[1], think tanks[2] and professional associations which created a climate of opinion in its support as the only guarantor of freedom. Neoliberalism was later officially established through political parties and then state power (Harvey [2005] p.40).

The capitalist world turned towards neoliberalism through trials and errors as the answer to the structural crisis of the "Keynesian compromise", a mixed economic system with strong intervention by the state, which from the 1970s had started to break down. This system was characterized in the center countries by large growth rates, continuous technological change, increase in purchasing power, development of a welfare system, and low unemployment[3]. Fiscal and monetary Keynesian policies no longer seemed to be working as unemployment and inflation were both rising ushering into a phase of stagflation that lasted throughout the 1970s. The trials and errors of neoliberalism converged into a new orthodoxy, centered around neoclassical economic theory, into what came to be known as the "Washington Consensus", which advocates privatization, free trade, export led growth, deregulation in financial and labor markets, and policies of macroeconomic austerity as a "one size fits all" neoliberal set of remedies. To neoliberals, growth should center around international trade and finance and less on domestic consumption. The Consensus reflects the thinking of institutions such as the World Bank, the IMF, the US Treasury Department, the WTO, and the European Central Bank (Harvey [2005] pp.12-13, Duménil and Lévy [2005] p.9, Palley [2005] p.25 & Saad-Filho [2005] pp.113-114).

The emergence of neoliberalism as a new economic orthodoxy and social order in the advanced capitalist world occurred in the United States and Britain in 1979. It is a new order in the sense that the power and income of the upper classes, the elite of society, was reestablished (Harvey [2005] p.22 & Duménil and Lévy [2005] p.9)

When Margaret Thatcher was elected in May 1979, she had accepted that Keynesianism had to be abandoned in place of monetarist supply side solutions in order to eliminate the stagflation which had plagued the British economy during the 1970s. Thatcher recognized that she would have to dismantle the institutions and political ways of the social democratic state established in Britain since 1945. This meant confronting trade unions, doing away or scaling back the welfare state, cutting taxes, privatizing public enterprises, encouraging entrepreneurial initiative, creating a favorable business environment for foreign investment, etc. She believed that "all forms of social solidarity were to be dissolved in favor of individualism, private property, personal

[1] The economic ideas in support of neoliberalism, formed by a fusion of monetarism (Milton Friedman), rational expectations (Robert Lucas), public choice (James Buchanan and Gordon Tullock) and the supply-side economics of Arthur Laffer, led to an understanding that government intervention was more harmful than helpful and that a stable monetary policy coupled with tax cuts for the highest earners would lead to a healthier economy by giving the correct signals for entrepreneurial activity. By the 1990s, most economics departments in the major universities as well as business schools were dominated by neoliberal ideas (Harvey [2005] p.54).

[2] Such as the Heritage Foundation, the Hoover Institute, the Center for the Study of American Business, the American Entreprise Institute, and the National Bureau of Economic Research (NBER) among others (Harvey [2005] p.44).

[3] The center countries are the United States, Canada, Western Europe and Japan.

responsibility, and family values" (Harvey [2005] pp.22-23).

In October 1979, in the United States, Paul Volcker, chairman of the US Federal Reserve Bank under President Carter, abandoned the principles of the New Deal, characterized by Keynesian fiscal and monetary policies with full employment as the main objective, in favor of a policy designed to eliminate inflation no matter what the cost. This Volcker shock could be considered a necessary but not sufficient condition for neoliberalism. The turn to neoliberalism depended not only on adopting monetarism but also on abandoning certain government policies in many areas, such as the acceptance of strong labor unions and the commitment to build a strong welfare state. The next US government under Ronald Reagan supported the Volcker policies. It then proceeded to the implementation of further liberalization, tax cuts, budget cuts, and attacks on trade unions and professional power. Deregulation took place in a wide variety of sectors, such as airlines, telecommunications and finance, which opened up new zones of unlimited market freedoms for powerful corporate interests. In the search for higher returns, finance capital increasingly went to markets abroad. Shifting production overseas brought increasing deindustrialization and hollowing out of industry. In addition, corporate taxes were dramatically lowered while personal taxes were reduced from 70% to 28% during Reagan's term of office. In this way, the momentum towards greater social inequality and the restoration of economic power to the upper classes got underway (Harvey [2005] pp.23-26 & Duménil and Lévy [2005] pp.10-13).

During the Mexican Debt Crisis in 1982 (caused by the rise in real interest rates in 1979 and aggravated by the decline in prices of raw materials and energy), structural adjustments (in return for debt rescheduling), which included institutional reforms such as cuts in welfare expenditures, labor market flexibilization, and privatization, were first implemented under the IMF and World Bank which became centers for propagation and enforcement of "free market fundamentalism" and neoliberal orthodoxy[4]. The Mexican debt Crisis set off a chain reaction and one year later 27 countries had their debt payments rescheduled. Four countries in Latin America (Argentina, Brazil, Mexico, and Venezuela) held 74 percent of the international debt. The debt relief implemented by the IMF in order to lower exposures to risk and uncertainty and to protect the world's main financial institutions from the possibility of default goes against neoliberal theory since investors should be made responsible for the bad decisions they make in investments. Under this kind of arrangement, the borrowing country is forced by lending countries and international organizations to repay the debt no matter what the cost may be to the local population and its livelihood (Harvey [2005] pp.29 & 73-74 & Duménil and Lévy [2005] p.17).

Neoliberalism in Japan initially took the form of administrative reform under Prime Minister Zenkō Suzuki in 1981 in a special commission whose aim was to achieve a balanced budget in the face of a deepening crisis of the state. Policies towards achieving a smaller government were recommended, such as the reduction of civil servants, privatization of state owned companies, and deregulation. Neoliberal reforms have been continuously pursued under the supposition that market principles provide the most efficient and rational

[4] This became the standard treatment after the IMF was purged of all its Keynesian influences (Stiglitz [2002] p.13).

economic order. This has created a more propitious environment for companies enabling them to better trade, finance, invest, and cut costs through the use of irregular workers. The downside of this is that the costs of these reforms have been increasingly shifted towards workers and the socially vulnerable (Itoh [2005] pp.244-245).

To what degree has the implementation of neoliberal policies succeeded in stimulating capital accumulation? Neoliberalism does not provide an efficient platform for capital accumulation. Under its policies, economic growth rates have diminished, unemployment and underemployment have become more pervasive. Although neoliberalism has enhanced the power and living standards of the elite and its entourage, it has been destructive for the vast majority. It cannot be denied that neoliberal policy reforms can produce short-term macroeconomic stability and growth in many countries. But this is less due to their appropriateness and more due to their "credibility" by investors and financial institutions which can bring foreign capital flows as a reward. If one looks at Japan since the 1990s and Argentina after 1976, it cannot be said that neoliberalism has brought steady growth rates. In Argentina, neoliberal policies have brought either stagnation as in the 1980s or a sudden burst in growth followed by collapse. After the bursting of the bubble in 1990, Japan entered a long crisis as a consequence of the neoliberal transformation of its economy. The effects brought on by this transformation was used as an argument for further neoliberal adjustment (Harvey [2005] p.154, Saad-Filho and Johnston [2005] pp.4-5, Saad-Filho [2005] p.115 & Duménil and Lévy [2005] p.16).

Neoliberal policies have increased instability and volatility in the economy. Contrary to neoliberal thought, they are not self-correcting. In this way, neoliberalism destroys its own conditions of existence. It is unable to provide sustained economic growth and rising living standards. The endless "reforms", synonymous with opening up of the economy and the "freeing" of markets from political controls or regulations, have systematically failed to provide the much vaunted "efficiency gains" delegitimizing the neoliberal state (Saad-Filho and Johnston [2005] p.5).

Nonetheless, alternatives to the neoliberal program are delegitimized. "There are no alternatives" has been the current mode of thinking (MacGregor [2005] p.147). The 2008 world financial crisis is putting into question many of the precepts of neoliberalism.

3. Structure

As stated above, this thesis is divided into three chapters. The first chapter deals with the emergence of neoliberal cycles in Argentina and Japan as a result of the implementation of neoliberal policies. Japan and Argentina are both countries that have undergone a process that can be termed as a "neoliberal cycle". This cycle begins with the introduction of neoliberal policies which include liberalization, deregulation, and opening of the economy which in turn bring increasing instability to the economy leading finally to a crisis. After the crisis, certain compensatory policies are taken which ensue into further deregulation, liberalization, and opening, starting the process all over again. This cycle has brought in both countries an increasing precariousness of labor conditions, rising poverty rates (especially in Argentina), a widening income gap, a rise in the number of suicides

(more perceptible in Japan), and other social problems.

The second chapter describes the appearance of solidarity economies as a result of the neoliberal cycles in both countries. Solidarity economies are cooperative grassroots movements formed by those people most affected and marginalized by the implementation of neoliberal reforms. Since the World Social Forum in 2001 in Porto Alegre, Brazil, solidarity economies or social solidarity-based economies have garnered attention as part of a social movement combating neoliberalism. Solidarity economies originally date from the mid 19th century with the development of capitalist economies. At that time, the unemployed, bankrupt, and other socially and economically excluded people reflected on how they could best fit into society. In the 21st century, solidarity economies have resurfaced in the face of the increasing globalized scale of capitalism with its growing unemployment, north-south disparities, gap between the rich and the poor, poverty, environmental destruction, and other major problems (Nishikawa [2007] pp.11-12). The establishment of solidarity economies is visible both in Argentina and Japan, where grassroots cooperative organizations have helped people excluded from the economy, to reintegrate themselves through their own collective efforts. These solidarity centered initiatives value work over profit and promote social relations instead of competition. Yet it has to be seen if such organizations, centered on a different socioeconomic rationality from capitalism, are feasible in time. Nonetheless, they form part of a movement that puts into question the viability of the neoliberal economic model.

Chapter three takes up the case of a medical cooperative in its efforts to ensure medical care to its members amid the ongoing reforms in the health sector in Japan. Some solidarity economies are previous to the implementation of neoliberal policies, but due to the new economic and social reality, they have had to change and adapt their perspective and field of action. This is the case of Niigata Medical Cooperative which was founded in the middle of a medical shortage in the Niigata area in the early 1970s and which in the present has strived to guarantee healthcare services to its local community amid the neoliberal healthcare reform. The health sector in Japan has been going through some important changes in the last few decades, mainly as a consequence of the aging of the population, rising medical costs, and the decade-long recession of the 1990s caused by the neoliberal cycle and its reforms. These reforms have increasingly shifted the growing burden of medical care onto its users. The increase in the number of irregular workers and the growing income gap in Japan have limited the availability and accessibility of medical services to a growing number of people. In this context, what can institutions pertaining to the solidarity economy, such as medical cooperatives, do to guarantee general access to health services in Japan as similar associations have done in Argentina?

In the end, this thesis seeks to present a comparative study between Japan and Argentina concerning the seriously harmful effects of the implementation of neoliberal policies in each country and how their societies have coped in the face of increasing difficulties in their livelihoods by forming and relying on solidarity economies. Argentina, with its abandonment of neoliberal economic programs and its stronger support of solidarity economies, can probably show that there are alternatives to the present economic model in Japan.

Chapter I – Neoliberal Cycles in Argentina and Japan

Introduction

Since the mid 1970s and mid 1980s, neoliberal programs and reforms have been implemented in both Argentina and Japan, respectively, with the belief that its policies would bring greater economic efficiency. This has not been the case as the imposition of neoliberal policies has led to the creation of "neoliberal cycles" (NLC) which have resulted in ever deeper economic, political and/or social crises characterized by growing unemployment, worsening labor conditions, a widening income gap, increase in poverty levels, etc (Sano [2003], [2009], NHK [2005] and Uchihashi and Sano [2008]). The NLC begins with the introduction of neoliberal policies which include liberalization, deregulation, and opening of the economy which in turn bring increasing instability to the economy leading finally to a crisis. After the crisis, certain compensatory or alternative[5] policies are taken which, after a period of partial recovery or stagnation, are converted into further deregulation, liberalization, and opening, starting the process all over again. This chapter seeks to do a comparative study of Argentina and Japan in the context of the emerging NLC hypothesis, observing the similarities, differences, and reactions of both countries to it. Part 1 presents the NLC and its association to the main theories of the business cycle. Part 2 deals with the NLC in Argentina. Part 3 seeks to apply the theory of the NLC to Japan. Next is the conclusion.

1. Framework of Analysis: The Neoliberal Cycle in the light of some existing theories of the business cycle

The question to be posed now is what constitutes a NLC and how it relates to the standard business cycle. For this purpose, first it is necessary to elaborate on the theory of the business cycle and then seek to explain the NLC.

Joseph Clément Juglar, a French economist, is one of the first to discover the occurrence of periodic cycles in the fluctuations of economic activity. In 1862 Juglar identified a business cycle of approximately 10 years that has since been associated with his name. The Juglar cycle is usually associated with the demand for fixed capital goods that have an average economic life of 10 years. Fifty years later, Nikolai Dmitriyevich Kondratiev, a Russian economist, suggested that capitalist economies have long term business cycles of about fifty years. Kondratiev was not very clear on the specific causes of business cycles attributing them to the intrinsic nature of capitalist economies. It was Joseph Alois Schumpeter in 1939 who clarified onto the origins of

[5] Such as the heterodox policies carried out during the last four years of the government of Alfonsín (1983-1989) in Argentina (Sano [2009] pp.272-273)

these “super cycles” by stating that they were generated by waves of inventions and innovation. Between the Juglar cycle and the Kondratiev cycle is the Kuznets cycle by the economist Simon Kuznets. This cycle which lasts around 20 years is associated with the demand for consumer durable goods and longer-lived capital goods, like houses, factories, warehouses, office buildings, train cars, airplanes, and ships that have average economic lives of 18-20 years. A relatively short cycle is described by Joseph Kitchin whose short-run inventory liquidation cycles last approximately 40 months and are associated to the adjustment of inventories caused by the changing demand for consumer durable goods that have average economic lives of 40 months (Yanbe 2005 pp.25-32).

John Maynard Keynes argued that the level of output and employment depended on effective demand and that without the active involvement of the government to boost the economy, a return to full employment levels after a shock might not be possible. By studying the peaks, depressions, and recoveries of the United States and Great Britain in the 1930s, Keynes attributed the downturn of a cycle to the sudden collapse in the marginal efficiency of capital. These slumps occur when the long-term expectations of capital assets are revised downward, resulting in reduced investment which spread to consumption and income. Due to this volatility in investment, Keynes advocated that the government stabilize the economy with public investment in order to offset the fluctuations in private investment. The recovery would take place once the capital stock had been sufficiently reduced to restore its profitability. Even though Keynes himself did not present a systematic theory of the business cycle, he did give intellectual stimulus to the development of the theory of dynamic economics (in growth and business cycles). One example of this is the Harrod-Domar model, based on the writings of Harrod [1948] and Domar [1946] (Glasner [1997] pp.297-9 & 355-7 and Zarnowitz [1992] pp. 33-5).

The Neoclassical approach to business cycles, through the theory of the Real Business Cycle (RBC), puts an increased emphasis on the role of aggregate supply, maintains the assumption of competitive markets cleared by relative price changes, and adopts the hypothesis of rational expectations. In the RBC, fluctuations in output and employment are related to real disturbances only, that is to say, changes in technology and changes in constraints (such as fiscal policy) and not to nominal disturbances such as monetary disturbances. The assumption of rational expectations eliminates any real impact from an expected change in monetary policy. Only randomly occurring monetary surprises could affect real magnitudes. In the 1960s, Milton Friedman and Anna J. Schwartz proposed the idea that changes in the stock of money are the main determinant of changes in nominal income. In particular, they argued that the Great Depression was itself the product of an enormous, and largely exogenous, shock to the money stock. This monetary business-cycle theory relied mainly on exogenous changes in the money stock resulting from misguided monetary policy to explain economic fluctuations (Glasner [1997] pp.557-60 and Zarnowitz [1992] pp.5-9 & 47-8).

The next to be mentioned is the political business cycle (PBC) presented by the polish economist Michal Kalecki in 1943. According to Kalecki, “the assumption that a Government will maintain full employment in a capitalist economy if it only knows how to do it is fallacious” (Kalecki [1943] p.138). Big business is consistently opposed to full employment achieved by government spending, carried out by borrowing

instead of increased taxation so as not to encroach on profits. One of the most important reasons for this opposition concerns the dislike by big business of the social and political changes resulting from the maintenance of full employment. In the context of permanent full employment, sacking workers would not prove as effective in its role as a disciplinary measure, the social position of the boss would be undermined and strikes for wage increases and improvements in working conditions would create political tension. To business leaders, full employment is unsound making unemployment an integral part of a normal capitalist system. Big Business does not dispute the fact that something must be done to prevent deep and prolonged slumps, but it vehemently opposes government spending to secure permanent full employment. Once a slump has been overcome and full employment seems near, the government faces increasing pressure to return to an orthodox policy of cutting down the budget deficit. A slump would probably follow this retraction in spending reactivating government spending policy and starting the cycle anew. In sum, this pattern of PBC states that economic fluctuations are created by governments at the behest of capitalist interests in order to reduce the bargaining power of workers, strengthened during times of full employment, and bring them under control through induced recessions.

In response to the Neoclassical approach is the financial instability hypothesis (FIH) or financial fragility hypothesis (FFH) by Hyman Minsky. Minsky goes against the classical precepts of Adam Smith and Léon Walras that supposes that the economy is constantly an equilibrium seeking and sustaining system. Minsky's hypothesis states that crises are systemic rather than accidental events. It is designed to explain instability as a result of the normal functioning of a capitalist economy. In other words, it states that stability breeds instability. According to the hypothesis, as periods of expansion turn into long periods of growth and stability, investors start taking on more risk, leading them to borrow excessively and to overpay for assets. The increase in the weight of debt financing boosts the market price of capital assets and increases investment. This process transforms the economy into a boom economy. There are three types of borrowers, increasingly risky in nature: hedge, speculative, and Ponzi borrowers[6]. The longer an economic expansion lasts, leading to a boom, the more financing turns away from hedge towards Ponzi finance. As the internal weaknesses of the economy are revealed, bankers and businesses become reluctant to lend to a wide variety of organizations. Unless offset by government spending, a panic develops as profits decline and debt becomes unsustainable. What the FIH seeks to demonstrate is that economic fluctuations are tied to lax financial regulations and the greedy behavior of all economic agents[7] (Minsky [1977] pp.63-67, [1992] pp.1, 6-8 and Lavoie [2006] pp.72-73).

Besides the above described theories, other factors also have to be considered. Business cycles take

[6] Hedge borrowers can fulfill all their contractual payment obligations from their cash flows. Speculative borrowers can meet their payment commitments on interests, but cannot repay the principle out of their liabilities. They have to roll over their liabilities. For Ponzi borrowers, the cash flows are not sufficient to cover repayment of principle or interests. They rely entirely on rising asset prices to allow them to continually refinance their debt (Minsky [1992] p.7).

[7] Despite its apparent solidity, Lavoie and Seccareccia [2001] point to a missing macroeconomic link in Minsky's exposition of his FIH. They refer to the lack of careful consideration of the link between the micro and macro framework. They explain that Minsky subjects himself to the fallacy of composition by applying results to the macroeconomic level that ought to be applied only to the microeconomic level. They mention that the hypothesis is missing an explanation of why higher leverage ratios are an ineluctable consequence of an economic expansion, suggesting that during an economic expansion, leverage ratios can rise as much as they can fall. For this, it is important to acknowledge certain parameters such as the central bank interest rate policy as well as government deficit trends. This why higher debt ratios are not a necessary consequence of higher business investment (Lavoie and Seccareccia [2001] pp.77, 78 & 83).

place in an institutional setting contained within a given historical framework. The theory of the French school of Régulation offers an analysis of capitalism and its transformations by revisiting history. It involves "the study of the transformation of social relations that creates new economic and non-economic forms, organized in structures and reproducing a determining structure, the mode of production[8]" (Boyer and Saillard [2002] p.343). This is done in direct contrast to the Neoclassical theory which operates in an institutional void. Crises have always been a natural characteristic of capitalism, forming a countervailing concept to growth. They are defined, by the theory of Régulation (TR), as an interruption of a period of growth manifested by the appearance of imbalances which disrupt the functioning of the economy. In itself, a recession may be either a normal adjustment pattern, leveling off the disequilibria generated during a boom period, or a typical reaction to an adverse external shock. The downturn within a business cycle does not necessarily imply a crisis (Boyer and Yamada [2000] p.9). Nevertheless, in the evolution of capitalist economies, periods of growth are constantly alternating with periods of crisis. According to the TR, there are five types of crises: an exogenously triggered crisis, an endogenous or cyclical crisis, a structural or major crisis (divided into two types of crises), and a crisis in the dominant mode of production. The exogenously triggered crisis, which is not caused by the prevailing mode of régulation[9], is related to natural causes (climate), wars or circumstances of international instability such as supply shocks or international financial crises. An example of this is the effect of the Great Depression which affected many countries. The endogenous or cyclical crisis (also known as minor crisis) develops without any major modifications to existing institutional forms[10], representing a direct manifestation of the prevailing mode of régulation. This crisis, associated to the Juglar cycle, is due to the manifestation of unbalances created during an economic expansion which are readjusted in times of recession. The recession can be caused by shortages in effective demand, a fall in profits due to a rise of real wages above the rise of productivity, financial instability, limits to credit expansion, etc. The structural or major crisis, which takes place in a long term context, refers to periods during which the compatibility of institutional forms and the economic dynamic is no longer guaranteed. There is no automatic mechanism to govern the passage from depression to economic growth, and in general this initiates a period of tentative research for a strategy to escape the crisis, involving the reform of some or all of the previous institutional forms. There are two types of structural crises: a crisis of the mode of régulation and a

[8] The mode of production is any particular form of relations of production and exchange, that is to say, the social relations governing the production and reproduction of the material conditions required for human life in society (Boyer & Saillard [2002] p.341).

[9] Mode of régulation is the set of procedures and individual and collective behaviors that serve to: (1) reproduce fundamental social relations through the mode of production in combination with historically determined institutional forms; (2) support and "steer" the prevailing regime of accumulation; (3) ensure the compatibility over time of a set of decentralized decisions, without the economic actors themselves having to internalize the adjustment principles governing the overall system. Boyer & Saillard [2002] p.341.

[10] An institutional (or structural) form is any kind of codification of one or several fundamental social relations. Five fundamental institutional forms are identified: (1) the monetary regime (how financial deficits and surpluses are consolidated within the banking and financial systems); (2) the wage-labor nexus (i.e. the principles in division of labor, the methods for organizing production, the wage system and the lifestyle of wage earners); (3) the forms of competition (the ideal of pure and perfect competition is rarely observed, many other forms tend to exist and are important for the dynamics of prices, profit and investment); (4) the forms of insertion of the nation into the world economy (concerning commodities, products, investments, labor, credit, intellectual property rights, etc); and (5) the forms of the State (which revolve around organizing the rules of the first three forms as well as providing the collective rules and the coordination necessary for capital accumulation, and also deciding on budgetary and monetary policies) (Boyer & Saillard [2002] pp.339-40 & Boyer and Yamada [2000] pp.10-1).

crisis of the accumulation regime[11]. In the first case, the mechanisms associated to the prevailing mode of régulation prove incapable of correcting and overcoming the successive unfavorable circumstances, leading to structural instability. This type of crisis has three possible triggers: (a) external disturbances or a new type of internal disturbance; (b) socio-political conflicts; and (c) the exhaustion of the fundamentals of growth in the established mode of régulation. In the case of the crisis of the accumulation regime, its indicators are the inability to resume profitability and to allow the recovery of accumulation, the destruction of the social forms supporting accumulation, the dissolution of economic determinism, and an increase in social and political conflicts at both the national and the international level. The forms that such crises take are specific to the established accumulation regime, explaining why the crisis of today cannot repeat previous ones, like the 1929 crisis. Finally, the last type of crisis, in the dominant mode of production, is the ultimate level of crisis in which no new accumulation regime can emerge. It is marked by a poor or catastrophic economic performance with long-term unfavorable tendencies and a blocked or counterproductive political process of reform. A good example of this crisis is the collapse of the Soviet regime (Boyer and Saillard [2002] pp.43-4, Panigo and Torija-Zane [2004] pp.8-10 and Yamada [1993] pp.89-91).

The sequence of the NLC, which takes place under the policies of a neoliberal reform, follows a pattern in which there is deregulation, liberalization, and a greater opening of the economy, which as a result becomes more vulnerable and unstable. This increasing vulnerability and instability finally lead the economy to a crisis. After the crisis, certain compensatory or alternative policies are taken which lead to further deregulation, liberalization, and opening, starting the process all over again (NHK [2005], Uchihashi and Sano [2008] and Sano [2009]). The concept of the NLC is based on the Argentine experience from 1976 to 2001 and describes the economic cycles created under the neoliberal reforms that were carried out during that period. This 1976-2001 period can be divided into three periods: 1976-1983, 1983-1989, and 1989-2001. The first and third periods contain their own short term neoliberal cycles. The second period can be considered an alternative period where heterodox policies were undertaken. All three periods together conform a long term neoliberal cycle (Sano [2009] pp.273-274). Besides the aforementioned vulnerability and instability, other related effects to the NLC include growing employment instability, widening income gap, increasing poverty, etc.

Among the many theories of the business cycle behind the NLC, the most important ones are those related to Michal Kalecki and to the French school of Régulation. The theory of the PBC can be applied in Argentina in the early stages of its NLC (after 1976) and probably also to Japan. Nonetheless, in later years during the 1990s and after, especially in Japan, government interventions were not necessarily related to the lowering of the bargaining power of workers, but were more connected to ideological reasons such as achieving a “small government” and due to international causes such as increasing pressure from the USA[12].

[11] The accumulation regime refers to the set of regularities or institutions that ensure the general and relatively coherent progress of capital accumulation (Boyer & Saillard [2002] p.334).

[12] This is reflected since 2001 in the Annual Reform Recommendations from the Government of the United States to the Government of Japan under the U.S.-Japan Regulatory Reform and Competition Policy Initiative where the US government makes “recommendations” on reform measures to the government of Japan (Yanbe [2008] pp.100-106).

NLCs can be considered to be a type of PBC. The difference between NLCs and traditional PBCs is that with PBCs, the role of the government in the economy is not questioned (unless it is excessive). In NLCs, the objective is for the government to pull away gradually from the economy. The dominant policy is neoliberal in nature, but in its compensatory or alternative phase, the government has no choice but to appeal to "Keynesian" policies in order to mitigate the adverse effects of the neoliberal reforms. However, once the compensatory or alternative phase ends, the neoliberal policies become increasingly more predominant. This zigzag movement can be inferred from the contemporary economic histories of both Argentina and Japan. In Argentina, examples of this can be seen at the end of the *Proceso*, during Menem's second term, and with De la Rúa. In Japan, it is illustrated in the examples of Hashimoto "Six Major Reforms", Obuchi's turnaround, Mori's cutbacks, and Koizumi's "no pain no gain" policies.

As stated above, according to the French school of Régulation, business cycles are determined by the prevailing mode of regulation present in an economy. The implementation of neoliberal reforms has led to the formation of new institutional forms in both Argentina and Japan. This has led to the appearance of the NLC.

Table I.1: Relation between the neoliberal cycle, political business cycle, and theory of Régulation

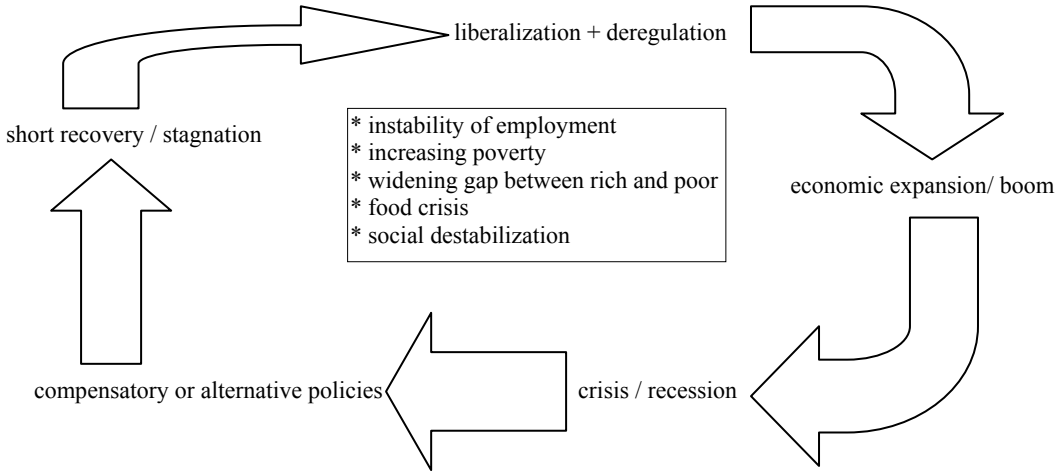
Neoliberal reforms lead to formation of	Minor or cyclical crisis	Major or structural crisis
<u>Neoliberal mode of régulation:</u> - waning strength of labor - increased power of capital <u>Neoliberal institutional forms</u> - labor deregulation - financial liberalization - opening of the economy - privatization <u>Neoliberal accumulation regime</u> - "small government" → government retrenchment from economy - In times of crises or serious economic downturns "Keynesian" policies are implemented as compensatory policies → temporary increase of government participation in economy	Bubble collapse Economic instability Application of compensatory policies against minor crises. Once the crisis is over, the government once again pulls away from the economy. This whole process creates neoliberal political business cycles.	Argentina in 1981 and 2001. Each major crisis is followed by changes in the neoliberal mode of regulation, the institutional forms, and the accumulation regime. Japan (?). No major crisis has yet occurred in Japan to significantly change the neoliberal mode of regulation, the institutional forms or the accumulation regime.

Source: Kalecki [1943], Boyer and Saillard [2002], Panigo and Torija-Zane [2004], and Stockhammer [2007].

Although the theory of the NLC serves to describe the economic cycles created under neoliberal reforms in Argentina in the period from 1976 to 2001 (see figure I – 1), it might prove useful in understanding the politico-economical dynamics of modern Japan[13]. Comparing the Argentine and Japanese NLC, it will be shown that Japan has undergone a long term NLC containing three continuous short term NLC with no alternative phases in between, unlike Argentina which implemented heterodox policies under president Alfonsín. All corrections or compensatory policies in the Japanese NLC were implemented using orthodox measures, i.e. within the frame of a neoliberal program (Sano [2009] p.278). For an analysis on Argentina and Japan (whose respective neoliberal cycles are shown in a summarized form in table I – 2), we turn to sections 2 and 3 respectively.

[13] Uchihashi [2006], based on NHK [2005], goes on to develop the concept of the NLC. To him, the trigger of the business cycle is correlated to the huge amounts of capital flows that go in and out of an economy. This is applicable to a small economy like Argentina's, but it may not quite explain the oscillations of an economy of the size of Japan.

Figure I – 1: The Argentine Neoliberal Cycle



Source: NHK [2005] and Sano [2009]

2. The Neoliberal Cycle in Argentina

2.1 Liberalization and deregulation during the *Proceso*

In March 24 1976, the democratically elected government of María Estela Martínez de Perón was overthrown in a coup d'état. This came about after twenty-six tumultuous months of economic mismanagement, a paralysis of production caused by strikes and scarcities, growing societal tensions, and an escalation of guerrilla violence, bombings and kidnappings[14]. The background for these events revolves around the structural crisis of 1975. The symptoms of the crisis consisted in the worsening of several of Argentina's international indicators (trade, foreign currency reserves, investments), a fall in the productivity of labor coupled with an over-indexation of wages with respect to productivity, leading to a steep fall in profits and increasing conflicts for its share, ending finally in a severe inflationary process, and triggering a political and social instability without precedent in the history of Argentina (Panigo and Torija-Zane [2004] pp.29-30).

[14] According to the newspaper La Opinión, in that month of March there was a political assassination every 5 hours and a bomb went off every 3 hours. In the previous December there had been 62 deaths originating from political violence. In January they climbed to 82 and in February they reached 105 (Novaro and Palermo [2003] pp.17-8).

Table I – 2: the neoliberal cycle in Argentina and Japan

ARGENTINA												
5/1976 →	8/1977 →	3/1978 →	9/1980 →	6/1982 →	6/1984 →	6/1985 →	6/1987 →	3/1990 →	12/1994 →	8/1995 →	6/1998 →	6/2002 →
Expansion	Recession	Expansion	Recession	Expansion	Recession	Expansion	Recession	Expansion	Recession	Expansion	Recession	Expansion
Coup d'état, flexibilization in labor and investments, opening of economy. Labor's share of income falls to 26% in 1976 from 45% in 1974. However, important rises are registered in labor productivity.	Financial reform. Growing financial speculation. Between May 1977 and May 1980 number of banks climb from 119 to 219.	Adoption of the *tablita*, a system of gradual programmed devaluations of the currency. Lowering of import tariffs. Period of "*plata dulce* (sweet money)": exchange lag overvalues peso worsening trade balance, increasing the level of competition, resulting in a process of de-industrialization	Financial crisis. Massive capital flight (20,000 million dollars in 1980-82). Foreign debt increases 460% in 1976-83 (on average 30.8% a year from 1976 to 1980).	Exchange rate liberated. Freezing of prices of public services and state salaries. Interest rate left without controls. Reintroduction of export levies and modification of tariff structure.	Democracy restored. Alfonsín elected president. Initial populist monetary policy. Later, a loan is secured from IMF. Conditions: tighter monetary policy, controls on wage increases, reduction of subsidies, and phasing out of price controls.	Launching of heterodox *Plan Austral*: stabilize the economy with growth, rather than with recession, by means of wages and price freezes, and readjustment of relative prices.	1987: new freezing of prices: the *australito*. 1988: new heterodox plan: the *Plan Primavera*. 1989: hyper-inflation and riots. Menem elected president. Promulgation of the Law of State Reform and the Law of Economic Emergency	Reorganization of public finances, privatization of public enterprises, liberalization of exchange market, renegotiation of external debt, restructuring of domestic public debt, introduction of Convertibility Plan, labor market flexibilization. The unemployment rate increases from 6.9% to 10.7% in 1991-94 despite strong economic growth.	Tequila Crisis. Run on banks. Capital flight of US$4,600 million. Central Bank loses 25% of reserves. Country risk index rises from 8% to 55%. The number of people out of work reaches 18.6% in May 1995. Central Bank resumes role of lender of last resort lost in 1992. Establishment of safety net for private banks. Bank Capitalization Trust Fund and Provincial Development Trust Fund set up. Tighter supervision and better accounting in banks. Minimum capital requirements raised and enforced. Mergers and rationalization of banks. Many banks bought by foreign banks.	Growth of GDP 15% in 1994-8. In same period, foreign debt / exports ratio increases 20%. Average debt maturity goes from 35 to 7 years between 1994 and 1998. Increasing government spending. Progressive deterioration of provincial finances. Russian currency crisis. People out of work reach 12.4% in October 1998.	De la Rúa elected for president. Fiscal austerity program. Adjustment of Convertibility Law. Massive outflow of reserves in April-July 2001 (almost US$10,000 million). The *corralito* is implemented. Riots, 30 people dead. The president resigns. Default of foreign debt. *Cartoneros* appear on city streets.	More than half of the population poor in 2002. Jobless rate at 21.5%. President Duhalde ends Convertibility. Capital controls reintroduced under president Kirchner. Managed exchange rate by Central Bank. Regulation of labor market. Restructuring of foreign debt. In mid 2008 jobless rate below 9% and poverty rate below 18%. Strong GDP growth in 2003-7 (8-9% average).
liberalization & deregulation			crisis	compensatory policies		alternative policies & crisis		liberalization & deregulation	crisis and compensatory policies		stagnation & crisis	breakaway from cycle?

JAPAN								
6/1985 →	11/1986 →	2/1991 →	10/1993 →	5/1997 →	1/1999 →	11/2000 →	1/2002 →	11/2007 →
Recession	Expansion	Recession	Expansion	Recession	Expansion	Recession	Expansion	Recession
Plaza Accord signed in September. Easing of monetary policy. Financial liberalization continues apace. Yen appreciates from 260 per dollar in February to 200 in December of 1985. The Worker Dispatch Law is enforced in July 1986 for sixteen categories of work.	Start of Bubble Economy. Financial institutions give credit loosely fomenting speculative investments in stocks and real estate. Yen at 150 per dollar in last quarter of 1986.	Official discount rate raised 5 times in 1989-90 to 6%. 1990 - bubble bursts: value of stocks slump followed later by land prices. Stocks lose 63.1% in 33 months, until August 1992. Homeless people appear on the streets of Japan's cities.	Interest rate lowered to 1.7% in 1993 and 0.5% in 1995. Economic recovery is slow. 1992: capital loss over GDP equal to 86.9%. Banks left with huge amounts of non performing loans (NPL). 1993: First non-LDP government since 1955. Electoral law changed. Non-regular employment grows at an increasing rate. Economy growths 3.4% in 1996. Job categories under the Worker Dispatch Law expanded to 26 in December 1996.	Hashimoto's "Six Major Reforms". Further labor flexibilization "Small government" pro-supply side fiscal reform: consumption and other taxes raised with government expenditure cuts. "Big bang" reform of the financial system. 1997-98: many banks collapse (such as Hokkaido Takushoku Bank, and Yamaichi Securities among others) leading to a credit crunch.	In a 180 degree turn from the previous government, the Obuchi Cabinet interrupts fiscal reform, with a fiscal stimulus. Government injects 60 trillion yen (12% of GDP) into banks under financial difficulties. Nonetheless, the tax system is made more regressive. The Bank of Japan (BOJ) lowers interest rate to 0.03% to ease credit expansion and reverse the recession. Recovery led by exports and investments. General relaxation of labor market regulations: revision of Worker Dispatch Law and Employment Security Law. Japanese economy falls into deflation.	Facing a "liquidity trap", the BOJ introduces a quantitative easing policy (QEP) from March 2001 until March 2006 to boost inflationary expectations. Exports and investments fall. Mori implements a "small government" policy of budget deficit reduction. Public investment goes down. Mori Cabinet enacts Social Welfare Service Law to increase private sector participation in welfare. In 1992-2003, GDP growth averages 1.2%. In 1990-2002, the unemployment rate rises from 2.1% to 5.4%.	Koizumi advocates a "Structural Reform with no Sacred Cows": restructuring of bank's NPL, restructuring regional finances, and relaunching fiscal and tax reforms. 50 trillion yen of public money is used to help dispose of the bad debt problem. Longest period of postwar expansion, (longer than *Izanagi* boom) led by growing US and Chinese demand for Japanese exports. Exports spurred amid QEP and yen cheapened by zero interest rate policy. Jobless rate around 4% in 2006. One third of workers in non regular employment. Abe promises to launch a "rechallenge society" to help "losers" of reforms. However, he seeks to implement further labor flexibilization "big bang" policy.	Changes to the Worker Dispatch Law. The minimum wage is raised to 755 yen from 687 yen. In an effort to stimulate Japan's faltering economy, a ¥11.7 trillion economic stimulus package is announced by Fukuda. Aso announces additional packages (reaching a total of ¥25 trillion) given the worsening global economic conditions. Japanese banks affected by US financial crisis.
liberalization & deregulation		crisis	compensatory policies	liberalization, deregulation & crisis	compensatory policies	stagnation	Liberalization, deregulation & compensatory policies	crisis / compensatory policies

Source: Yanbe [2005], Gotō [2002], Kaneko and DeWit [2008], Yoshikawa [2008], Sano [2009], Gerchunoff & Llach [2005], OECD [1997], INDEC, Ministry of Economy and Production (Argentina), The Japan Times, JIL.

Under the presidency of Mrs. Perón, an unprecedented cycle of extreme monetary instability and financial speculation had begun. The conditions that led to this chaotic situation started two years before, under the presidency of Juan Domingo Perón. During his term, the ongoing demand for subsidies by client business sectors and the increased political pressure to expand public employment led to insurmountable inflationary pressures. This pressure increased after the death of Perón and the succession to the presidency of his wife. In order to deal with this situation, Mrs. Perón implemented emergency measures which came to be known as the *Rodrigazo* (due to its author Celestino Rodrigo, the Minister of Economy). The measures of the *Rodrigazo*, a harbinger of programs of policies of adjustments, included a 100 percent devaluation of the currency, an increase of 175 percent in the price of gasoline, increases ranging from 75 to 120 percent in the price of essential public utilities, along with the cancellation of previously negotiated wage increases. Under the *Rodrigazo*, the most massive regressive transfer of income in Argentine history took place (Escudé [2006] pp.126-128).

After the coup d'état, many sectors of society greeted the new military government and its Process of National Reorganization (*Proceso de Reorganización Nacional* or "*Proceso*") with relief. Exhaustion and a sense that things could not get worse, only better, triggered acquiescence in some quarters and applause in others. The program of the *Proceso* announced the next day of the coup had two primary objectives: one economic, to restore "discipline" to the monetary and banking system and to "clean" public accounts; the other political, to "clean" and "discipline" society (Lewis [2002] pp.148-9)[15]. Contained in this program was Argentina's first neoliberal reform initiated by the new Minister of the Economy, José Alfredo Martínez de Hoz. There was a general idea that the prevailing economic model of import-substitution industrialization (ISI) had to give way to a process where there would be more market and less state in the regulation of the economy[16]. According to the advocates of neoliberalim, the reasons for the economic difficulties of Argentina could be attributed to two causes: domestic price distortions introduced by the policy of industrialization and the excessive size of the State apparatus. To these could be added the existence of monopolistic practices on the part of a unitary and vertical labor unionism which permanently pushed wages above the levels of worker productivity (Canitrot [1980] p.454).

[15] The immediate motive of the *Proceso* was the elimination of armed groups and subversives, in particular the ERP (*Ejército Revolucionario del Pueblo* – People's Revolutionary Army) and the *Montoneros* Peronist movement (Gerchunoff & Llach [2005] p.350).

[16] Import-substitution industrialization (ISI) appeared in Argentina and other countries of Latin America after the 1930 crisis as a result of the collapse of primary commodity prices and due to an overwhelming feeling of export pessimism that extended to the postwar period (Waterbury [1999] pp.327-328). The main features of this school include foreign exchange controls, high import tariffs, import licenses and quotas, credit rationing, and fiscal and financial incentives to foster investments in infant manufacturing industries. In contrast, science and technology policies were not as important. Countries in Latin America did not devote as many resources to Research and Development (R&D) as industrialized countries or even some of the high growth Asian developing countries. The ISI model was successful in generating growth and employment, although it performed better in Brazil or Mexico than in Argentina or Chile. Large productivity gains were obtained through the import of capital goods, foreign direct investment (FDI) and the learning process acquired at the microeconomic level. The problems that affected the sustainability of ISI in many countries include growing macroeconomic and institutional instability, price distortions, and the inability to attain a high level of competitiveness in many protected industrial sectors (Chudnovsky and López [2007] pp.4-5).

2.1.1 Policies

The government initially implemented a stabilization plan consisting of the removal of price controls, an adjustment of the exchange rate to inflation, and a freezing of nominal wages. Labor movements were suppressed, the General Workers Confederation was dissolved, and the right to strike was abolished, resulting in the imposition of a harsh flexibilization of labor. The institutional framework in which wages were negotiated changed: for the first time since the 1940s, wage negotiations were done between workers and employers of each company, without the participation of sector unions (Miotti [1991] p.347). In 1977, a financial reform was carried out which deregulated the financial market, decentralized deposits, and simplified the types of financial institutions. Concerning the opening of the country and the liberalization of trade, in order to eliminate any uncertainties about the evolution of the exchange rate and bring down the expected rate of inflation, a policy of preannounced adjustments of the exchange rate, the so-called *tablita*, was announced at the end of 1978, whose objective would be to bring internal domestic prices closer to their international values. With the *tablita*, the rate of inflation would be determined by adding the rate of international inflation to the rate of devaluation (Gerchunoff and Llach [2005] pp.359 & 364).

2.1.2 Socio-political and economic background

The atomization and dispersion of wage negotiations was one of the main objectives of the structural reform of the military government, based on the increase in efficiency which would come as a result of a labor market operating closer to how it is described in traditional microeconomics textbooks (Frenkel [1984] p.382). The government was determined to rein down the power of labor unions, which had had the capacity to demand wage increases beyond the rise in productivity. Many labor union leaders were detained or "disappeared"[17]. Never before had the labor movement been so fiercely persecuted. In other sectors, the financial system went through a much needed reform without which it could have collapsed. Due to high inflation rates from the end of WWII to 1977, real interest rates were constantly negative[18]. With the new system, positive real interest rates would stimulate savings and discourage unproductive activities, focusing on investments with a high real productivity (Gerchunoff and Llach [2005] p.360). In the monetary sector, from January 1979 to March 1981, there would be periodic adjustments of the rate of exchange, at below the level of price increases in the private sector, which were designed to make business more cost-aware. Peso appreciation due to the inflow of foreign capital and the exchange policy, which made imports cheaper, was intended to compel firms to become more competitive. Cheaper capital imports would enable businesses to become more efficient: the general removal of

[17] According to the *Nunca Más* report issued by the National Commission on the Disappearance of Persons (CONADEP) in 1984, about 9,000 people were "disappeared" between 1976 and 1983. Workers accounted for 30.2 percent of those disappeared, employees 17.9 percent and professionals 10.7 percent (CONADEP [1984] pp.16 & 296).

[18] Exceptions are 1954, 1960, 1968 and 1969. For example, in 1976 the real interest rate was -57 percent. This implied for the lender losing more than half of his capital in one year (Gerchunoff & Llach [2005] pp. 359-60).

restrictions on imports would make local producers competitive (Lewis [2002] pp.151-2).

2.1.3 Economic effects

The consequence of the liberalization of the labor market was a drop of almost one third in the value of real wages in just a couple of months after the assumption of the new government. The share of wages and salaries on national income fell from 45 percent in 1974 to 26 percent in 1983 (Rapoport [2000] p.821). There was also a considerable fall in employment, especially in the industrial sector. Nonetheless, important rises were registered in labor productivity. In the financial sector, the number of banks climbed from 119 to 219 between May 1977 and May 1980. From the government this was seen as a sign of growing competition in the sector. In fact, the number of banks was less related to the state of the economy and more to the speculation caused by the massive influx of foreign capitals and the new legislation. The level of indebtedness by both public and private sectors reached unprecedented levels, a situation that got aggravated as international interest rates started rising in 1979 and the terms of trade worsened. The opening of the economy together with the *tablita*, which led to an overvaluation of the peso[19], resulted in an increased level of competition which resulted in a process of deindustrialization and an involution of the productive structure into primary products (Panigo and Torija-Zane [2004] p.33).

2.2 Crisis

The government's anti-inflationary plan failed to bring down inflation. Between 1978 and 1979, retail inflation barely changed, going from 171 percent to 163 percent, while wholesale inflation actually rose from 146 percent to 149 percent. The persistence of a high inflation rate was of course intrinsically bad, but coupled with the *tablita* scheme, it proved to be additionally worse. The stipulated increase in the dollar was much less than the increase in prices, creating an exchange lag which, by reducing the value of imports and making exports less profitable, tended to deteriorate the trade balance. In addition, external indebtedness was getting out of control just as interest rates were on the rise in the early 1980s. Everything pointed out to a possible structural crisis. There were increasing signs of distress in the banking sector, bankruptcies were rising, a default on the domestic and external debt seemed imminent, international reserves were contracting, and the exchange rate was unsustainable. In March of 1980, the collapse of one of the most important financial houses triggered a run on the banks which brought down three more banks. Between 1978 and the first semester of 1982, 102 financial institutions disappeared from the market. A massive capital flight ensued which, between the first quarter of 1980 and the first quarter of 1982, totaled $20,000 million (Lewis [2002] p.152). In July 1980, new measures of stabilization were announced by the government which included steps towards the reduction of the public deficit

[19] The overvaluation of the peso came to be known as *plata dulce* or sweet money and contributed to the deterioration of the trade balance, a worsening of the terms of trade and deindustrialization.

and a further easing for taking credit abroad. But the credibility of the government seemed to be irreversibly undermined. The abandonment of the *tablita* scheme was a foregone conclusion. The mistrust towards the government turned into panic and by the end of March 1981, the accumulated loss of reserves since October (US$5,000 million) was more than 50 percent of the total. The financial crisis marks the end of the economic program initiated by Martínez de Hoz (Gerchunoff and Llach [2005] pp.365-7).

The legacy of the 1976-81 neoliberal reform was increased indebtedness in both public and private sectors, state finances out of control, inflation, stagnation, the closing of an uncompetitive economy, and capital flight. When the military seized power, the external debt totaled around US$8,000 million, by 1983 the figure was US$45,000 million, corresponding 70 percent of the total to the state. This would severely condition the management of the economy in the coming decade due to the necessity of repaying this debt, allocating fewer resources for other purposes such as investments. This is one of the underlying causes of the Lost Decade of the 1980s. The sudden opening of the economy was a complete disaster for the manufacturing sector producing massive bankruptcies. During the second half of the 1970s industrial output shrank and the share of manufacturing in GDP decreased from 32 percent in 1975 to 27 percent in 1983[20]. Comparing the national economic censuses of 1974 and 1985, there is a 14 percent decrease in the number of industrial establishments along with a reduction of 13 percent in employment. This translates into the closing of 18,000 businesses and the loss of 250,000 jobs. The industrial structure became heavily modified, depending increasingly on advantages in terms of natural resources and in the use of unskilled labor force at the expense of a more qualified work force and a higher technological potential. This shock opening occurred precisely at the point in which some branches of industry were ready to make an export breakthrough, eliminating the previously acquired gains. The economy specialized in a new way as reflected in the changing composition of exports: the increase of commodities and the decrease of high value-added products (Miotti [1991] pp.454-5).

The implementation of the economic program of Martínez de Hoz immediately led to a redistribution of income from labor to management. The freezing and control of nominal wages decreased real wages and reduced, as a consequence, the proportion of wages and salaries on national income. The distribution of income acquired a regressive turn. Even though the distribution of income already tended to worsen in the 1960s and 1970s, it reached unprecedented levels at the start of the 1980s. The increase in poverty rates is another aspect consistent with the fall of real wages and the decrease in consumption of workers. An additional factor contributing to the rise in poverty is the declining trend of social expenditure (education, health, and housing) by the government not only with respect to GNP and but also within the total national budget, a trend that started in the 1960s and which subsequently got worse in 1976-1983. Social expenditure per capita shrank by 14 percent between 1977 and 1982, affecting more education than health and housing. Consequently, the deterioration of social public services, in relation to the emerging needs, affected mostly those sectors with the lowest income (Rapoport [2000] p.836).

[20] The share of manufacturing over GDP shrank even further to 26.1 percent by 1989 (OECD [1997]).

While the military regime claimed to have stabilized society by eliminating armed terrorist and subversive groups, in the process "disappearing" around 30.000 people in what came to be known as the "dirty war", it clearly failed to stabilize the economy. Thus ends the first neoliberal program and neoliberal cycle in Argentina.

2.3 The Alfonsín years – compensatory policies, alternative policies, and crisis

The decade of the 1980s in Argentina is characterized as a period of economic stagnation marked by very volatile economic cycles with production and investment below historic average levels, including an accelerated process of capital destruction, increasing unemployment, and growing inflation which ultimately led to hyperinflation. In 1982, with rising popular discontent against the regime and with a system in crisis, the military government decided to divert the focus of attention of civil society away from current problems by occupying the Malvinas/Falkland Islands, long claimed by Argentina, from Great Britain. Military defeat further disgraced the government and brought about the return of democracy.

The main economic issue at that time concerned the foreign debt which from 1976 to 1982 increased more than 400 percent. Furthermore, the impact of the 1982 Mexican debt crisis was quite severe. First, from being a capital importer, Argentina became a net exporter of capital. The transfer abroad of debt service payments and earnings over GDP grew from 2.2 percent to 9.4 percent from 1980 to 1983 (Gerchunoff and Llach [2005] p.391). Adjusting to this new restriction made it necessary, to obtain trade surpluses by contracting imports, at the cost of an acute drop in gross domestic investment. The internal mobilization of funds necessary for the transfer abroad implied, not only a decrease in public spending, but also an accentuation of the fiscal pressure, an inflationary levy imposed on the private sector, and by the public sector resorting to debt vis-à-vis the private sector. Other than the contractive effects on demand, this type of situation had negative effects on supply, and therefore, led to a weakening of the productive capabilities of the country. In the government of the *Proceso*, since the productive capacity of the economy had not been expanded (because the debt financed the acquisition of financial, not physical assets), in order to service debt interests the capacity to earn hard currency was increased by decreasing other components of GDP (Fanelli and Frenkel [1989] p.4). In 1983, imports as well as investments were at half the level they had been in 1980.

2.3.1 Policies

In order to counterbalance the effects of the crisis, the government of the *Proceso* instituted some (short-term) counter reform policies which included liberating the exchange rate, freezing public utility prices and state salaries, leaving interest rates without controls, reintroducing export levies, and modifying the tariff structure (Gerchunoff and Llach [2005] p.375). The high level of indebtedness represented a problem not only to those sectors that were indebted but to the whole economy as well. In particular, the depreciation of the peso and

the rise in international interest rates further complicated the situation of foreign debt holders. The nationalization of private debts under the military government (through an exchange rate insurance given by the Central Bank to indebted companies and by a later devaluation which led the State to take charge of a considerable part of private debts) was part of the initial policies to get out the crisis. According to Machinea and Sommer [1990 p.4], the reduction of the external liabilities of the private sector achieved through a nationalization of a great part of that external debt, increased the indebtedness of the public sector from 53 percent of the total debt in 1980 to 70 percent in 1983 and to 83 percent in 1985[21]. Nonetheless, this policy was not enough to get the economy back on a growth track or to keep the military regime in power.

The political economy of the next government under Alfonsín can be divided into three stages. In the first stage, the government ran a loose, populist monetary policy in an attempt to buy support from voters, organized labor, and businesses, afterwards applying compensatory policies under conditions set by the IMF. The later stages correspond to Alfonsín's alternative policies. In the second stage, in June 1985, the heterodox Plan Austral was launched designed to stabilize the economy with growth, rather than through recession, by means of a wage and price freeze and readjustment of relative prices. In the third stage, during the first half of 1988, as the rate of inflation kept on growing at a continuous pace, a new heterodox plan was launched, the Plan Primavera. Under the Alfonsín government, important institutional changes were carried out which define this period in the long term NLC as alternative: the process of opening the economy was interrupted, policies of industrial promotion were reinstituted, and the State assumed a more interventionist role. To repay the foreign debt, the State regulated the foreign exchange market (through differential rates for exports, imports, and financial transactions) and resorted to commercial and financial policies (import tariffs and exchange controls, respectively) in order to raise the necessary funds to face up to this newly imposed structural restriction (Panigo and Torija-Zane [2004] pp.38 & 41).

2.3.2 Socio-political and economic background

The main task of the newly elected president Raúl Alfonsín (UCR party[22]) centered on the reconstruction of democracy and civil society after years of brutal repression. Economic reactivation was considered dependent on the political process, though it was assumed that economic growth would contribute to re-democratization and social stability (Lewis [2002] p.154).

2.3.3 Economic effects

The government's initial policy, combined with the monetary expansion of the last year of the military

[21] The process of nationalizing foreign private debts was also carried out under the democratic government of Alfonsín in 1985 and 1988 (Escudé [2006] p.133).
[22] The Radical Civic Union (*Unión Cívica Radical*, *UCR*) is a major centre-left political party in Argentina. Founded in 1890, it is Argentina's oldest political party.

regime, triggered a further surge in inflation and a flight from the peso. In September of 1984, a standby loan was secured from the International Monetary Fund, whose conditions were: tighter monetary policy, controls on wage increases, reduction of subsidies, and the phasing out of price controls. To that effect the government devalued the currency, increased public utility fees, and tightened monetary policy. Together with certain measures of public expenditure cuts, the fiscal deficit and the rise in prices were moderated to some degree (Lewis [2002] p.155).

Under the Plan Austral it was assumed that in historically inflationary economies like Argentina, inflation perpetuated itself through inertial factors like indexation and adjustment strategies devised by all economic agents based on expectations of continuing inflation. The ultimate causes of inflation (fiscal deficit and monetary emission) had to be deactivated in order to reinforce the new situation and the expectation that it would be prolonged in time. The government would have to raise income by increasing public utility prices, taxing imports, and making the revenue service more efficient. A new currency unit, the *austral* valuing 1.000 pesos, was introduced at the initial rate of 0.80 austral = US$1, at the same time all prices in the economy (as of June 12, 1985) were frozen and indexation was made illegal (Rapoport [2000] p.911). The plan was accepted with success and brought an initial period of stabilization which saw real wages pick up and consumer credit lines back on the market[23]. The recessive trend of the first semester was reversing its course, turning into a full recovery by the beginning of 1986. The initial freezing of prices had had an important role in producing a truce in the distributional conflicts between economic sectors, and so the announcement of a flexibilization of the plan in April rekindled the race of every sector for their share of the cake. The Austral Plan started to unravel. By the end of 1986 the need to finance public deficits with monetary emission resurfaced, braking one of the promises of the Plan Austral. The structural causes of the fiscal deficit were practically intact. After the defeat in the elections for Congress in 1987, the government never recaptured control of the economy (Lewis [2002] pp.155-8).

In response to this, the Plan Primavera was launched, but growing skepticism among the populace undermined it from the start. At the end of the government of Alfonsín, there was a lot of noise in the political atmosphere: military uprisings, the recurrence of violence by certain left-wing sectors, and the electoral promises made by the Peronist candidate Menem, favorite in the polls only added to the prevailing uncertainties. Between February and May 1989, the consumer price index doubled each month, starting from 9.6 percent and arriving at 78.4 percent (Gerchunoff and Llach [2005] p.419). The increase in prices was the result first of a variation in relative prices, reflected in the struggle among agricultural exporters, trade unions, the propertied classes, and other sectors to maintain or increase their income, and second because of a generalized rise in prices accompanied by an explosive speculation in the exchange market where the national currency was rejected and lost all its functions. When the currency loses all its functions, the inflationary process becomes

[23] During the first two years of the Alfonsín government, real wages increased by 21 percent despite any advances in productivity. Distribution struggles were intense and strikes became common practice. However, they were not very effective, and they could not prevent a steep fall of real wages in the following years (Neffa [1998] pp.293-6).

hyperinflationary (Sano [1998] pp.252-5 and Miotti [1991] p.478).

2.4 The Menem years – liberalization, deregulation, crisis, and its compensatory policies

In the presidential elections in May, the candidate of the opposition Peronist party[24], Carlos Saúl Menem was elected. Alfonsín, facing looting and riots, was unable to control the situation and resigned, transferring power ahead of schedule to Menem in July. That month, the rate of inflation reached 196.6 percent.

2.4.1 Policies

The priority of Menem's economic team was the stabilization of prices by reducing external and fiscal imbalances. Two very important laws were promulgated: the Law of State Reform and the Law of Economic Emergency which covered, among other things, the administrative reform of the state, the authorization to privatize state enterprises, the elimination of subsidies towards national enterprises, the reform of the charter of the Central Bank, the liberalization of foreign investment, and the dismissal of public employees (Gerchunoff and Llach [2005] pp.429-30). In December 1989 there was a change of the Minister of the Economy. The new minister, who lasted until February 1991, went through five successive economic plans in order to bring the economy under control. The main objectives of these plans consisted in trying to reorganize public finances in order to achieve a fiscal surplus, controlling monetary emission, maintaining the trade balance surplus, recomposing foreign currency reserves, privatizing some of the most important public enterprises, liberalizing the exchange market and domestic prices, renegotiating the external debt and, above all, restructuring the domestic public debt. In this way, the path was set for the next phase, which consisted of monetary stabilization and a deepening of structural transformations (Rapoport [2000] p.973). The Convertibility Plan, introduced by the new Minister of the Economy Domingo Cavallo on April 1 1991, was much more radical and encompassing than previous plans had been. The plan was based on a new monetary system, further opening of the economy, and thorough reform of the state. Through the Convertibility Law, the domestic currency was to be backed by dollar reserves held by the Central Bank which would function as a Currency Board. The Central bank became an autonomous entity, free from political control and was prohibited from financing the fiscal deficit (Lewis [2002] p.162).

2.4.2 Socio-political and economic background

The main objective of the Convertibility Plan was to increase the predictability of the workings of the state. A major part of the instability of the past was attributed to the periodic and sudden changes in the rules of

[24] The Peronist Party (*Partido Peronista*) was founded by Juan Domingo Perón in the 1940s. It is a traditionally nationalist and pro-labor party (but during the 1990s, it departed from its roots and was supportive of neoliberal economic policies).

the game which impaired the initial objectives of economic plans. People stopped believing in these rules speculating on when a new sudden change would take place. This is why regaining the trust of citizens required curtailing governmental functions. With this plan, the government would be prevented from carrying out any monetary or exchange policy and its margin of action for the implementation of fiscal and sector policies was severely reduced (Rapoport [2000] p.973).

2.4.3 Economic effects

The Convertibility Plan was successful in its immediate purposes. The stability of prices was achieved towards the end of 1991, with monthly inflation rates of less than 1 percent. Measures to this effect also included limiting the increase of wages to within the increases of productivity and weakening labor movements (Sano [2005] p.50). The stability of prices was initially accompanied by high rates of economic growth. From 1991 to 1994, output grew at an annual rate of almost 8 percent a year. Unemployment also rose, but remained below double digits until 1994, even with the accelerating pace of privatization (see figure I – 2)[25], while the investment rate picked up. The virtual elimination of the inflationary tax had a progressive effect since its consequences fell mostly on the most vulnerable strata of society, revealing that not only the stabilization but also the effects of the economic boom had reached the lower levels of the social structure. The unemployment caused by the opening of the economy, the reorganization of the public sector and, to a smaller degree, the privatization of state enterprises was compensated, initially, by the impact that the increase of GDP had on employment. Growth during the initial four years of the plan was based on domestic consumption with domestic savings remaining low and the trade balance deficit growing. Consumption and economic growth were financed to a big degree by foreign savings, but the situation reversed itself in 1995 with the Tequila Crisis. The initial success of the Convertibility Plan is associated with a favorable evolution of world economic trends as a consequence of the lowering of interest rates, the increase in the availability of liquid funds and a better environment for the renegotiation of the external debt (Lewis [2002] p.164 and Gerchunoff and Llach [2005] p.433)[26].

[25] The process of privatization in Argentina did not imply the disappearance of the former public companies. For example, ENTel, the national telephone company, which was privatized in 1990, continued to exist in 2000 as "ENTel residual". The same can be said of many other companies such as Ferrocarriles Argentinos (trains), Agua y Energía Eléctrica (electricity) and Obras Sanitarias de la Nación (water and sewers), among others. Their continued existence was due to outstanding debts, credits, lawsuits, etc that these companies had at the time of their privatization which were not transferred over to the new privatized companies (La Nación [2000]).

[26] On April 7 1992, Argentina entered the Brady Plan which permitted the restructuring of its debt with private banks to 15 years for debt service (approximately US$8,300 million) and to 30 years for capital (approximately US$20,000 million) (Rapoport [2000] p.984).

Source: INDEC. Note: May for 1976–2002, 2nd trimester for 2003–2008. See footnote 33 for explanation on PJJH.

With the policies adopted by the government with respect to the labor market (making the use of working time more flexible, reducing hiring and layoff costs, lowering social security contributions by firms, and reducing costs related to labor accidents), unemployment tended to increase and wages fall. The labor situation was further aggravated by the sudden change in relative prices which favored imports against national production. The deterioration of the labor market conditions did not take place only in times of recession: even in the years of economic expansion the unemployment and underemployment rates increased. Judging by the evolution of work in the informal sector and by the length of probationary periods, working conditions became increasingly precarious under Menem (Sano [2001b] and Frenkel [2003]).

As privatization receipts dried up after 1995, the fiscal balance started to be in danger. The authorities continued to cut down on several items, such as wages and salaries, operating expenses, and public investment, but despite this, total expenses continued to increase due to at least three factors. First, with the privatization of social security – a switch from state agencies to private pension funds (*AFJPs*[27])– the public social security system started to get divested, as an increasing part of contributions were diverted towards the AFJPs and because the phasing out of pension payments given by the government would only happen in the long term. At the same time, the big surge in unemployment increased the transfer of subsidies towards the unemployed. Second, a bad allocation of resources coupled with the widespread use of "secret expenses" prevented the reduction of expenses of other areas from having any effect on total expenses. Third, the weight of the debt service expanded manifold, climbing more than 130 percent between 1993 and 1998. Already in 1994, the public deficit started growing directly as a function of the debt service (Rapoport [2000] p.984).

2.4.4 Crisis

On December 20 1994 a run on the Mexican peso originated the Tequila Crisis which triggered a currency crisis affecting many emerging market economies, not least Argentina which had similar economic

[27] *Administradoras de fondos de jubilaciones y pensiones* (private pension fund manager businesses). On December 9, 2008, with the coming into force of Law 26,425 all *AFJPs* were renationalized.

fundamentals as Mexico. The stability of the currency board was put into doubt prompting an attack on the Argentinean peso and a run on the banks. Between December 1994 and March 1995, the Central Bank lost a quarter of its reserves (5,832 million dollars) and the country risk index rose from 8 percent to 55 percent. GDP decreased in 1995 by 4.5 percent. The social impact was tremendous: unemployment reached 18.6 percent in May of that year. The system was starting to show its negative points: an economic expansion could be abruptly turned into an acute recession in a matter of weeks. To ensure the continuity of the system, the economy had to constantly receive foreign capital flows. Since the system generated current account deficits, these inflows became indispensable. In their absence, given the monetary constraints, the economy had no choice but to go through recessionary adjustments (Gerchunoff and Llach [2005] pp.443-4).

The Argentine economy presented certain contradictions: while its levels of activity and growth resulted in growing external imbalances, any slowdown of growth brought about a worsening of the fiscal situation and affected the already insufficient rate of job creation (Calcagno [1997] p.73).

The Tequila Crisis prevented an important part of society from fully integrating socially. Between 1992 and 1994, employment rose a scanty 0.5 percent per annum while growth for the same period had been 6.5 percent yearly. After 1995, a quick return to the lower unemployment rates that had characterized Argentina was highly in doubt. With privatization and investment, capital displaced labor as firms were producing more with fewer workers. It could no longer be argued that growth alone would deliver "real jobs", i.e. in the formal sector, and thus reduce poverty. Society was becoming less equal (Gerchunoff and Llach [2005] p.435 and Lewis [2002] p.167).

2.4.5 Compensatory policies

In order to handle the crisis, the Central Bank resumed its role of lender of last resort which had been severely limited with the amendment of the Central Bank Charter in 1992. It promoted the establishment of a safety net for private banks, whereby the banks with the greatest liquidity purchased the portfolios of the neediest institutions. In this respect, on March 1, 1995, the Central Bank Charter was reformed in order for the Central Bank to provide advances to financial institutions to deal with temporary situations of illiquidity. The Central Bank in this way took over indirectly the management of the safety net. At the end of March, a Bank Capitalization Trust Fund was set up to assist and partly finance the capitalization, restructuring or sale of financial institutions undergoing difficulties. A Provincial Development Trust Fund was also set up for the privatization of provincial banks. The first fund was financed by World Bank loans and Argentine bonds while the second fund was financed by YPF[28] shares in possession of the State and by loans from the World Bank and the Inter American Development Bank. In December 1996, the Central Bank signed an agreement with thirteen international banks for a credit up to US$ 6.1 billion in the case the Argentine financial system suffered a

[28] *Yacimientos Petrolíferos Fiscales* (YPF) was an Argentine state-owned oil company privatized in 1991.

generalized lack of confidence or would be in need of additional liquidity beyond that already available by banks. The Central Bank intervention had a decisive influence in controlling a banking crisis, avoiding a string of failures which could foment a bank run. However, the aim of the monetary authorities was not to preserve all financial institutions, instead a greater concentration of the banking system was promoted. The government tightened the supervision of banks and improved accounting and disclosure practices, forcing banks to face up to their bad loans. The worst-hit banks were closed while minimum capital requirements were raised and more thoroughly enforced. Subsequently, there was a string of mergers and rationalization of banks. More than a quarter of Argentina's banks were swallowed by rivals, many of them bought by foreign banks which emerged from the crisis as the main winners. Out of the 205 financial institutions which existed at the end of 1994, only 158 remained by December 1995. This evolution is the result of the liquidation of 12 entities, the fusion of 39, and the entry of 4 new ones. Consequently, through the Tequila Crisis the financial system became more concentrated, liquidating, fusing or reconverting those entities considered "weak" in terms of solvency or liquidity. Whereas in November 1994, the fifteen biggest banks received 58.2% of deposits, the percentage was 67.4% one year later. After the crisis, besides the restructuring of the financial system, banks were left with a large portfolio of high risk and irrecoverable loans accounting for 6.2% and 5.6%, respectively. This forced banks to be more conservative in their lending, keeping interests rates on loans high, making them direct their finance to big, important clients to the detriment of small and medium sized businesses and regional economies (Calcagno [1997] pp.66, 80-85 and Arriazu [2003] p.150).

Growth continued until mid 1998, GDP had expanded by 15 percent since 1994, and unemployment fell to 12.4 percent in October 1998. Nevertheless, the sustainability of the system was in need of a growth rate in exports for which the economy could not effectively generate. The growth of exports between 1992 and 1998 was not enough for the repayment of the debt. Indicators of debt sustainability started to deteriorate well before the worsening of the international financial situation. Menem, thinking that the strong growth experienced in 1997 would continue in 1998 and with the objective of a third presidential term (which he did not get due to its unconstitutionality), resorted back to populist measures increasing government spending (Parodi Trece [2003] pp.100-1). While most emerging countries reduced their foreign debt/exports ratio after the Tequila Crisis, Argentina's ratio increased by 20 percent in 1994-1998. Additionally, the average debt maturity went from 35 to 7 years between 1994 and 1998 (Gerchunoff and Llach [2005] pp.446-7 and Panigo and Torija-Zane [2004] pp.49-50). Also, there was a progressive deterioration of provincial finances which destabilized the national accounts. The federal government was unable to enforce fiscal discipline on the provinces. The problems for Argentina started unfolding in August 1998 with the Russian currency crisis. It seemed that the optimism of capital market indicators towards emerging markets would not recover as fast as they did with the Tequila Crisis. By the third trimester of 1998, Argentina was entering a recession.

2.5 Crisis

In December 1999, Fernando De la Rúa of the Alliance for Work, Justice, and Education (a coalition of the UCR, Frepaso[29], and other smaller political parties) became the new president of Argentina. The first objective of the new government was to instill trust in markets so as to revert the outflow of capital reflected in an increasing country risk premium, which hindered the way to economic recovery. For this purpose, the emphasis of the Minister of the Economy lay on fiscal austerity. Even though a policy of belt tightening during a recession is usually considered to be counterproductive, the thinking of the government was that budgetary prudence would lead to a lowering of the country risk and that the expansionary effects of a drop in interest rates would largely surpass any recessive influences that might be caused by the fiscal tightening. Nonetheless, the fiscal austerity measures were not able to attract capital or reactivate the economy. Not even the support of the IMF through the "*blindaje*" (armor), in which a credit of 40 billion dollars was secured, was able to better the situation. Gradually, the Argentinean economy was becoming the focus of attention of international investors as a possible candidate for defaulting on its financial obligations (Gerchunoff and Llach [2005] p.450 and Panigo and Torija-Zane [2004] p.50).

But, why were interest rates not going down? There are several factors which can be mentioned: first, markets were starting to be in doubt about the technicalities of sustaining the Convertibility plan, especially after 1999, as debt service and the fiscal gap were in need of additional borrowing; second, the growing demands of the government for credit kept rates high; third, the presence of corruption which increasingly permeated the political system. These factors raised the cost of doing business in Argentina undermining confidence in the political sustainability of the system. From 1991 to 2001, the fiscal deficit averaged 2 percent of GDP. Under a currency board arrangement, a fiscal deficit of this magnitude can be sustained for one or two years, but not for a whole decade (Lewis [2002] p.171).

In March of 2001, the banking system was witness to the largest ever monthly withdrawal of deposits – US$5,500 million. In the last quarter of 2000, some US$2,000 million had already been withdrawn. At the height of the Tequila Crisis the peak had been US$4,600 million. In comes Domingo Cavallo, Menem's former Minister of the Economy to save the day. Cavallo made a decision to adjust the Convertibility Law and modify the Central Bank Charter. The consequences of such an announcement were not positive since it was perceived as a debilitation of the commitment of Argentina with Convertibility. Between April and mid July there was a massive outflow of reserves of almost US$10,000 million. This caused a remarkable shrinkage of the domestic money supply, which in turn led to a further credit crunch. Cavallo insisted on his policies and so, through the implementation of the *Plan Cero Déficit* new taxes were introduced and public sector salaries and pensions were reduced in order to bring the federal budget into balance. But raising taxes and cutting expenditure during a

[29] The Front for a Country in Solidarity (*Frente por un País Solidario*; Frepaso) was a moderate leftist group composed of dissident Peronists who split from the Peronist Party in the 1990s, the Socialist Unity (*Unidad Socialista*) and several other leftist parties and individuals.

recession was likely to worsen the state of the economy, further aggravating the recession, reducing tax receipts, creating a necessity of further tax hikes or reducing expenditure to close the fiscal gap, and so on. In the final phase of the crisis, and with the recession worsening, the solvency of many sectors, including the financial sector (which hereto had been presented as a international model in banking regulation and supervision) was severely affected as a result of being too exposed towards the public sector (which having no more possibilities of getting outside financing had to resort to the domestic market for funds). Finally, by the end of the year, in order to prevent a bank run, Cavallo implemented the *corralito*, a partial freeze of bank accounts for 90 days, which permitted depositors to withdraw only 250 pesos a week (Lewis [2002] pp.172-3 and Panigo and Torija-Zane [2004] p.52).

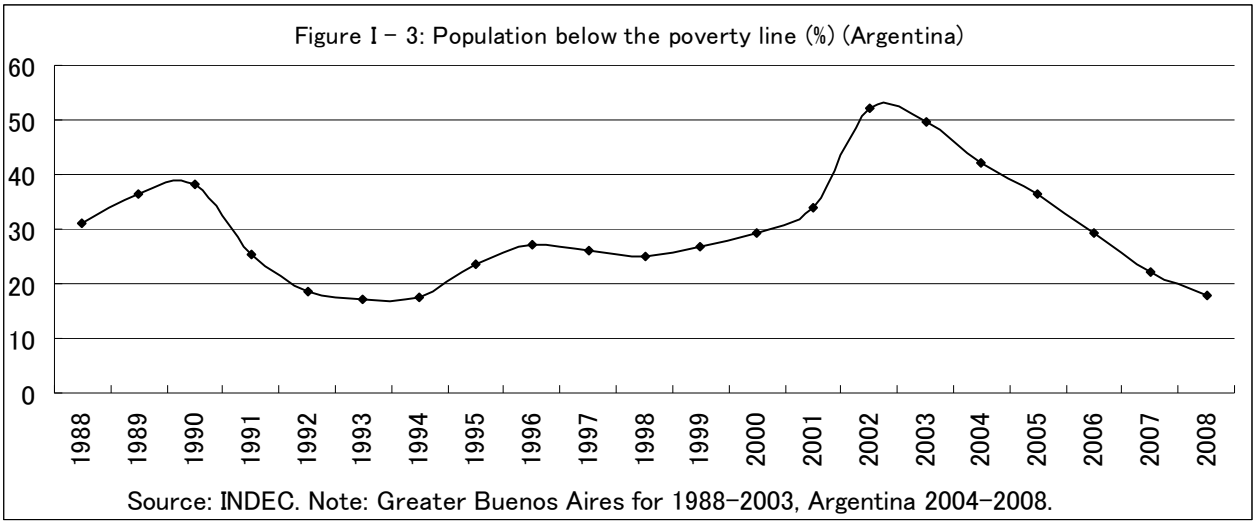
The situation got out of hand by the end of December with public demonstrations against the government which were violently suppressed, looting of shops and riots which left around 30 people dead. This led to the resignation of Cavallo followed by De la Rúa. The opposition Peronist Party took charge of the government. In the last week of 2001, President Adolfo Rodríguez Saá – who did not even last a week in power – declared a moratorium of Argentina's public debt, marking this as the biggest default in history, amounting to almost US$200,000 million[30]. In the first week of 2002, President Eduardo Duhalde announced the end of Convertibility. This marks the end of the second neoliberal reform program and neoliberal cycle which brought a second Lost Decade to Argentina.

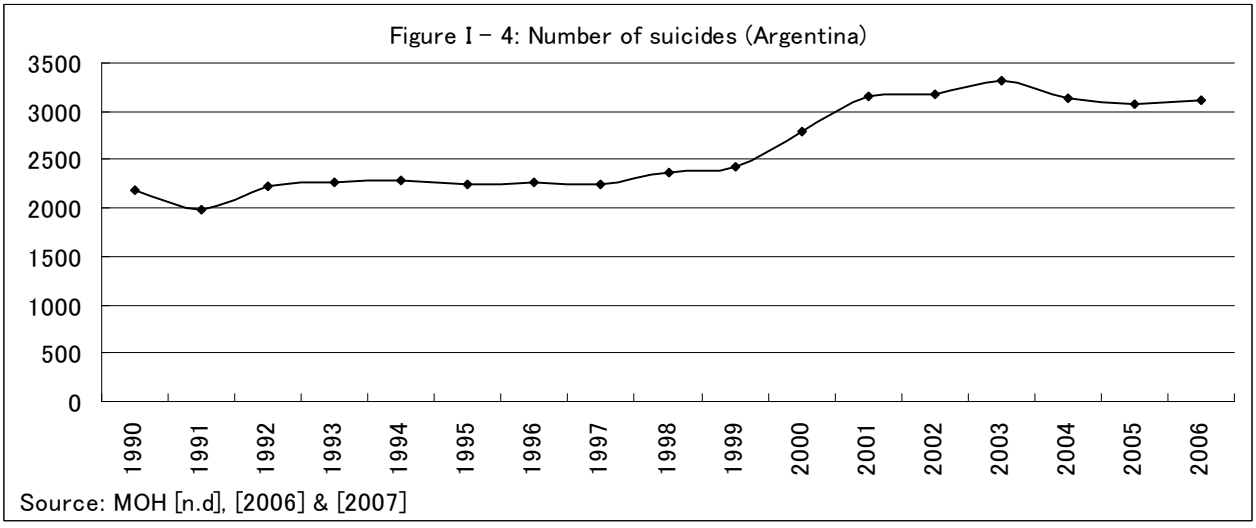
2.6 Breakaway from the neoliberal cycle?

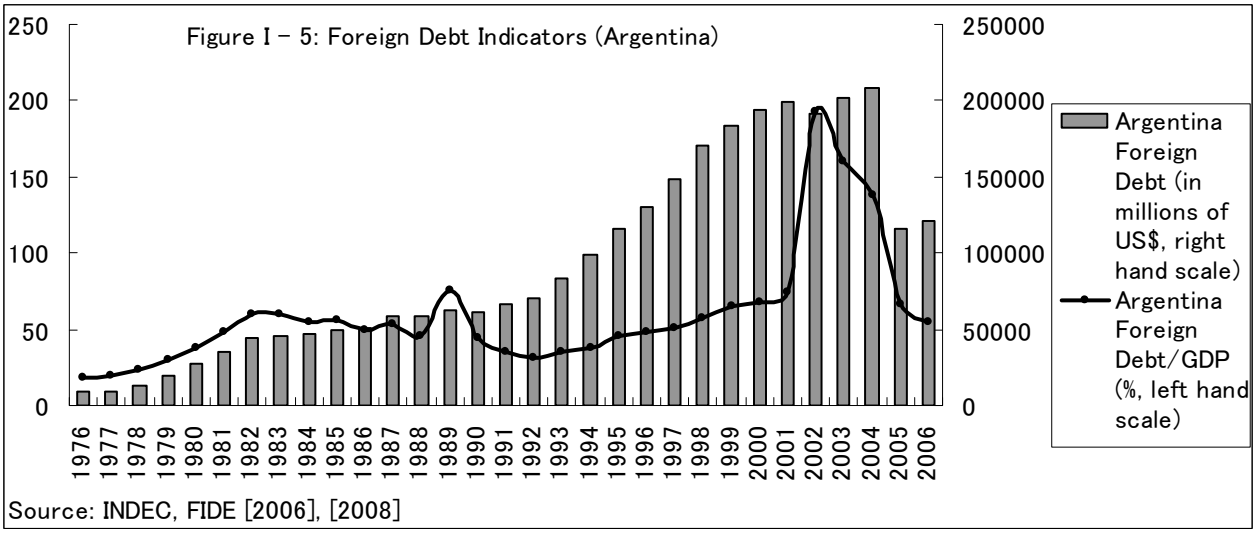
The crisis at the end of 2001 is the worst ever in Argentina's history. Its social impacts were devastating: in October 2002 the poverty rate reached 57.5 percent of the population (see figure I – 3). The number of suicides increased by one third between 1999 and 2001 (see figure I – 4). Children started dying from malnutrition. This is very paradoxical for a country, once considered the breadbasket of the world, which is able to produce food for its population many times over. This will severely limit the capabilities, as defined by Sen [1999][31], of future generations of Argentines. Another phenomenon of this crisis is the appearance of *cartoneros*, whose lives depend on the garbage they collect daily from the street. They are unemployed workers who earn a living by collecting carton or cardboard and selling them to recyclers. Around 4500 tons of garbage are generated in Buenos Aires each day. The *cartoneros* collect approximately from 9 to 17 percent of it (L'Estrange [2006])[32]. Between the second half of 1998 and the start of 2002, GDP fell by 20 percent and the rate of unemployment climbed to 21.5 percent (see figure I – 2). In 2001-2, the public debt climbed from 74 percent to

[30] Payment to multilateral organizations was continued, only the remainder, which was in the hands of private holders, was considered to be in default (Parodi Trece [2003] p.158).
[31] Capability, according to Amartya Sen, is "the substantive freedoms [a person] enjoys to lead the kind of life he or she has reason to value". In this sense, "poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes, which is the standard criterion of identification of poverty" (Sen [1999] p.87).
[32] The collecting and recycling activities that *cartoneros* do is not a recent phenomenon, but their explosive growth at the end of the 1990s is (L'Estrange [2006]).

193 percent of GDP (mainly due to the devaluation of the peso, the fall of GDP, "pesification" of debts, and issue of various compensatory bonds) (see figure I – 5) (FIDE [2006] p.30).







2.6.1 Policies

In order to get out of the most acute phase of the crisis, several institutional changes were made. The Convertibility system was abandoned and the peso was devalued, the debt moratorium was ratified, and private dollar denominated debts (including loans in the *corralito*) were pesified (converted to pesos) at the rate of 1.40 pesos to the dollar while loans in dollars were pesified at a rate of one to one. The difference of this asymmetric pesification was assumed by the Central Bank which was obligated to issue a compensatory bond estimated at around 14,600 million pesos. The State reappeared as a central agent concerning the redistribution of wealth. These forced conversions originated an avalanche of lawsuits which sought to have the deposited dollars returned as dollars and not as pesos. The Minister of the Economy, unable to contain the continuing draining of deposits from banks caused by the lawsuits, not having succeeded in obtaining fresh funds from the IMF, and without political support in the Senate, resigned on April 23. By that time, the exchange rate in the open market was hovering around 3.45 pesos to the dollar, sparking inflation which reached 41 percent in 2002. The new Minister of the Economy Roberto Lavagna modified monetary policy in order to further regulate the liquidity of the system, the draining of banks was reduced by the promulgation of a law, and the exchange rate was brought under control by a managed floating system. Capital controls were also reintroduced starting from the middle of 2002. On the fiscal side, in order to finance itself, the State reintroduced levies on exports (Panigo and Torija-Zane [2004] pp.52-3). In February 2002 an agreement was reached between the central government and the provinces to restructure their debts and reduce their fiscal deficits by 60 percent (Parodi Trece [2003] p.164).

In the 2003 presidential elections, Néstor Kirchner was elected. In the formation of his cabinet, he decided to keep Lavagna as Minister of the Economy, who continued with his policies towards the stability of prices and the exchange rate. He is credited with much of the recovery that Argentina experienced during Kirchner's term in office.

2.6.2 Economic effects

Argentina's new pattern of growth is characterized by a de facto protection of domestic production by the new exchange rate, technological imports unbiased towards labor saving technologies, and new fiscal instruments (such as export levies) which have led to a fiscal surplus creating a buffer stock that has allowed the implementation of policies of income distribution (such as the PJJHD program[33]). The new political context includes a redefinition of the state by which monetary sovereignty was recovered, capital controls established, the foreign debt reprogrammed, and social programs implemented (in employment, labor relations, social dialogue, etc) (Kostzer [2005])[34]. The economic recovery was due initially to the substitution of imports by

[33] The Unemployed Men and Women Heads of Household Program (PJJHD) is a workfare program in which a handout of 150 pesos is given to unemployed heads of households in exchange for a minimum of four hours of daily work (MLESS [n.d.]).
[34] Capital controls were established in 2002 to avoid the potentially disruptive impact of large short-term capital outflows on the nominal exchange rate which reached four pesos to the dollar in July 2002. In 2005, the government extended the minimum

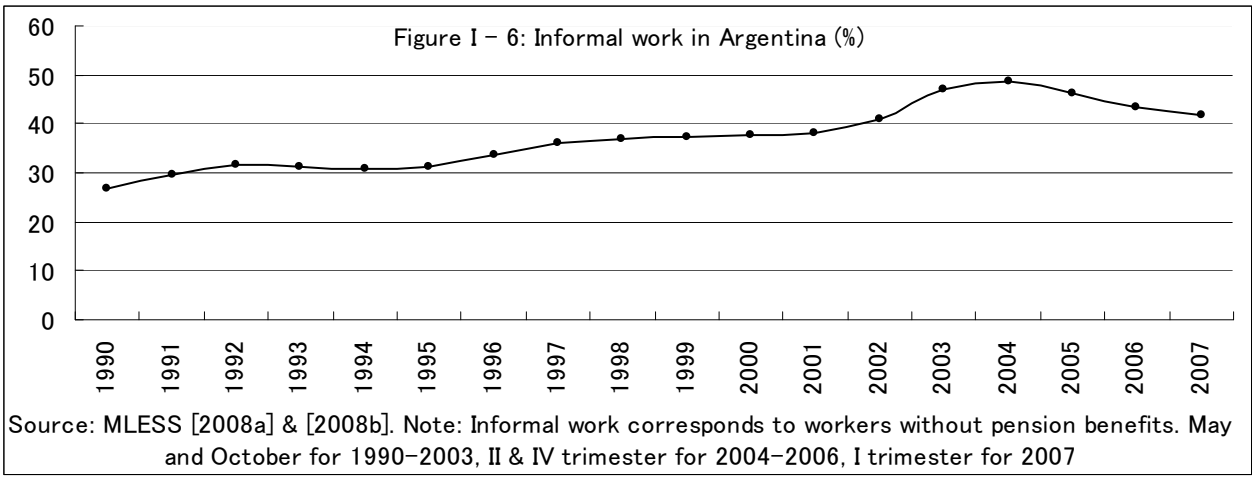
domestic production, high prices of commodity exports, devaluation, and the existence of much idle capacity, but was soon taken over by the components of domestic demand, in particular investments and private consumption. The "wealth effect" created by assets held by Argentines outside of Argentina, estimated at US$ 125 billion, greatly contributed to the recovery of investments and private consumption (Damill and Frenkel [2006] p.117). The economy grew an average of 9 percent every year from 2003 to 2007. According to CEPAL [2008], it is estimated that it will grow approximately 7 percent in 2008. Argentina successfully restructured its foreign debt, reducing it from US$ 208.2 billion in December 2004 to US$123.6 billion in early 2005 (see figure I – 5) (FIDE [2006] p.30). Although only 76 percent of owners of defaulted bonds accepted the terms of the government[35]. Nonetheless, as a result of this, the reduced foreign capital outflows necessary for debt repayment also contributed to the economic recovery. In this new context, the unemployment rate has been continuously decreasing from its peak above 20 percent in 2002 to 8 percent in 2008. This trend is observable with and without including the PJJHD workfare program. Although there is still a high proportion of informal jobs, most of the new employment being created is in the formal sector (see figure I – 6). Poverty levels although still high, have decreased to 17.8 percent in the first semester of 2008 according to INDEC, the national statistics office (see figure I – 3)[36]. Concerning income distribution, both the Gini index and the labor's share of income have clearly shown evidence of a regressive distribution of income during the period of implementation of neoliberal policies (see figures I – 7 and I – 8). In the last few years, with the possible breakaway from the neoliberal cycle, both indicators have indicated a certain improvement[37].

investment period from 180 to 365 days in order to avoid the formation of speculative bubbles and to bring under control the inflow of dollars which were strengthening the peso (Página 12 [2005a], [2005b]).

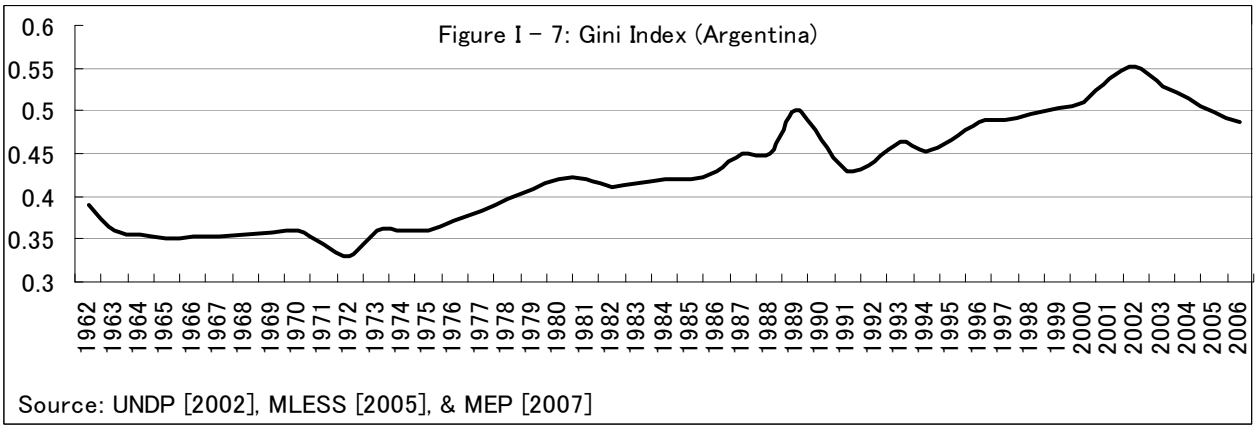
[35] In September 2008, the Argentine government started to analyze a proposal for the restructuring of the remaining debt (Economist [2008]).

[36] Other studies suggest the opposite. According to Sociedad de Estudios Laborales (SEL), a think tank, the rate of poverty has actually increased in the first six months of 2008. According to SEL, the basic food basket has increased 13.6 percent in the first half of 2008 while for INDEC it only went up by 2.8 percent. This discrepancy comes as a result of the method of calculation of inflation by INDEC, which is highly questioned due to accusations of government manipulation. This rise in the cost of the basic food basket has increased the poverty rate from 30.3 percent in the second semester of 2007 to 31.3 percent in the first semester of 2008. The basic food basket, as the name implies, is a basket of foodstuffs which satisfies the nutritional needs of an adult man aged 30 to 59 years for one month (SEL [2008] & Página 12 [2008]). However, inflation is not the only cause of the increasing poverty. According to a study by UCA [2008], poverty is also determined by the type of labor insertion of workers. Informal workers (unregistered wage earners, the nonprofessional self-employed, unregistered public workers, beneficiaries of the Unemployed Men and Women Heads of Household Program (PJJHD), and domestic helpers) have a higher probability of becoming poor than formal workers (UCA [2008] p.2).

[37] However, in the second half of 2008, the government of Cristina Kirchner, successor to Néstor Kirchner, has had to start implementing certain orthodox economic measures in order to alleviate growing distortions in the economy. These include raising gas and electricity fees, as well as the price of public transportation (trains, subways and buses) (Perfil.com [2008]).

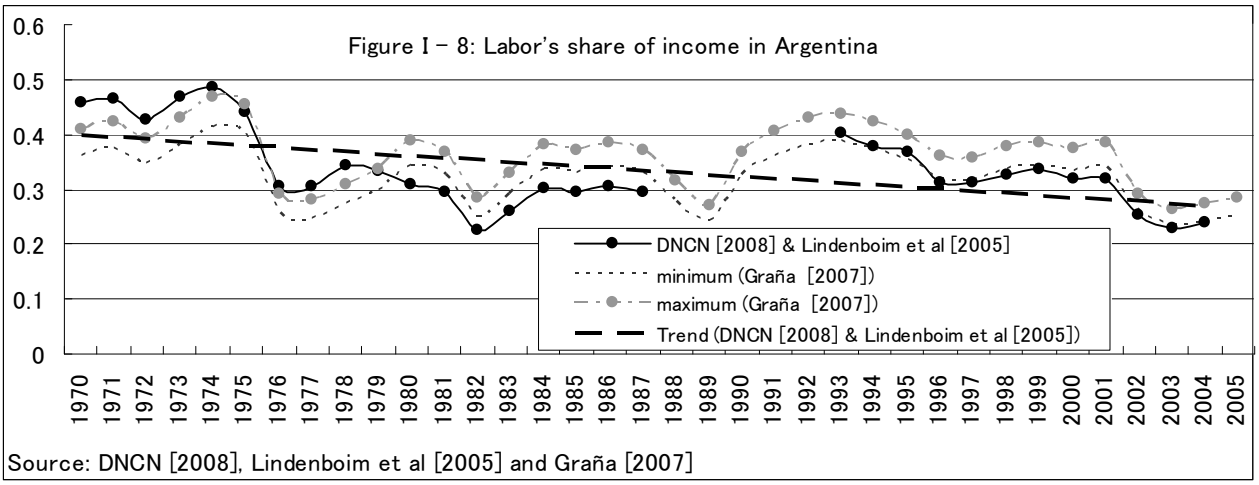


Source: MLESS [2008a] & [2008b]. Note: Informal work corresponds to workers without pension benefits. May and October for 1990–2003, II & IV trimester for 2004–2006, I trimester for 2007



Source: UNDP [2002], MLESS [2005], & MEP [2007]

In figure I – 8, the evolution of the functional distribution is as follows: starting in 1975, with the *Rodrigazo*, as well as the economic policy of the last military government in 1976, an unprecedented regressive redistribution of income took place. After 1978, the weakening of the military junta allowed a partial resurgence of union movements which once more stood up for their labor claims. The decrease in 1981 in the share of income came in the context of currency devaluations to restore balance to the balance of payment, the Mexican debt crisis as well as the Malvinas/Falklands war. With the return of democracy in 1983, the share of labor in income recovered until 1986 due to increases in wages and employment. From 1987, in a context of recession and rising inflation which led to hyperinflation, decreasing employment and wages reduced the labor's share of income. After 1989, with inflation brought under control, the share of income of labor improved. With the economy stabilized after the start of the Convertibility plan, economic growth increased wages and employment. From 1993 to 1997, in a context of economic expansion, the decrease in the share of income of labor can be explained by a fall in average wages (due to worsening of labor conditions) which was not compensated by an increase in labor. Between 1997 and 2001, the increase of the share of labor is due to a fall in the GDP which was proportionally bigger than the decrease in wages or fall in the number of employed. A steep decrease is seen from 2002 triggered by the devaluation of the currency with its subsequent price inflation and worsening of unemployment. Starting in 2004 substantial increases in wage and labor accompanied the continuous high growth of GNP (Lindenboim et al [2005] pp.7-10 & Graña [2007] pp.36-44.)



3. The Neoliberal Cycle in Japan

3.1 The bubble economy – liberalization and deregulation

Historically, the postwar economy in Japan can be divided into two contrastive periods: from 1960 to 1980 and from 1980 onwards. The first period is characterized by high growth, high investment, and growing productivity whose fruits were allocated to workers contributing to the continuing equalization in income distribution. During this period, the economy of Japan was a mixed economic system. Its main characteristics were low unemployment, anti-deflationary government public works spending policies which replaced recessions with mild inflation, average income level continually increasing, etc. The second period is a complete turnaround from the first. It is characterized by the slow collapse of the mixed economy, due to a series of liberalization, deregulation, and supply-side policies, i.e., policies contained within the framework of a neoliberal reform. From the 1980s, the Japanese economy went through unprecedented shocks not seen in the postwar economy. These are characterized by the formation of the bubble economy and its bursts which led Japan into a long-term economic stagnation, the "Lost Decade" of the 1990s, that became structural with continuous financial and fiscal crises, deflation, worsening of employment indicators, and a widening income gap (Itō [2006] pp.72-75.).

Japan's liberalization and deregulation process has been going on for a longer time than Argentina. In 1955, by joining GATT, Japan gradually liberalized trade. In 1964, it joined the IMF and OECD, deregulating foreign currency transactions and liberating direct investment. In the 1970s, a process of financial liberalization was initiated, picking up speed in the 1980s. Also in the 1980s, the privatization of state enterprises was promoted leading in the 1990s to a sector-wide easing of regulations[38]. The financial liberalization created the

[38] Some of the reforms carried out in the 1980s under the Nakasone cabinet include the intent to achieve a "small government" in order to rebuild public finances. The question was how the government would bring under control the issuance of deficit-covering national bonds. For this, a small government which entrusts as many activities as possible to the market seemed like the solution. In order to reduce personnel costs, public corporations such as Japan National Railways (JNR), would have to be privatized. Also, to

setting for the appearance of a speculative boom, creating a bubble economy which later collapsed. This contributed, together with further liberalization and deregulation of the economy, to Japan's Lost Decade (Sano [2005] pp.52-3).

3.1.1 Policies

The beginning of the neoliberal cycle (NLC) in Japan starts in the mid 1980s with a process that would create gigantic bubbles in land and stock prices. Factors which led to the formation of the bubbles include tax distortions (such as taxes favoring land investment), easy monetary policy (Japanese monetary policy was too loose until the middle of 1989), and financial deregulation (begun gradually in the late 1970s). The process of formation of the bubble economy can be divided into two phases: from fall 1983 until the end of 1987 and from the start of 1988 until the end of 1989. In the first phase, the liberalization of Japan's financial and capital markets got underway, exemplified in the abolition of the "principle of real demand" related to forward foreign exchange transactions[39] and regulations on yen conversion. This was done under pressure from the United States in order to rectify its bulging budget and current account balance deficits and gain greater access into Japan's closed financial and capital markets. For that purpose, on September 22, 1985, the Plaza Accord was signed to appreciate the yen and other currencies against the dollar by joint intervention. In order to stave off recession as a result of the appreciation of the yen, the government implemented expansionary policies through stimulus packages. From January 1986 to February 1987, the official discount rate at 5% was lowered five times, remaining at 2.5% for over two years. In the second phase, characterized by the difficult economic situation brought about by the Black Monday stock market crash in October 19, 1987 and by the yen appreciation-dollar depreciation, stock values experienced a rapid rise in value reaching an all time high by the end of 1989. In late 1987, in order to subdue the overheating economy and rising asset prices, the Bank of Japan (BOJ) attempted to tighten monetary policy. Nevertheless, it was prevented from carrying this course of action in the face of the Black Monday stock crash. The discount rate was not raised until May 1989, failing to stave off the formation of an asset price bubble. The Japanese government took no preventive action against the formation of a bubble[40]

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achieve a small government, deregulation would be promoted to curtail the jurisdiction of the government and the economic structure would have to undergo changes. In this way, after deregulation and privatization, government offices would continue to integrate. Nonetheless, privatization does not always lead to a smaller government. The urge to privatize came primarily from deficit causing companies such as JNR. However, profitable companies such as Nippon Telegraph and Telephone Public Corporation (NTT) were also privatized with an expectation of increasing public finances. In the end, these privatizations had as a result the effect of increasing, not decreasing, the number of public servants. These companies were not privatized in the true sense of the word. Those who acquired JNR and NTT could not dispose freely of these companies' assets. They were received in concession. As a result, the task to regulate these denationalized companies was taken upon by related government sectors. In the case of NTT, it has undergone more regulation when privatized than when it was a public corporation. This process of creation of new regulations which accompanied the process of privatization was not expected by economists dominated by the "small government" ideology which expected an increase in efficiency with the introduction of competition, privatization, and market preeminence (Itō [2000] pp.43-44 & 53-58).

[39] Only forward exchange transactions based on actual import and export demand were recognized (Miyazaki [1992] p.12).

[40] The extra low interest rate policy, which cut rates from 5 percent in January 1986 to 2.5 percent in February 1987, maintaining this rate until May 1989, was partly due to the coordinated reductions of interest by the US and Japan. Another factor is that the Ministry of Finance made fiscal rehabilitation a priority, forcing the subordinate Bank of Japan (BOJ) to implement macro economic policies to increase domestic demand. One thing that needs to be pointed out is that the goal for monetary policy of the

(Glyn [2006] p.138, Fukao [2003] pp.366-367, Miyazaki [1992] pp.109-114, 121 & 149, and Itō [2006] pp.91 & 140).

On another front, the liberalization of the labor market got underway. In July 1985, the Law Concerning Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers, hereafter the Worker Dispatch Law, was adopted and enforced one year later. The law specified sixteen jobs which could be permitted for worker dispatch agencies (Sano [2009], p.279 and JIL [1997], [2004]).

3.1.2 Socio-political and economic background

In this context, the institutional background of the financial liberalization must be considered. In the early 1970s, at the end of the high growth era, the increase in internal reserves and issuance of bonds and stocks by big companies together with their decreasing reliance on banks for corporate capitalization accelerated the process of the liberalization and deregulation of capital markets. At the beginning of the 1970s, major companies obtained over 40% of their funding from bank loans. By the late 1980s, in the middle of the bubble period, their dependence on bank loans had fallen to 6%. This, together with the liberalization of interest rates and the deregulation of intra-industry regulations, intensified the lending race by financial institutions. Banks transferred the greater part of their lending from large companies to small and medium businesses and individual borrowers. In addition, before the financial liberalization, under the so-called "convoy fleet approach", restrictions to competition and bankruptcy rules consisted of relatively mild prudential regulations[41]. In this way, after the liberalization, this continued institutional inertia promoted an unhealthy competitive environment for the operations of financial institutions. Finally, with the abolition of the "principle of real demand for currency trading" and of regulations of conversion into yen, it became possible, through the use of equity finance in euro markets, to procure huge amounts of funds with negative interests rates, which were later used for speculative purposes. In the end, the Japanese financial system failed to establish a new institutional framework under the rapid advance of financial liberalization. Together with the moral hazard at financial institutions, this failure resulted in reckless real estate investment and in the subsequent massive volume of nonperforming loans (Itō

BOJ was (wholesale) price stabilization. Dealing with asset prices was not its concern. During that time wholesale prices were stable, thanks to the high yen and the reverse oil crisis. This made it difficult to implement a policy of credit restraint. Concerning land prices, factors which contributed to its rise include frantic investments in land by real estate and construction companies, the lending strategies of banks, and the failure of monetary policies. With respect to the liberalization of the financial sector, no national strategies were set. The rapid repeal of regulations gave strong incentives for banks to take risks, but without adopting policies to establish new prudential regulations. In this way, Japan's financial system entered the 1990s with a safety net comprising merely of a deposit insurance system in the case of failure of small sized banks along with the function of the BOJ as the lender of last resort (Haga [2004] pp.64-65).

[41] Under the "convoy fleet approach" the burden of maintaining the Japanese deposit safety net was mainly placed on the banking industry as a whole. This was coupled with the public confidence in the ability of the Bank of Japan (BOJ) to provide liquidity assistance to prevent systemic crises. In the event of bank failures, the Ministry of Finance encouraged stronger, healthier banks to absorb insolvent institutions through informal, administratively orchestrated bank purchase and assumption transactions. After the collapse of the bubble, even strong banks faced nonperforming loan problems and were unable to assist other troubled banks. This explains the collapse in 1997 of Yamaichi Securities and other major Japanese financial firms. After the nationalization of the Long-Term Credit BOJ in 1998, the "convoy fleet approach" came to an end (Kawai [2004] p.15).

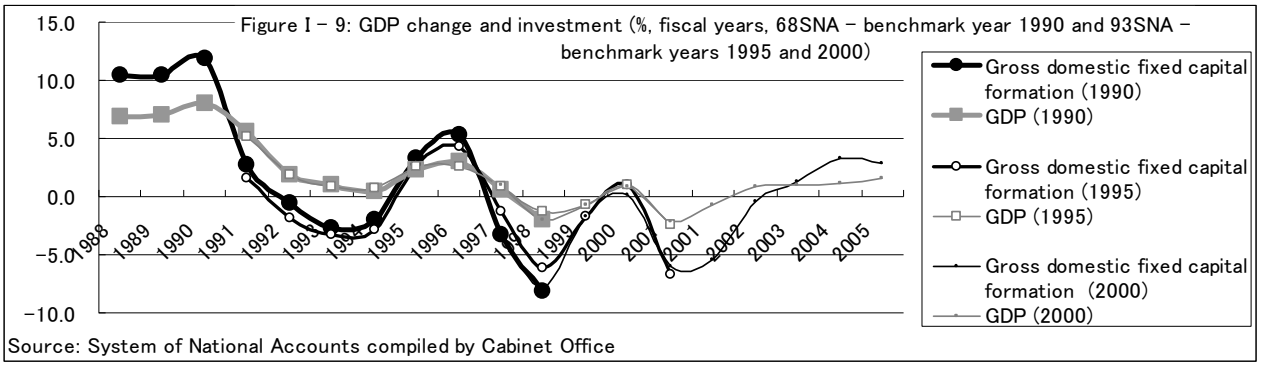
[1987], [1988], [1999] pp.22-3, [2000] chapter 3 & pp.77-79, Miyazaki [1992], Haga [1993], Yoshitomi [1998] chapter 2, Kaneko [1999] pp.25-6, and Yoshikawa [2008] pp.5-6 & 57).

3.1.3 Economic effects

With the above mentioned reasons coupled with the ultra-easy monetary measures, in 1987 financial institutions started to give credit loosely to real estate companies for land financing and for speculative investments by big companies. Asset prices (stock, land, golf club memberships, art objects) experienced an enormous rise in value, which was not reflected in real economic activity, leading to what became known as the bubble economy (Yanbe [2005] p.94).

According to Yoshikawa [2008], the ultimate cause in the increase of both land prices and land-intensive investment was false expectations on the future profitability of holiday resorts and office space in Tokyo. Both financial and non-financial corporations failed to understand where the future demand would lie. Firms took out loans from banks and purchased land. Based on their expectations of higher land prices in the future, banks often allowed more than 100% collateral values for land that firms had just purchased. In this way, it can be said that loans were made by banks to firms without any collateral in advance to purchase land. The value of commercial property had already started rising in 1985, before interest rates were lowered. Thus, their lowering was not the primary cause of the subsequent excessive investment. Rather, the simultaneous escalation of land prices and land-intensive investment was ultimately triggered by the increase in expected returns on certain plots of land. Then, this bubble in the real economy is what later sparked the bubble in asset prices (Yoshikawa [2008] pp.5, 61, 212 & 230).

During the 1988-1993 period, the main contributor to GDP growth was private investment[42]. Accordingly, the fall in capital investment hit the economy hard. The fall in investment accounted for 70% of the overall decline. The investment slump of 1992-1994 was a stock adjustment in reaction to the excessive investment during the bubble economy. Weak consumption, although less severe than the drop in investment, also had a role in lowering the growth of GDP (Yoshikawa [2008] pp.14, 16 & 22) (see figure I – 9).



[42] Private investment has generally been the most important variable for explaining Japan's business cycles throughout the postwar era. This characteristic has not changed from the 1990s. In this way, virtually all of Japan's recessions after the war have been caused by a shortage of demand (Yoshikawa [2008] pp.12 & 15).

Contrary to common belief, the fall in asset prices had a relatively small effect on consumption. The reverse wealth effect from the decline in asset prices is not the main factor for explaining Japan's depressed consumption in the 1990s. Although capital losses on stock did have negative wealth effects on the consumption of elderly retirees and part of the self-employed which constituted the major stock owners, their combined number represent only 12% of households. Most of the capital gains and the subsequent losses accrued on land. However, Japanese household owners do not usually borrow money using their land as collateral for the sake of increasing their consumption. Most householders intend to pass the land onto their children. On one hand, households do not increase their consumption very much when the price of land on which their homes is located increases. On the other hand, they are not particularly affected when the price of land decreases. And so, households do not feel the need to cut back on consumption when land prices fall. The actual factors responsible for the prolonged stagnation of consumption throughout the 1990s are the increasing job insecurity and the increase in the consumption tax and social security contributions (Yoshikawa [2008] pp.39-48 & 224-225).

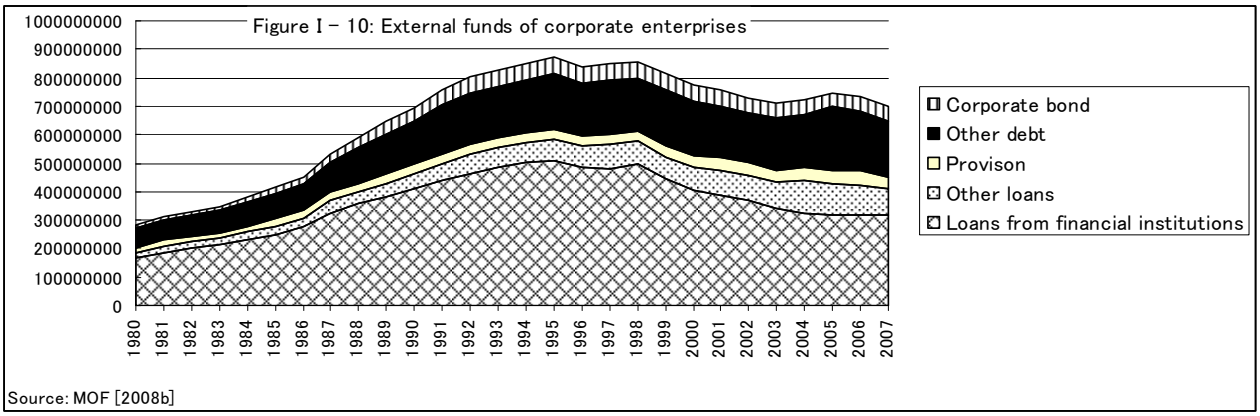
3.2 Crisis and compensatory policies

The end of the bubble economy came in February 1991, marking the beginning of the Heisei recession. The bursting of the bubble came about after a change in monetary policy. Stock prices reached a maximum in December 1989 of 38,915. In mid 1992, the Nikkei index stood at 14,309. Land prices continued rising until January 1991. The collapse of the bubble economy, which entailed a heavier capital loss on national income than the 1929 stock market crash in the United States[43], led to what has been called Japan's "Lost Decade". This lost decade is a result of misguided economic policies by the Japanese government during the formation of the bubble and after its burst[44]. With the change of monetary policy and the fall in asset prices, the economy went into recession in February 1991 until November 1993. The annual growth rate from 1992 through 1994 was 0.6%. The fall in asset prices and the associated recession had an adverse impact on bank's balance sheets. Financial institutions were saddled with a massive nonperforming loan problem. Banks were hit especially hard by the collapse of the bubble. 42 percent of the stock of companies listed in the Tokyo Stock Exchanged was owned by financial institutions. The decline in stock prices led naturally to a reduction of unrealized capital gains.

[43] The capital loss in stock amounted to 490 trillion yen in 1990-92 and 528 trillion yen in land in 1990-94. In total, this is over one quadrillion yen which at that time easily exceeded the GDP of two years (Itō [2006] p.112).

[44] These include monetary and fiscal policies, among others. As in the Great Depression in the United States, a low interest policy was taken in Japan. However it was not effective for two reasons: (1) Japan is not oriented towards debt-based consumerism as is the United States and (2) the inability of a decrease in the interest rate to stimulate investments. On one hand, lower interest rates reduced the burden on companies who owed debt. On the other hand, they also reduced the interest received by households who had deposits, lowering their income. This affected elderly people especially hard. With respect to taxes, since consumption represents more than 50 percent of national income, it was believed that increasing consumption would alleviate the recession, and so, accordingly, individual income taxes were lowered. This policy had no effect and only exacerbated the budget deficit. Lower taxes, instead of stimulating consumption, increased savings. Keynesian policies were also taken, but their effectiveness was only translated in the role that government spending played as a means of preventing national income from falling. This was done in the form of compulsory annual expenditure despite falling tax revenues and in the face of budget deficits (Itō [2006] pp.121-130 & 143). The lack of private investment and the fall in exports is also a contributing factor to the lost decade. Business investment stood at the same level in 2002 as in 1990. In the early 1990s, Japan's share of world exports stood at 8.25 percent falling to 5.5 percent a decade later. This decrease subtracted approximately 0.5 percent from GDP growth (Glyn [2006] pp.139-140.)

Since unrealized capital gains formed 45 percent of equity capital in banks, allowed under the 1988 Basel Agreement, this particularly aggravated the financial situation of banks. The difficulty of banks in raising capital led to a reduction in loans which affected small and medium sized businesses in particular exacerbating the recessionary trend (Itō [2006] pp.100-101). This thinking follows the strong opinion that during the economic slump of the early 1990s, besides the fall in demand due to the collapse of the bubble, an additional factor in the economic downturn was the massive increase in nonperforming loans which resulted in a credit crunch (Miyazaki [1992] p.22). However, even though the stagnation of the Japanese economy throughout the 1990s was caused by a long-term shortage of demand, the credit crunch actually took place after the autumn of 1997 during the financial crisis that broke out that year (Yoshikawa [2008] pp.10 & 49-51) (see figure I – 10)[45].



3.2.1 Policies

For many years in the post-bubble period, the government tried to compensate by preventing the economy from worsening and in this way contributed to the economic expansion of 1994-96. The government started on a course of successive decreases of the interest rate to boost activity, but the effects were not very perceptible at first. The economy grew on average 5.1% from 1995 to 1996. Between 1993 and 1996, nearly 80% of growth in GDP was due to expansion in private investments (Yoshikawa [2008] p.15).

3.2.2 Economic effects

From 1991 to 1993, the interest rate was lowered from 6 percent to 1.7 percent. But only until the end of 1993 did the economy start to grow again. The interest rate was further lowered to 0.5 percent in 1995. The economy grew a healthy 3.4 percent in 1996, it was believed that Japan had recovered and got back on track. However, in 1997 Japan entered another recession, caused by the implementation of Hashimoto's "Six Major Reforms", marking the start of a new NLC (Yanbe [2005] pp.100 & 108).

[45] I am grateful to Professor Yoshiyuki Sato of Niigata University for providing the data for figure I – 10.

3.3 Hashimoto's reforms – liberalization, deregulation, and crisis

3.3.1 Policies

Under Ryutaro Hashimoto, a change in policy was carried out in the context of the "Six Major Reforms" in government administration (deregulation, division of roles between the public and private sectors, decentralization of authority to local governments, and restructuring of central government ministries and agencies), economic structure (fostering the creation of new industries and an attractive business environment), financial system (establishing a free, fair and global financial system), fiscal structure (reviewing all government expenditures and restoring the soundness of government finances), social security (bringing about an efficient and stable social security system), and education (providing a more diverse and flexible education). In particular, the reforms in the financial system and social security had the most impact in economic activity. The main factors in the ensuing economic downturn consisted in expenditure cuts[46], a hike in the consumption tax (from 3 percent to 5 percent) in April 1997, and a repeal of special taxes. The government, which from August 1992 and 1995 had implemented six separate economic stimulus packages with a combined value of 70 trillion yen, was now aiming toward fiscal austerity[47]. Despite having entered an economic downturn, the Fiscal Structural Reform Law was passed in September 1997 and promulgated in December of that year without any clauses which would suspend its implementation in the case of severe recessions. In addition, as a part of the reform of the social security system, an overhaul of the medical system was carried out where people were made to pay for 20 percent of their medical bills (up from 10 percent). These reforms implied transferring a burden of nine trillion yen to citizens while at the same time reducing public investment by three trillion yen. This twelve trillion yen reduction in demand represented 2.4% of nominal GDP which decreased 2 percent (in nominal and real terms) in 1998. This is the first time in the postwar years that an economic slump was caused "unintentionally" by government policy (Yanbe [2005] pp.99-100 & 109-11, Yanbe [2008] pp.108-109, and Yoshikawa [2008] pp.31-32, 35 & 173).

3.3.2 Socio-political and economic background

The goal of these reforms, as stated in the policy speech by Hashimoto to the 141st session of the National Diet, consisted in achieving a smaller and more effective government. This would entail arriving at an administration that could respond more flexibly to the demands of the twenty-first century, both at home and abroad. In order to fulfill more effectively the needs of the population, the scale and scope of necessary

[46] The growth contribution of public investment (public sector fixed capital formation) fell from 0.8% (with GDP growth 5.1%) in 1996 to minus 0.9% (with GDP growth 1.4%) in 1997, declining a net 1.7% (with GDP also declining by 3.7% in the same period) (Yoshikawa [2008] pp.14, 15 & 17).

[47] In total, during the 1990s nine fiscal packages were implemented, from August 1992 under Prime Minister Miyazawa to November 1999 under Prime Minister Obuchi, totaling 130 trillion yen. As a result, the debt outstanding more than doubled in 1990-2000 reaching almost 400 trillion yen (Yoshikawa [2008] p.228).

administrative functions would be minimized, using available services at the lowest possible cost.

With the purpose of fiscal reconstruction in mind, the government has sought to implement reforms of the social security system. Unfortunately, the discussions on social security have failed to tackle the real issue at hand which is achieving an optimal type of social security system. Instead, the top priority around these discussions has been how to contain the fiscal deficit, no matter the consequences. The arguments for social security reform have been dominated by propaganda which focuses on the problems and inefficiencies of the existing system, claiming that a failure to bring under control social security expenses would be catastrophic for the Japanese economy. This fixation on the negative is quite prominent amid the willingness of transferring works from the public to the private sphere (Yoshikawa [2008] pp.173-174).

3.3.3 Economic effects

Even though Hashimoto's "Six Major Reforms" did not completely bring about the recession, it did make it more severe. This happened during a "big bang" reform of the financial system. This reform, which changed the foundation of the financial system and the whole concept of management of financial institutions, made the system even more permissive than before. The task of surveillance of the system by the Ministry of Finance was minimized and left increasingly to market forces. The progressive liberalization brought about a squeezing of profits and together with increasing speculation by foreign corporate investors, led to a crisis of the financial system which spread to the economy, marking the next stage of the NLC (Yoshitomi [1998] p.145, Yanbe [2001] pp.34-6, and Yanbe [2005] p.112).

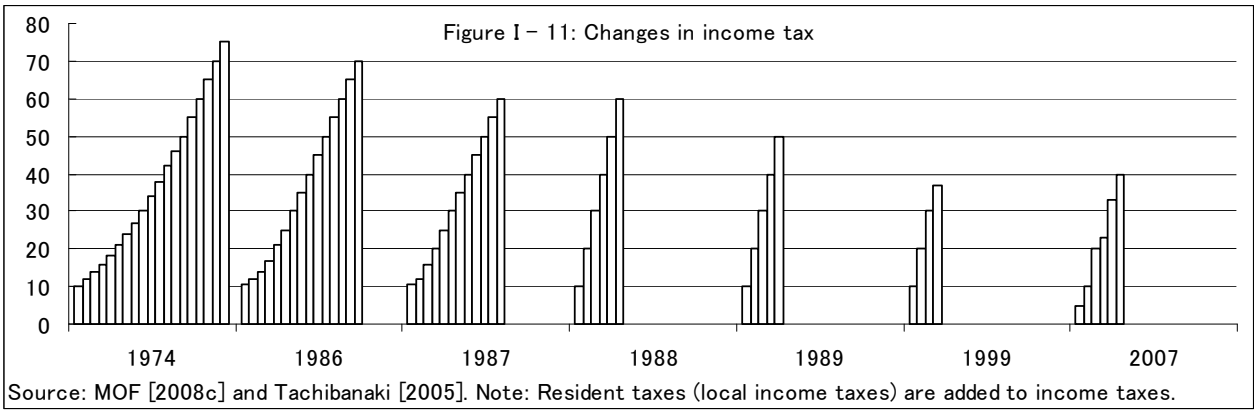
The crisis of the financial system got underway in autumn 1997 as major financial firms such as Hokkaido Takushoku Bank, Yamaichi Securities Co., and Sanyo Securities went bankrupt and a full scale credit crunch emerged as financial institutions were cutting their lending in preparation for the corrective changes in the Bank for International Settlements (BIS) capital adequacy ratio requirements. The new legislation would allow the authorities to intervene in a bank if the bank was likely to fail to meet the BIS requirements. In this way, the primary cause of negative GDP growth in 1998 was the credit crunch, which acted by way of depressing the investment of financially constrained firms, being sparked by prolonged delays in addressing the bad debt issue. The credit crunch also raised the degree of uncertainty in the economy as a whole. The Japanese economy lapsed into deflation as the consumer price index started falling in 1999 (Yoshikawa [2008] p.35, 79 & 231-232).

3.4 Obuchi and Mori – Compensatory policies and stagnation

3.4.1 Policies and Economic effects

In response to the crisis, by the end of 1998, the government under Keizo Obuchi was forced to introduce certain expansionary pump-priming compensatory policies by making changes in the fiscal policy

through the implementation of huge tax reductions and large scale public works. The enforcement of the Fiscal Structural Reform Law was suspended, but not completely since a tax reform was carried out which favored the wealthy classes and enterprises and elevated the burden borne by the middle and lower classes (Gotō [2002] p.106). Since 1986, there has been a decreasing trend in the income tax rate for the highest earners. From a high 75 percent in 1974, it was halved to 37 percent by 1999. In this way, it can be understood that the function of the tax system as a means of redistributing income was quickly being eroded, widening the extent of the after tax income inequality. Despite a slight increase to 40 percent in 2007, this policy by the Japanese government has clearly been slanted at raising income inequality (Tachibanaki [2005] p.119) (See figure I – 11).



Source: MOF [2008c] and Tachibanaki [2005]. Note: Resident taxes (local income taxes) are added to income taxes.

An additional factor which most likely contributed to the growing social inequality is the revision of the Worker Dispatch Law and the Employment Security Law in 1999 as part of a general relaxation of labor market regulations. Revisions to the Employment Security Law relaxed restrictions on the types of jobs which could be filled by job placement businesses while revisions to the Worker Dispatching Law abolished general restrictions on the types of work which dispatched employees could do with the adoption of a "negative list" system by which only listed activities were prohibited (JIL [2000]).

There was also a reversal in the direction of the monetary policy. The government did a 180 degree turn from previous policies fully involving itself with the economy. Special credit guarantees were given in support of small and medium enterprises. The Bank of Japan (BOJ) lowered the interest rate to 0.3% in 1998 reaching finally 0.03% in 1999 to ease credit expansion and reverse the recession. Nearing the zero interest boundary, the BOJ apparently lost the use of its instrument for traditional monetary policy. Japan was facing a "liquidity trap" where conventional means to ease monetary are no longer available. As a result, in addition to the zero interest rate policy, the BOJ introduced a quantitative easing policy (QEP) from March 2001 until March 2006, carried out mostly under Prime Minister Koizumi. This policy changed the main operating target from overnight call to money balances at the BOJ, while making at the same time a commitment to keep in place an ample amount of money until the "core" consumer price index registered stably at 0%. The QEP by lowering the funding uncertainty of financial institutions helped reduce financial market instability thus reducing uncertainty in the economy as a whole. I did not, however, contribute much to inflationary expectations. During this period, there was no relationship between money supply and prices (Yanbe [2005] p.115 and Yoshikawa

[2008] pp.232 & 235).

On top of these measures, the government took over bankrupt banks and injected huge public funds into banks undergoing financial difficulties to stabilize them and restore confidence. The public money ready for this use totaled 60 trillion yen (approximately 12% of GDP), divided into 17 trillion to protect depositors from bank failures, 18 trillion for the temporary nationalization of failed banks and 25 trillion for the purchase of preferred stocks and bonds of relatively healthy banks in order to help recapitalize them. In addition, the Financial System Reform Law was passed and the Financial Revitalization Commission and the Financial Supervisory Agency were established. The economy started recovering on January 1999 led by exports and corporate investments. Nevertheless, the bad debt problem remained largely unresolved since at the end of September 1998, banks were still holding 83 trillion yen in non performing loans[48] (Yanbe [2005] pp.115-7, Yanbe [2008] pp.110-111, and Yoshikawa [2008] pp.79-80).

3.4.2 Stagnation

The expansion was short-lived, lasting only 22 months, ending on November 2000. One of the reasons for this was a slowdown of the US economy which hurt Japanese exports causing companies to reduce their investments, sinking the whole economy into recession which lasted 14 months. Japanese companies could not expect the sluggish increase in domestic consumption to take the place of falling exports. Another reason is the change of government to Yoshiro Mori and his subsequent change of policy from a fiscal policy of economic boosting to one of reduction of the budget deficit, which suppressed public investment (Yanbe [2005] p.118).

This process of stagnation marks the end of the NLC which began with Hashimoto's reforms setting the stage for the next one under Koizumi. In the end, these tug of war interventions and retractions from the economy by successive governments in the 1990s created a Political Business Cycle which in the end eliminated any chance of a "normal" business environment leading to Japan's Lost Decade (Sano [2005] p.57).

3.5 Koizumi's reforms – liberalization and deregulation

3.5.1 Policies

A second wave of structural reforms by the government of Junichiro Koizumi, inaugurated on April 2001, has sought to promote an acceleration in reforms and bring about more radical social changes than the ones envisaged by the first wave of reforms under Hashimoto thus starting a third NLC. The reforms programmed included disposing of the non-performing loans of banks (which led to the bankruptcy of many companies increasing the unemployment rate (Yanbe [2005] p.120)), restructuring regional finances, relaunching

[48] The bad debt problem and the instability of the banking system was finally resolved under the Koizumi administration with the injection of public money into Risona Bank in 2003 (Yoshikawa [2008] p.229).

the fiscal reform, tax reform, etc.

According to pro-reformists, until the 1980s, the structure of Japan's supply side of the economy corresponded well with the external sector, hence its high growth rate. But things changed quickly in the 1990s. The pro-reformists believed that in order to overcome the long term depression, the structure of Japan's economy should adapt to the new changes in the world arena. But what should be done? The most important points concerned removing obstacles to the operations of corporations and letting market principles work. For these purposes regulations should be eased. The main point in the reforms had to do with the strengthening of the supply side of the economy by lowering entry costs, decreasing taxes, and reducing personnel costs (through deregulation of the Labor Standards Law). Also, by reducing taxes and social insurance contributions, the government hoped to achieve a "small government" (Yanbe [2005] pp.137-9).

Koizumi's government continued with this policy of strengthening the supply side of the economy but divided it in two: a growth sector and a stagnant sector. He insisted that resources should be used to stimulate the growth sector away from the stagnant sector. Resources from the stagnant sector (industries with nonperforming loans, with inefficient low profit structures, real estate, construction, and distribution industries) should be transferred to the growth sector (life sciences, information and communication, environment, and nanotechnology industries). Everything should be done to stimulate the growth sector (such as lower taxes for investment) while eliminating as much as possible the stagnant sector (in particular, the problem of nonperforming loans should be solved as quickly as possible). However, these reforms have only managed to stimulate the creation of companies such as the disgraced Murakami Fund and Goodwill group, an investment fund and a worker dispatch agency, respectively[49]. What's more, in many rankings of international competitiveness, Japan has steadily been losing ground (Kaneko and DeWit [2008] p.69).

3.5.2 Socio-political and economic background

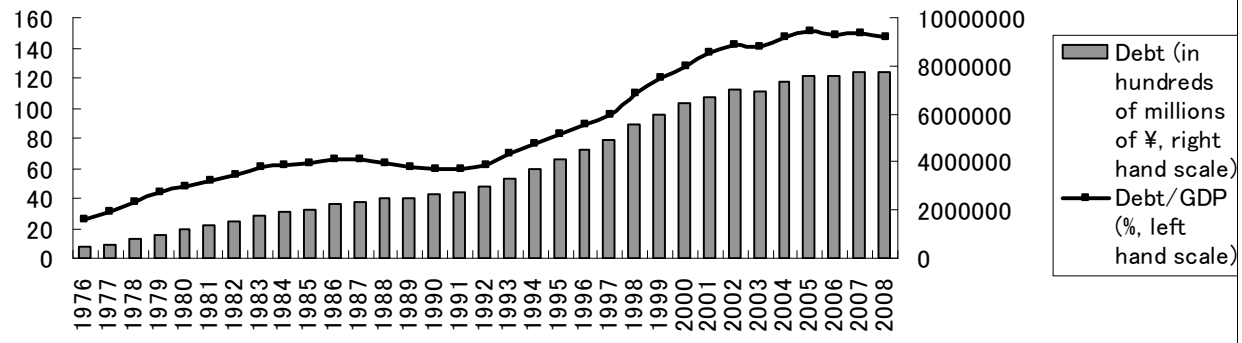
Koizumi has called for painful change through "reforms with no sacred cows" warning of "no growth without reforms" and attacked his own party urging to "change the LDP, change Japan".

In connection with this is the dismantling of the so-called "developmental state" in Japan. Starting in the 1960s, the developmental state, through the Comprehensive National Development Plan, helped develop Japan's regions through the use of public funds in huge public works, decreasing income differences between rural and urban areas. The developmental state is a state-led market system guided by an economic bureaucratic apparatus aiming, through the management of the economy, to foster industry and protect agriculture (Gotō [2002] pp.13 & 134-7).

[49] According to Yanbe [2005], Japan has a surplus of resources (labor and capital), there being few cases where resources are piling up in the stagnant sector to the detriment of the growth sector. In the 1980s, the process of transfer of resources from non-profitable to profitable sectors contributed to the high growth in the economy. But why, despite deregulation in the 1990s, has that transfer of resources not continued? Koizumi by promoting a boosting of the economy through reforms promoted an intense flow of resources into the growth sector. Despite this, the growth sector failed to achieve the expected growth, bringing to light some of the errors of Koizumi's reform. Yanbe [2005] p.151.

This state, built up mainly by the LDP, is tightly connected to "money politics" in Japan. Money politics concerns the circulation of funds – legally and illegally – through the LDP factions and onto party members and their districts. It was Kakuei Tanaka who, in the 1970s, turned money politics from a cancer into the system itself (Smith [2006]). After the period of high economic growth ended, public works which used vast amounts of state funds continued to be a hotbed for corruption well into the 1990s. After the collapse of the bubble, this situation worsened. The 1993 electoral reform tried to change the system in order to bring political corruption under control. Although somewhat reduced, corruption lingers on. Through a drive for "small government", Koizumi has felt that the dismantlement of the developmental state would be a right step in combating money politics. One step in this direction is the privatization of Japan's postal savings system whose funds, which finance Japan's "off-budget" expenditures known as FILP (fiscal investment and loan program), have been used by bureaucrats to advance their vested interests in useless public works and in zombie companies, i.e. companies deemed to be too politically sensitive to be allowed to go bankrupt[50]. The main objective in achieving a "small government" has to do with improving public finances since at present the indebtedness of the government stands at around 150 percent of GDP (see figure I – 12) (Gotō [2002] p.13).

Figure I – 12: National Accumulative Long-term Debt (Japan)



Source: MOF [2008a]. Note: debt includes national and local debt. Estimate for 2008

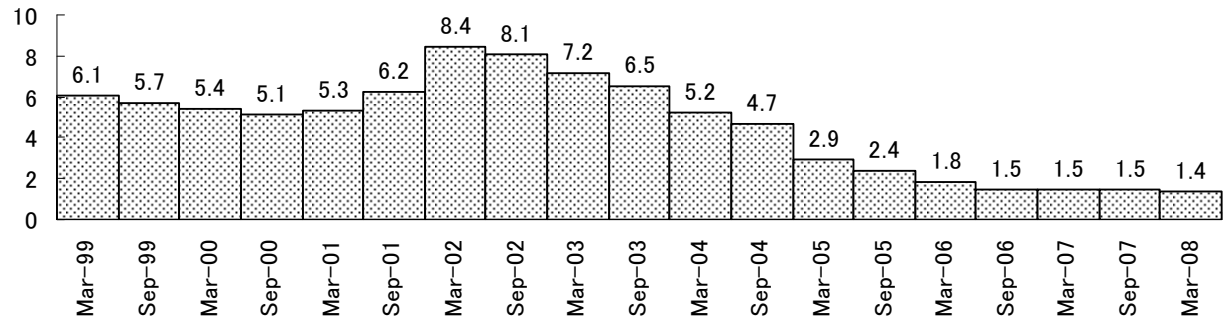
3.5.3 Economic effects

In 2002, the US was headed towards an economic recovery and China intensified its growth, boosting the demand for Japanese exports. This export-led growth changed itself into sustained growth and put an end to the Lost Decade. From 2002 through 2003, public works were still being reduced, as a result of the reforms implemented by Koizumi, hindering any possible additional boost to the economic expansion. However, it cannot be said that the Koizumi administration really implemented a fiscal tightening. Under the Koizumi line of fiscal reconstruction without tax increases, the fiscal deficit has ballooned from 500 trillion to 800 trillion. The continuing of this ballooning was made possible with the continuing of the zero interest rate policy. If the interest

[50] The policy of Japanese banks, under the pressure of the government to keep extending credit to companies with no prospect of repayment, led to the creation of "zombie firms" whose existence prevented new firms from being created. The lack of restructuring overcrowded the economy with these inefficient firms, frustrating the appearance of more productive firms (Glyn [2006] p.140)

rate were to be normalized, the interest payment of the national debt would increase leading to a financial collapse. Despite the increase in the fiscal deficit, public investment was cut but more than 50 trillion yen of public money was used to help dispose of the bad debt problem which had afflicted the Japanese banking system for a decade (see evolution of nonperforming loans in figure I – 13). This reduction of public works explains in part the weakness of the recovery which started in January 2002. Another factor is that only demand by enterprises was recovering, demand by households remained sluggish. The reason for this is mostly due to lower household income which had been steadily decreasing since 1998. Nonetheless, it was thought that through the reforms in place, if companies did well, this would spread to labor through an increase in wages and in employment thus favoring household economies. This had been the case in postwar Japan up to the mid 1990s. Since then, an improvement in the corporate sector has not necessarily spread to the household sector. Quite the opposite has happened: companies are doing well to the detriment of households. This is what has characterized the export-led economic expansion in the context of sluggish domestic private demand, as a consequence of the neoliberal structural reforms imposed by Koizumi. Plainly, the main factor in the economic recovery and expansion is an increase in exports, a pure demand shock. Thus, the demand side is important for explaining all post war recessions, including the lost decade. However, Koizumi's fiscal and monetary policies, including the inflation targeting under the quantitative easing policy (QEP), has made the economy fragile by making it dependent exclusively on exports. With the continuous zero interest rate policy inducing a cheap yen, exports have grown and an economic expansion has been made possible[51] (Yanbe [2005] pp.121-2 & 126-8, Yanbe [2008] pp.114-115, Yoshikawa [2008] pp.12 & 227, 229, and Kaneko and DeWit [2008] pp.69-70).

Figure I – 13: Ratio of nonperforming loans over loans outstanding (%)



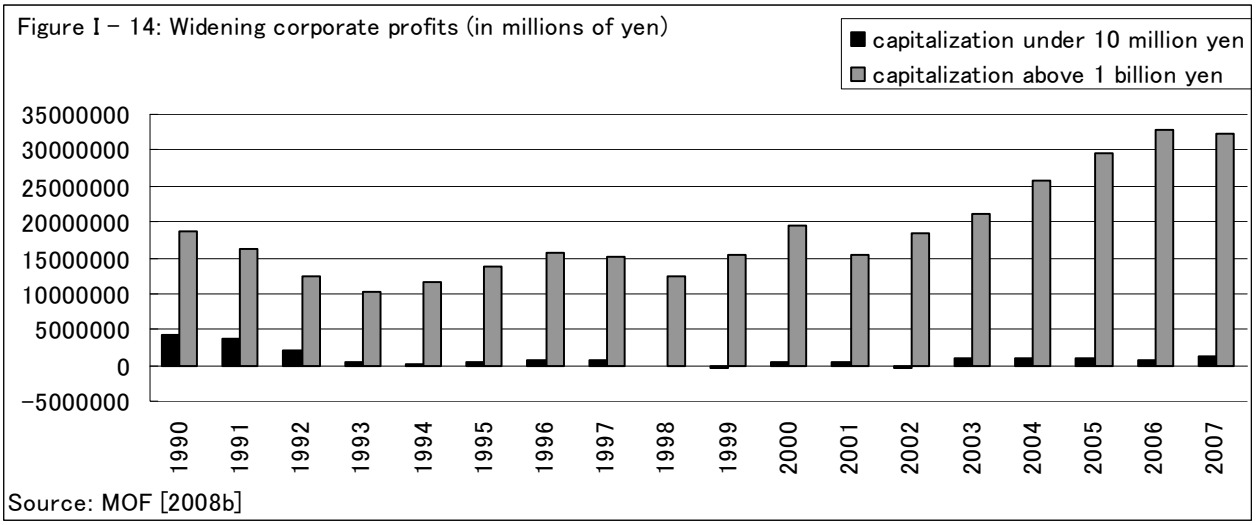
Source: Financial Services Agency [2008]

With the emphasis on market principles and competition, the gap between companies has widened. Business indicators show that big companies are doing very well whereas small and medium companies are not. Most noticeable is their growing gap in profits which has multiplied manifold. In 1985, the combined current profits of big companies (capitalized above 1 billion yen) was 6.2 times the amount earned by small and medium companies (capitalized under 10 million yen), whereas in 2007 this proportion had increased to 27.42. The decline of profits in small and medium companies, which represented on average 66.4 percent of all companies

[51] This export dependent fragile economy took a direct hit from the global economic crisis which started in 2008. The low interest rate policy left little room for further fiscal and monetary policy (Kaneko and DeWit [2008] pp.69-70).

in 1985-2007, is more perceptible than the rise in profits of big companies, whose numbers corresponded to 0.2 percent of total companies (see figure I – 14) (MOF [2008b]).

Figure I – 14: Widening corporate profits (in millions of yen)

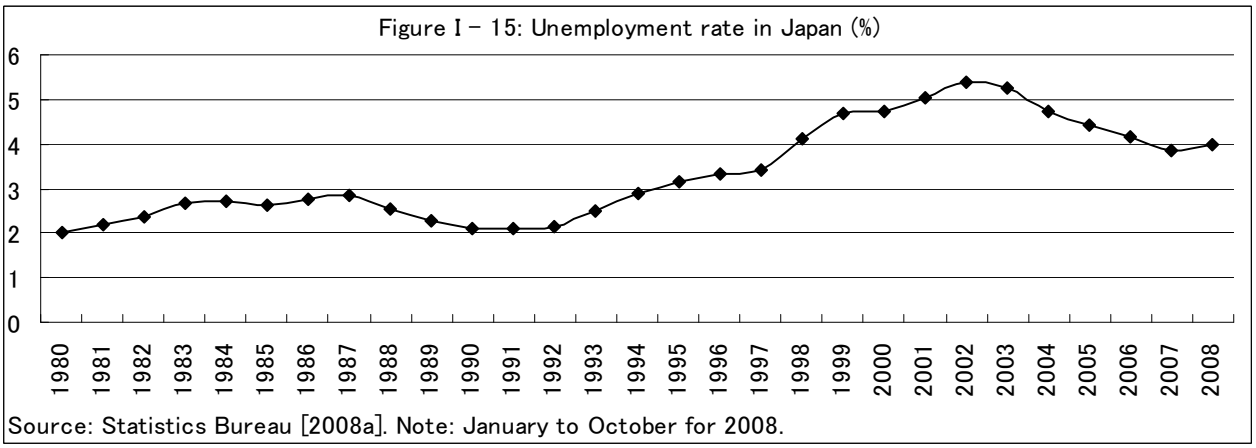


Source: MOF [2008b]

In the drive for a "small government", a process of decentralization has been promoted. Because of this, regional differences have widened due to the reduction of public investments and local allocation tax grants to local governments. Visible differences have sprung up among regions in Japan. Tokyo and Nagoya are doing well, but not the Kinki, Hokkaido, Tohoku and Kyushu regions. The differences in the regions reflect the conditions of their main industries and are also related to their dependence on public works projects, which have been reduced by the central government. A contributing factor in regional decline is the repeal of the Large-Scale Retail Stores Law in 2000 which permitted general merchandising stores, such as Kmart and Home Depot, to spread into the inner regions of Japan, saturating the market and squeezing out local shops, which until then had fulfilled a very important role in the support of their communities (Yahagi [2005] pp.2-10).

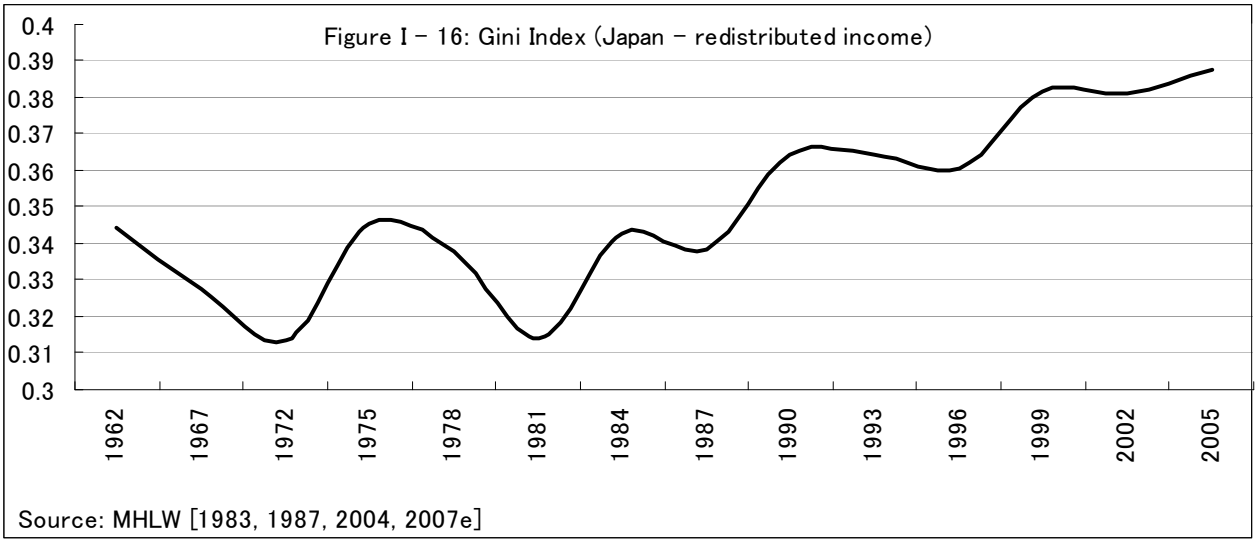
Regional differences can also be seen in the conditions of employment. Most of the new jobs offered (regular and non-regular) can be found in the central part of Honshu, from Tokyo, through to Osaka to beyond Kobe where the ratio of job offerings to applicants is usually above 1. It is in the extremities of Japan (Hokkaido, Okinawa, northern Honshu and parts of Kyushu and Shikoku) where the ratio is below 1 and people have a harder time finding employment.

Figure I – 15: Unemployment rate in Japan (%)



Source: Statistics Bureau [2008a]. Note: January to October for 2008.

Starting in the early 1990s, the unemployment rate has risen to unprecedented levels in the post-war years (see figure I – 15). The composition of the workforce also changed with non-regular employment increasing its proportion on total employment. Likewise, the number of poor receiving welfare as well as the number of homeless people rose significantly. Moreover, since the 1980s with a tax system advantageous to the richest strata of society, the distribution of income has continued to become more unequal. With the continuous tax reform, enterprises and high income groups got their tax burden reduced while middle and low income groups had theirs increased. This is good-old supply-side Reaganomics called "trickle-down theory", which claims that rich people should be helped with tax cuts or other benefits so they will additionally contribute to the economy, in the end benefitting everybody. As a result, the Gini index (after income redistribution[52]) has steadily increased from 0.3143 in 1981 to 0.3873 in 2005 (see figure I – 16)[53].



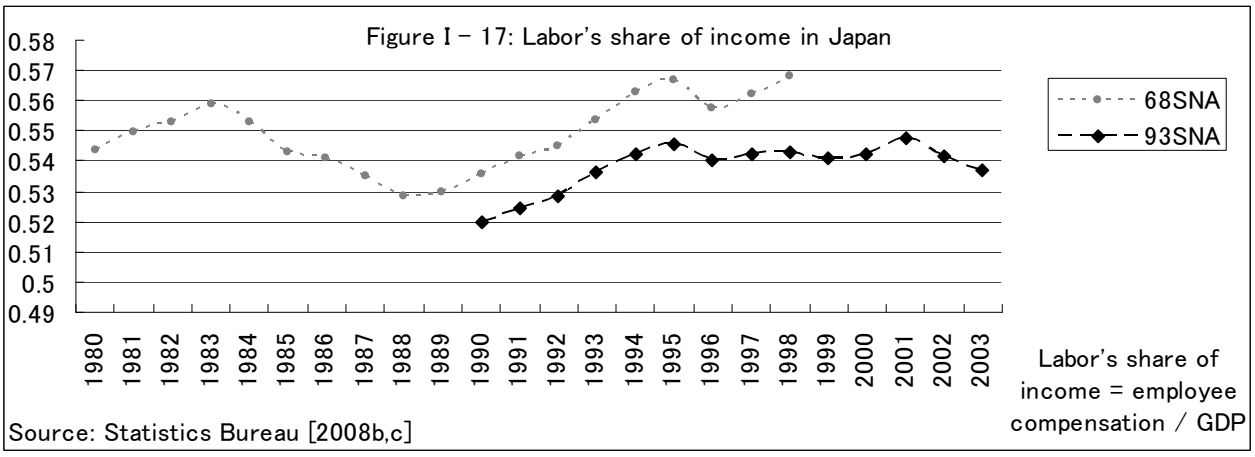
The Cabinet Office under Koizumi acknowledged the present growing inequality but insisted that it was mainly due to the aging of the population. The argument was that elderly people tend to have the widest income disparity, and the proportion of their age group on the general population is growing. Thus, the problem would be structural, related to the changes in the composition of the population, and not to the ongoing reforms. But in other age groups, in particular among young people, a growing income disparity can also be perceived. Also, the income disparity among the elderly is partly assuaged by the social security system, which raises their minimum standard of living. Moreover, they have generally accumulated significant wealth, in part to finance their retirement. In addition, from 1962 to 1981 the Gini index continuously decreased while the population also aged. The policies in effect at that time promoted income equalization. This is why the present growing income

[52] Redistributed income includes income transfers in the form of social insurance and social security benefits to needy households and retired individuals. It shows more exactly what a household has to live on (Tachibanaki [2005] p.5).

[53] The increase in inequality can also be seen across and within social classes. If society is divided into four classes, a capitalist class, new middle class, working class, and old middle class, the first two classes, which comprise around 25 percent of members in society, are gradually receiving more income than the other two classes. The difference is even more striking between the capitalist class and the working class. Also, within classes, the poverty ratio has been increasing in the working and old middle classes and decreasing in the capitalist and new middle classes. During his government, Koizumi stated that social disparities were not bad per se if they are the product of fair competition. That would be true if everybody started from the same base (Hashimoto [2006] pp.39, 96 & 98 & Shirahase [2006] pp.208-9).

disparity cannot be attributed to aging but to the policies in place. What the growing income disparity conceals is the changes in the labor market reflected in deregulation of the labor market and changes in the Worker Dispatch Law[54]. From the early 1980s the proportion of irregular workers has consistently continued to increase, reaching one third of all workers today[55] (Itō [2000] p.37, Itō [2006] pp.166 & 170-179, and Shirahase [2006] pp.211-212).

One thing that must be noted is that employment flexibility or labor mobility has steadily been decreasing since the mid 1960s. This means that Japanese workers changed jobs much more dynamically during Japan's high growth era than they do today. During periods of growth, job turnover rates rise while unemployment falls. Conversely, when the economy is in a slump, job turnover rates fall while unemployment rises. The impressive increase in unemployment from 2.1% in 1990 to 5.4% in 2002 is basically a consequence of the long stagnation. This is why the argument for increasing labor mobility as it was pointed out in the Economic Strategy Council in 1998 seems to imply that labor deregulation will miraculously solve all the problems of a lifeless economy. Job turnover rates are basically determined by economic growth, not the other way around. These policies confuse the means with the end. Increasing labor mobility is not a key for stimulating economic recovery (Yoshikawa [2008] pp.146-150 and The Economic Strategy Council of Japan [1999]).



[54] The lower wages and non-wage costs of non-regular workers makes them attractive to firms. Another important motivation for hiring non-regular workers is to enhance employment flexibility. The flexibility afforded by using non-regular workers is needed to compensate for the high level of employment protection provided to regular workers (OECD [2006] p.97 & pp.101-3).

[55] During the 1990s, with the economic recession still dragging on, certain work related social restrictions were eased, in other words, the long term employment agreement between labor and management so characteristic of Japan began to falter. According to a survey by OECD [2006], "Income inequality and relative poverty among the working-age population in Japan have risen to levels above the OECD average. This trend is partially explained by labor market dualism – the increasing proportion of non-regular workers, who are paid significantly less than regular workers (on average only 40 percent as much per hour as full-time workers) – as well as by other factors, such as the ageing of the workforce. … The impact of social spending on inequality and poverty is weak … and inadequate to offset the deterioration in market income. In addition, working conditions are worsening, control is weak, regulations are seldom applied, and the political restrictions of an originally lax labor market are becoming even more flexible. For example, the minimum wage level has fallen since the 1980s to below welfare provisions, also reducing itself by international standards. In 1997, 10 percent of workers received less than minimum wage. From 1995 to 2002, the number of people classified as poor receiving welfare increased by 50 percent (Tachibanaki [2004] pp.121-9). The scope for increasing social spending is constrained by the fiscal situation. Instead, reversing the upward trend in inequality and poverty requires reforms to reduce labor market dualism and better target social spending on low-income households…" Halting the growing labor market dualism may prove difficult given the limited mobility between the regular and non-regular segments of the labor market (OECD [2006] pp.97,100-3 & 118).

Although the rise in inequality is perceptible with the Gini index, it is not so evident with the functional distribution of income (see figure I – 17)[56]. During the 1990s, the increase in the labor's share of income (w·L/Y with w: wages, L: labor, and Y: GDP), was not due to any favorable conditions but to economic contraction and stagnation which severely reduced the rate of growth of GDP. But to think that the downward rigidity of wages is the cause of the increase in the labor's share of income is misleading. That is to say, if wages were to decrease reducing consumer demand, and if external demand did not increase, the GDP would have no alternative but to decrease. In this case, the effect would be for the labor's share of income to increase. This would be detrimental to investments by businesses[57]. After 1998, Businesses in Japan started to reduce both wages and labor in earnest. Shortfalls in demand could be explained by a decrease in sales which businesses faced which was dealt with by reductions of personnel costs and other rationalizations (Itō [2006] pp.109-111). At that time, external factors both helped and hampered the economy[58]. But from 2002, helped by the expansion of the US and Chinese economies, which boosted growth through exports, the problem of an increasing labor's share of income faced by businesses did not surface. However, in the present context, with a downturn in the US economy affecting Japanese exports, the issue of a sluggish internal demand comes into focus. In short, what needs to be pointed out is that from the middle of the 1990s up to 2001, the increase in the labor's share of income was mainly due to economic recessions which could be equaled to shortfalls in demand (Yoshikawa [2008] p.10). Since 2001, the labor's share of income has started to decrease. This is probably due to the fact that the economic expansion which began in January 2002 is skewed towards the corporate sector to the detriment of the household sector (Yanbe [2007] p.5).

3.6 Abe and Fukuda governments

After Koizumi stepped down from the premiership, his successor Shinzo Abe, despite promising to launch a "rechallenge society" initiative aimed at helping the unemployed or failed entrepreneurs make another try, accelerated and deepened the process of neoliberal reform. His plan of action concentrated on three main policies. The first policy is the "labor big bang policy" which made white collar work more flexible by freeing it from the constraints of time, making it possible to reduce or eliminate overtime pay. The second policy is the continued promotion of the "small government" policy. The emphasis was put on building a "sustainable system" in which the public burden needed to sustain it would be reduced to the lowest possible level. This entails slimming down pension, healthcare, nursing care benefits, etc even further. The third policy, under the so-called "Integrated Fiscal Reform of Expenditures and Revenues", concerns the reconstruction of government

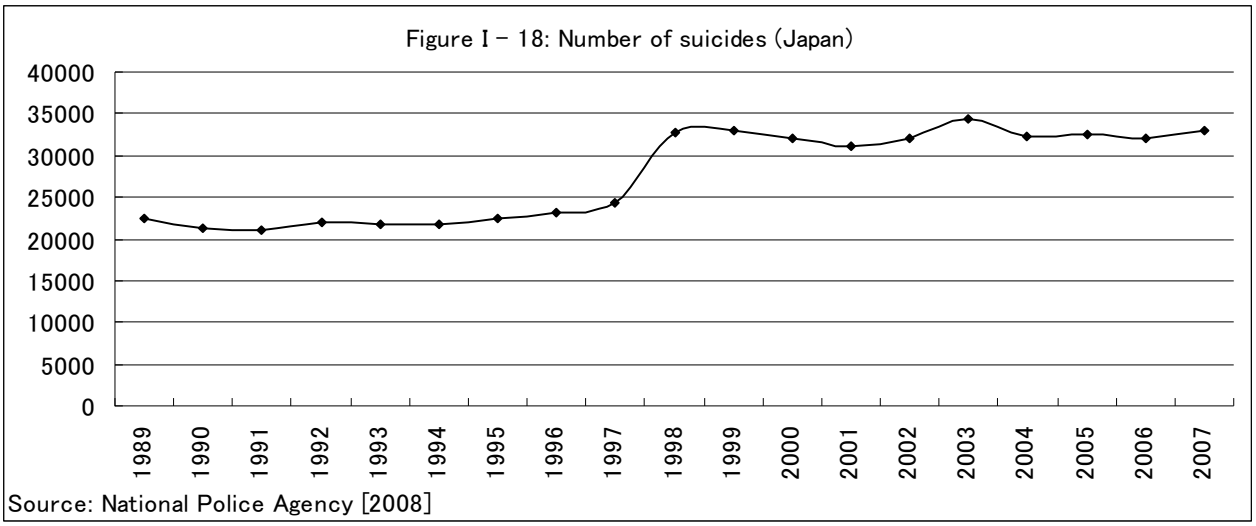
[56] This part is based on a suggestion by Professor Yoshiyuki Sato of Niigata University.
[57] However, the opinion expressed in Hashimoto [2002] attributes the profit squeeze of companies to supply-side causes. The slump in corporate profit margin restricted capital investments, leading to increasing bankruptcies which increased unemployment. As the instability of employment went up, consumer spending stagnated, leading to a shortfall in demand (Hashimoto [2002] p.69).
[58] From January 1999 to November 2000, the economy grew thanks to the US demand for Japanese exports. When the US economy started slowing down, this affected the Japanese economy which could not depend on domestic consumption to take the place of falling exports.

finances by balancing annual expenditure and revenue. This would be done following Koizumi's "2011 budget surplus goal" by cutting expenditure and drastically reforming the tax system to increase revenue. Among all the policies enumerated by Abe's government, in the one year he was in office, he only managed to cut expenditures by reducing welfare benefits (such as abolishing additional welfare benefits for single-mothers) and by reducing the number of government employees. Actually, Abe concentrated less on bread and butter issues and more on changing the constitution or the Fundamental Law of Education. In the Upper House election, the defeat of the Liberal Democratic Party echoed the exhaustion of the public with the continuous reforms (Yanbe [2008] pp.149-152).

Following the resignation of Abe, Yasuo Fukuda became Prime Minister in September 2007. Fukuda stated in his first policy speech that reforms must continue. He pledged to maintain the "2011 budget surplus goal" of "Integrated Fiscal Reform of Expenditures and Revenues". Within this pledge are included the second and third policies enumerated by Abe (Yanbe [2008] pp.152-153). This includes the introduction of the Medical System for the Very Elderly, which increased the burden of medical costs imposed on the elderly, in April 2008. However, despite all this, Fukuda introduced some compensatory policies. Before his resignation he announced a ¥11.7 trillion economic stimulus package in an effort to stimulate Japan's faltering economy. He also sought changes to the Worker Dispatch Law by banning contracts of 30 days or less and raised the minimum wage to 755 yen from 687 yen.

3.7 Aftermath of the Japanese neoliberal cycle

Serious consequences of the ever-growing income gap are the rise in the number of suicides and a decline in the fertility rate. Since 1998, the number of suicides has stood above 30,000, jumping from the average 22,000 of previous years (see figure I – 18). Likewise, the steady increase in low-wage, part-time workers and those in temporary jobs is contributing to an already low birthrate as people become reluctant to marry because of financial insecurity, according to a report by MHLW [2006a]. Also, although it seems incredible, 14.3 percent of Japanese children lived in poverty in 2000, compared with an OECD average of 12.2 percent. Given the high cost of schooling and private tutoring institutes, children in poor families are at risk of receiving an inadequate education, thus reducing their growth potential and perpetuating poverty across generations (OECD [2006] pp.115-6). One has to wonder why there haven't been any protests or riots against these growing disparities, sharpest among Japanese in their 20's and 30's. The reason may be that most of these young people still live with their parents. With free housing and food, those with temporary jobs, NEETs (not in employment, education, or training) and other 'parasite singles' have been able to pursue a certain degree of personal interests (Onishi [2006]).



Given the results of the neoliberal structural reforms in Japan, on what legitimacy are they being carried out? Some of these reforms might be necessary, but they may be going too far, favoring the rich and those with connections at the expense of the average Japanese. When Koizumi assumed as prime minister, he asked the Japanese people to endure today's pains so as to create a better tomorrow by pursuing much needed reforms. But people are disappointed and angry because through these reforms, certain government officials have advanced their own particular interests, such as former Bank of Japan Governor Toshihiko Fukui who profited in shady dealings by investing in a fund set up by Yoshiaki Murakami, a financier and former government bureaucrat, arrested for insider trading. This is but one of the scandals which put into doubt the neutrality into which reforms are being implemented, showing the darker side of Koizumi's reforms. Fukui and Murakami are but the tip of the iceberg in relation to people connected to the government who profited personally from reforms under some sort of "crony capitalism" in Japan (Tokumoto [2006] p.113).

Why are the Japanese accepting docilely the widening gaps in Japanese society brought about by deregulation, the flattening of tax rates and liberalization of capital movements? Reasons for this include the deluded claim that deregulation will magically eliminate the postwar bureaucracy whose corruption and other scandals, along with the feeling that they constitute an elite or chosen people, have aroused public anger. It's true that some changes are necessary in how the bureaucracy operates in the government, but must these changes be generalized over all aspects? Must the public nature of labor, welfare, medical care, and education be put under examination? This is what constitutes the "reform with no sacred cows". Also, respected and supposedly neutral economists backed the reforms pushed in by Koizumi who with his own personal consultative group fooled the public with attractive catch phrases splashed all over the media. The last to be mentioned is the change, by former Prime Minister Morihiro Hosokawa in 1993, of the electoral system in order to eliminate money politics, from multiple-seat constituency system to single-seat constituency and proportional representation system (Gotō [2002] p.95). Koizumi took full advantage of the new system and so on September 11, 2005 he called for elections on account of the refusal of the House of Representatives to pass a bill for the privatization of Japan Post. As president of the LDP, he handpicked candidates, branded as "assassins", to defeat rebel LDP legislators

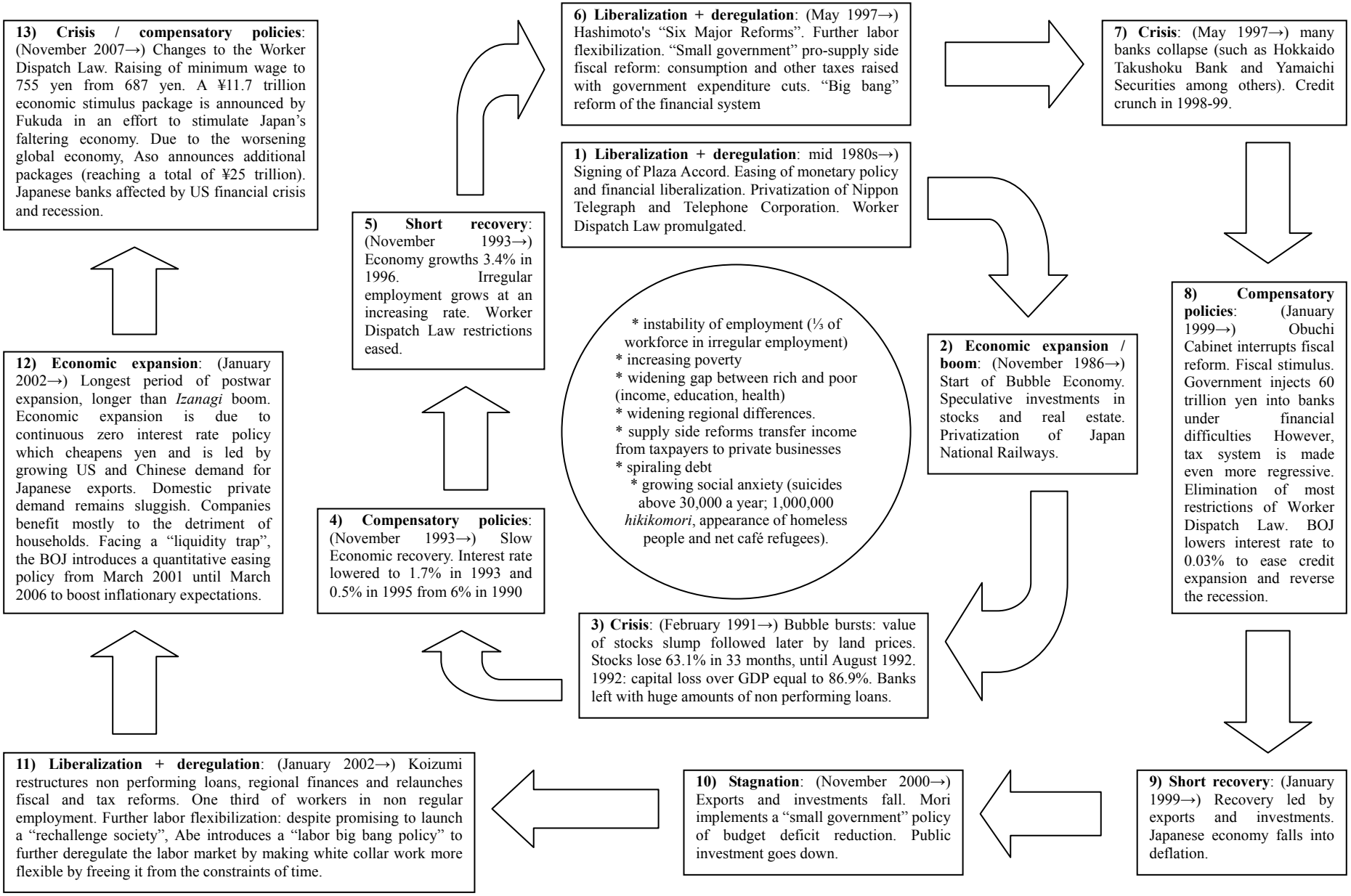
in their own constituencies. This strategy was largely successful, with the majority of the "assassins" elected within the rebels' former constituencies (Uchihashi [2006] pp.64-72).

In this way, Japanese democracy under Koizumi may have regressed, to some degree, to being a delegative democracy[59]. According to O'Donnell [1997, pp.293-295 & 299], delegative democracies are grounded on one basic premise: a leader who wins an election is enabled to govern the country as he sees fit, and to the extent that existing power relations allow, for the term to which he has been elected. What he does in government does not need to bear any resemblance to what he said or promised during the electoral campaign – he has been authorized to govern as he sees fit. Since this paternal figure has to take care of the whole nation, it is almost obvious that his support cannot come from a party; his political basis has to be a movement[60], the supposedly vibrant overcoming of the factionalism and conflicts that parties bring about. Delegation includes the right – actually, the obligation – of applying to the nation the tough medicines that, even though many of its members cannot recognize it now, will heal it. A deep social and economic crisis is the ideal terrain for unleashing the delegative propensities that may be present in a given country. Such a crisis generates a strong sense of urgency. Leaders get elected promising that they, being strong and courageous, having the capacity as well as the foresight to lead, and being above parties and interests, will save the country. This leads to a magical style of policymaking: the delegative "mandate" to rule supposedly emanated from the majority. A strong political will and adequate technical knowledge should suffice to fulfill the savior's mission and, in this way, "packages", economic programs, or "reforms" follow as a corollary. Delegative democracies refer more to Latin American democracies such as Argentina under Menem. But maybe, by thrusting reforms top down like Koizumi did, through the Council on Economic and Fiscal Policy whose members he could personally choose without scrutiny, instead of negotiating and securing agreements as Hashimoto did, democracy in Japan may have become delegative. It seems that Koizumi wouldn't take "no" for an answer with respect to his policies and so whenever he found himself to be in a disadvantageous position against his opponents within the LDP or in the opposition, he turned the tables by taking his case to the people to win their overwhelming support, hence the 2005 election.

In conclusion, what have structural reforms brought upon Japan? Figure I – 19 shows in a summarized way, the ensuing Japanese Neoliberal cycle and its effects.

[59] An idea suggested by Professor Makoto Sano of Niigata University.
[60] In Koizumi's case it would be the need for structural reforms.

Figure I – 19: The Japanese Neoliberal Cycle

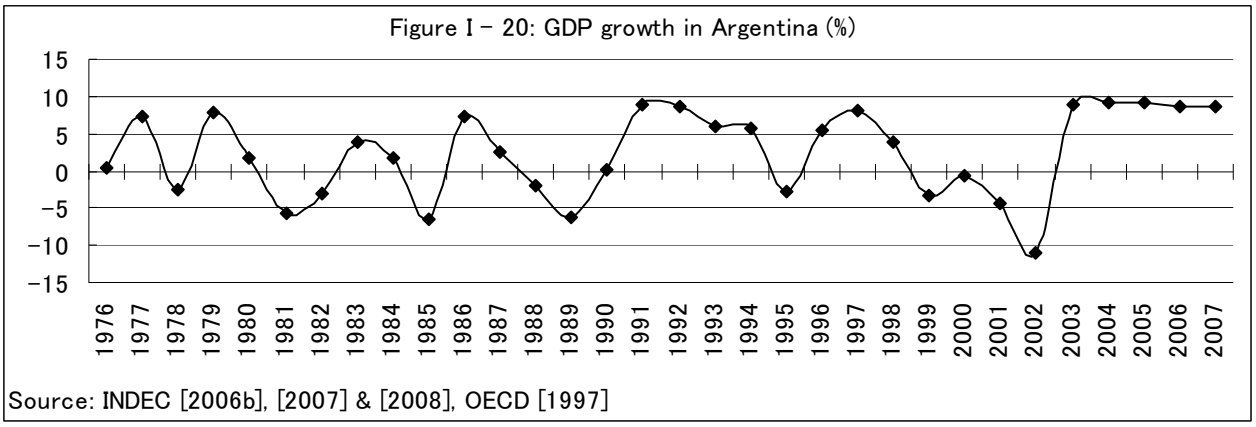


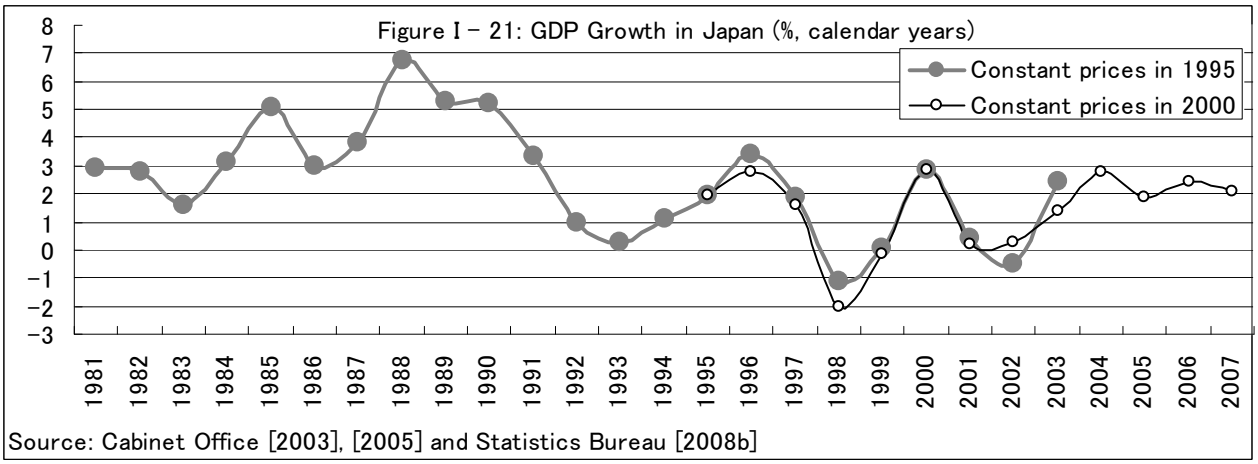
Conclusion

Among the reforms implemented in Japan up to now, the most damaging ones concern the liberalization and deregulation of financial markets and its corollary in the labor market. In this last one, in order to reverse the rising social inequality and create a pro-growth environment for the economy, many steps can be taken, such as lowering the unemployment rate, stabilizing employment, reducing non-regular employment, offering more training, allowing workers in temporary employment to become permanent ones, reducing long working hours, and helping the poorest segment of the population by giving greater social coverage. For this, the Labor Standards Law could be strengthened. In overcoming relative poverty, certain steps include targeting social spending on vulnerable groups and reforming the tax system by making it more progressive. Other measures include paying wages in accordance to the amount of time actually worked, including overtime[61]. If unpaid overtime were actually paid, it would amount to 10 trillion yen, amounting to 3.8 percent of total wages (for the year 2003), representing a considerable increase in income (Yanbe [2005] p.198).

The culprit of Japan's woes can be found in the financial liberalization which led to the formation of a speculative bubble and its collapse. The 1997-98 financial crisis further worsened the situation. Does Japan have enough prudential regulations against the onset of another crisis or is it still too exposed? For example, it was feared that Japan's economic recovery might be undermined by the first ever early closure of the Tokyo Stock Exchange on January 19 2006 due to a selling frenzy caused by an investigation into Livedoor Co. Perhaps Argentina's example in the reinstitution of certain regulations can show Japan against the disastrous consequences of leaving financial systems blindly to market forces. Thanks to the establishment of capital controls, Argentina may have acquired a certain degree of stability in its growth pattern. If figures I – 20 and I – 21 are compared, Japan's pattern of growth is starting to resemble Argentina's[62]. According to Yoshikawa [2008, p.236], the coefficient of variation of quarterly GDP has in fact risen tremendously in Japan during the 1990s, especially in the second half. This is a result of the "neoliberal policies → crisis → compensation policies → neoliberal policies" sequence applicable to both countries, but with capital movements having a special importance in Argentina.

[61] According to the 14th Questionnaire Survey on Work and Life of Workers, 36.9 percent of workers were not paid for their overtime work in 2007, although this is an improvement from the previous year which was 37.4 percent (Rengō Sōken [2007] p.5).
[62] The level of volatility in the average growth rate of GDP per capita in Argentina is very different before and after the imposition of neoliberal market-friendly economic policies in the mid 1970s. Between 1950 and 1974 the probability of a downturn was more or less in line with that corresponding to developing countries in general (21%). However, in the 1975-2001 period this probability increased to 52%, which means that per capita GDP fell in more years than it grew. As a consequence of the increasing volatility, the average per capita GDP growth rate during this period was much lower (Fanelli [2002] pp.30-31).





Perhaps Argentina's economic expansion since 2002 can in some way give hints to Japan as to the possibility of growth and expansion away from neoliberalism, whose results have abated social disparities to some degree. Argentina has its own problems, characteristic of a developing nation, quite different from Japan, a world economic power. Without a doubt, Argentina's NLC proved to be far more disastrous than what Japan is experiencing now. In particular, the Convertibility system had nefarious consequences on the economy, which together with the opening of foreign trade aggravated the loss of competitiveness of existing industries and prevented other activities in the export and import substitution sectors from developing, intensifying the adverse effects on employment. The overvalued exchange rate exaggerated the incentives to reduce labor per unit of production within companies, since it additionally lowered the relative price of inputs and imported machinery relative to the cost of labor (Damill and Frenkel [2006] p.119). Argentines, it seems, have learned their lessons and broken free from the vicious NLC[63]. Are Japanese ever going to wake up and see the reality of the neoliberal policies thrust upon them? With this, where is Japan heading with its huge public debt, low birth rate, aging population, and growing social disparities? Will Japan depend solely on its huge reserves of wealth created

[63] Irrespective of the economic model, whether the import substitution industrialization model – with a strong state and corporate presence – or the neoliberal model – associated to a residual state with market predominance –, neither has been able to adequately solve the problems of sustainable development and to create an appropriate institutional platform to deal with domestic and international problems. **What Argentina primarily lacks is a State with strong institutions that can coordinate the process of economic development** (emphasis added) (UNDP [2008] pp.4-5). However, among the many economic programs implemented during the history of Argentina, it must be noted that neoliberal programs appear to have been the most damaging ones in terms of their effects upon the economy and the populace.

during the fifty years of high-speed growth? Can an economic expansion with no tangible benefits in the daily lives of most people be considered optimum? Or, does this represent the calm before the storm?

Chapter II – Solidarity economies in Argentina and Japan

Introduction

Starting in the mid 1970s, against a background of structural crisis as a result of the relative and absolute decline of the post World War II Argentine economy, a series of neoliberal policies started to be introduced in Argentina. These policies were introduced in order to modify the economic system which had deteriorated as a result of economic factors (such as the inconsistencies of the import substitute industrialization), institutional factors (such as the Peronist paradigm), and other intrinsic factors, etc (Sano [1998], chapter 3). Partly abandoned in the 1980s, they were fully reinstated in a more thorough program in the 1990s, under the government of Carlos Menem (1989-1999). In the context of the Washington Consensus, a list of reforms, such as fiscal discipline, tax reform, trade liberalization, privatization, deregulation, etc was adopted and carried out. As the State retreated from the economy, these reforms brought substantial economic growth, but they came with a high social cost, reflected in the double digit unemployment and growing social disparities. The increasing socioeconomic volatility, created in the context of Neoliberal Cycles (see chapter 1), expelled a great number of people from the economy. Being cast out and receiving little or no help from an increasingly absent state, a growing number of people had to resort to new forms of economic organization in order to survive. These new forms of economic organization are part of what has come to be known as the solidarity economy. The solidarity economy, not belonging to the state sector and being distinct from profit-oriented organizations, comprises new ways of work, production, organization, exchange, and consumption. Examples of solidarity economy in Argentina include local currencies used in barter clubs, workers taking over businesses from their owners and managing them, *cartonero* recycling cooperatives, and *piquetero* or road blocker initiatives.

In Japan, with the implementation of comparable neoliberal reforms which started in the 1980s and were accelerated under the government of Jun'ichiro Koizumi (2001-2006), similar problems to the ones in Argentina started to appear, such as growing unemployment, precarious working conditions, and a growing income gap. As in Argentina, Japan has also been witness to cases of solidarity economies. Examples are local currencies used to revive shopping districts and certain cases of collective initiatives by homeless people.

This chapter will seek to study the appearance and development of solidarity economies in Argentina and Japan as a consequence of the imposition of neoliberal policies. Special consideration will be given to the cases of *cartoneros* in Argentina and homeless people in Japan. A tentative comparison will be made between the activities of *cartoneros* and the homeless in their struggle for survival. In particular, attention will be given to the formation of cooperatives or cooperative efforts by *cartoneros* and the homeless. The main idea in this chapter is that by forming cooperatives, homeless people in Japan can profit from their conjoined efforts and improve their condition as some *cartoneros* have done in Argentina.

This chapter is structured as follows: in section 1, definitions of solidarity economy will be given,

illustrated by historical examples. In section 2, cases of solidarity economy in both Argentina and Japan will be described. In section 3, a particular comparison will be made with Argentina's *cartoneros* and Japan's homeless, along with some policy suggestions. Next is the conclusion.

1. What is a solidarity economy?: definitions and some historical examples.

The solidarity economy is an increasingly important part of the reality of many countries in the world, representing an alternative option to the market fundamentalism espoused by neoliberalism. The term, also known as social economy or the third sector (Harribey [2002] p.42), implies the need to introduce solidarity in the economy, that is to say, to incorporate solidarity in the theory and practice of economics. This means using solidarity in every process of the economy: production, circulation, consumption, and accumulation[64]. The aim of the solidarity economy is to place human beings and social relationships back at the core of economic activities.

The ideas espoused by social thinkers, leading to the creation of collective organizations and enterprises, in different forms and under different designations, have contributed to the development of a more humane economy and society. The solidarity economy is part of a "new" social economy movement that has emerged in the last thirty years, in the fields of community economic development, worker and consumer cooperatives, and community organizations, differing from the former or "old" social economy which originated in the 19th century, consisting of financial cooperatives, mutual benefit societies, and large producer cooperatives, especially in agriculture[65]. The solidarity economy is part of a movement set to create a different kind of economy, structured around a democratic, equalitarian, and communitarian form of economic organization, seeking to establish itself as an alternative model to neoliberalism (Neamtan [2002] pp.3 & 12). The solidarity economy represents ways to create alternative solutions to the crisis of employment and the welfare state, by acting as an intermediary between the state and civil society, fostering relations between local communities and their development, acting as a link between the economical and the social. In this way, the solidarity economy can be seen as the third sector of the economy together with the capitalist and public sectors. Organizations in this third sector engage in market, non-market, and volunteer activities. While rooted in the social sphere, they also rely on market and state intervention (Nyssens [1997] pp.181 & 187).

The solidarity economy can also be perceived as an alternative way of production set to replace

[64] It is not very common to find the words "solidarity" and "economy" put together. They are mostly found in different and sometimes opposing fields. Terms associated with "economy" include utility, scarcity, interest, property, competition, profit, even certain ethical values such as freedom of initiative, distributive justice, equal opportunity, and personal and collective rights. But words such as "solidarity" or "fraternity" are very seldom found together with "economy" (Razeto [1999] p.97).

[65] Despite their importance in modern economies, Kalmi [2006] explains that, "co-operatives do not receive much attention in current mainstream economics. An indication of this is the neglect of co-operatives in most popular introductory economics textbooks". This reflects a decline in the study of cooperatives after the Second World War. Reasons for the decline include giving more importance to top-down solutions to social and economic issues instead of more local and institutionally sensitive solutions, in this way disfavoring co-operatives. This reflects a shift in economic thought from an institutionally-oriented analysis to neoclassical economics with its stress on optimal solutions and downplay of institutional characteristics. Also, during the 20th century, the role of the government in the economy has substantially increased, further reducing interest towards privately provided solutions to social problems (Kalmi [2006] pp.16-7).

capitalism. Still in its formative stages, it may be considered as a tentative system opposite to capitalism (Singer [2001] pp.48 & 58). With this thinking, the concept of solidarity would extend to all spheres of economic activity and not be considered as an escape valve to the problems of social exclusion engendered by capitalism (Harribey [2002] p.49). Labor has a central importance in the solidarity economy. Whereas today's economy is centered on capitalist relations, the solidarity economy revolves around the centrality of labor. Labor is the main category in firms of the solidarity economy where relations of cooperation and reciprocity are dominant. This is because many, if not most projects developed in the context of the solidarity economy are carried out within the realm of poverty. The subsequent lack of financial means makes labor the main contributing factor invested and managed in these firms (Razeto [1993] pp.1 & 5 and Nyssens [1997] p.188).

Undertakings in the solidarity economy cover many different forms of economic organization (cooperatives, associations, production groups, etc) and are based on the free association of workers, self-management, cooperation, democracy, participation, efficiency, viability, etc. Companies in this setting present alternative economic forms, different from the capitalist market logic. Their main objective is to satisfy the basic needs of its members as well as provide for the pursuit of non-monetary aspirations: autonomy, intensification of social links, personal growth, etc. These companies are characterized by variable forms of collective agreements on the ownership of the means of production, on the work process, and management, reducing wage relations to a minimum. But can they survive alongside capitalist firms? There is some potential for this, these organizations have proved very sturdy in the face of a hostile environment (competitive markets, limited access to benefits from the state, etc) and in the face of strong resource limitations (lack of financial and material means). What competitive advantage do they have? Solidarity economy organizations can establish themselves in niches where they might be able to combine advantages of cost and differentiation. As a movement, these organizations develop themselves better through clusters than branches. This form of development is more suited to a niche strategy than one of domination in a sector, which takes a longer time to achieve (Gaiger [2004] pp.229-241, Malo [2001] p.22, and Nyssens [1997] p.191).

The solidarity economy has its roots in the Industrial Revolution, at the beginning of the 19th century, at a time when capitalism was rapidly developing, transforming a significant part of the working rural population into a salaried proletarian and increasingly pauperized mass, at a time when capitalism was going through its first economic crises and workers' revolts. The evils of the capitalistic system made social thinkers think of an alternative economic system, visualizing an ideal form of society based on cooperation and mutual help instead of competition and exploitation of man by man. The idea of a social or solidarity economy can be associated to many great thinkers and reformers of the 19th century even if the expression itself is not mentioned outright. Robert Owen (1771-1858), promoter of factory legislation, founder of the British cooperative movement[66] and

[66] The idea of cooperation is older than man himself. But cooperation, as a form of economic organization, is of recent origin. Cooperation in its economic form "is a voluntary and democratic association of human beings, based on equality (of control and opportunity) and equity (of distribution of surplus), for the promotion of their interests". The characteristic features on which the principles of cooperation are based are solidarity, democratic control, mutuality or self-help through mutual help, voluntarism, equality and service motive (Krishnaswami [1968] pp.587-588).

of British socialism, and creator of "villages of cooperation", considered that "association" was the key to creating a new environment for the solution of social problems. The first kibbutzim in Israel were based on the ideas of Owen (Singer [2001] p.48). Charles Fourier (1772-1837), known as an associationist, preached for the reorganization of society by establishing autonomous communities known as *phalansteres* in order to achieve social harmony. After Fourier's death, many *phalansteres* communities were started, mostly in the United States. The most famous is the Brook Farm Phalanx near Boston in 1841. Louis Blanc (1812-1882), classified as an associationist and a utopian, believed that competition was the source of all economic evils. In order to repair the wrongdoings of competition, a new economic regime should be founded based on its opposite, that is to say, association. For this, Blanc proposed the creation of worker controlled state funded social workshops in every major branch of production. His ideas were put into practice after the great proletarian revolution of 1848 in France but soon failed (Gide and Rist [1913] pp.275-308 & 339-375 and Ferguson [1950] pp.204-212).

A landmark in the cooperative movement was the creation in 1844 of the Rochdale Equitable Pioneers Society, considered to be the first modern cooperative, whose principles have influenced cooperativism to this day. These principles were: "…democratic control, open membership, limited interest on capital, patronage dividend, cash trading, sale of pure and unaltered goods, education of the members, and political and religious neutrality. None of these eight principles was individually novel; but their combination was essentially new. This was the originality of the Pioneers" (Krishnaswami [1968] p.589). The Rochdale society over the years proved to be an unprecedented success from an economic point of view, becoming by far the largest society in Britain. Due to its success, the society became a guiding light in cooperation (Hibberd [1968] p.554)[67]. The influence of Robert Owen is perceptible in the foundation of the Rochdale society since among its 28 Pioneers, six were disciples of Owen, in particular Charles Howarth and William Cooper, main contributors to the project (Gide and Rist [1913] p.285).

In 1956, in the Basque country the Mondragón Corporación Cooperativa (MCC) started as a production cooperative founded by Father José María Arizmendiarrieta initially manufacturing paraffin stoves and heaters, transforming itself into a self-managed enterprise, and expanding and strengthening its bonds of cooperation, solidarity and self-management. Among worker cooperatives, none have become as developed as the cooperative industrial complex of Mondragón. The success of Mondragón is due to the fact that it has been able to transform itself into a genuine regional cooperative economy, whose network helped its member cooperatives to survive and expand. MCC is widely thought of as the flagship of the worker co-op movement[68]. Cooperatives in MCC reunite in one person the functions of worker, manager, and owner which capitalism assigns to three separate persons. The function of the capitalist disappears since workers can hire capital or capitalize a cooperative with their own labor (through a 10% self-tax) (Bowman and Stone [2005] pp.2, 5 & 12).

[67] The Rochdale Cooperative degenerated when, to finance the purchase of a new mill in 1859, it took on investor members. These new members outvoted worker members and in three years converted the co-op to a conventional firm (Bowman and Stone [2004] p.2).

[68] Although in a different context, it is one of the models on which the movement of retaken factories in Argentina has based itself (Arévalo and Calello [2003] pp.8-9).

The record of business creation is remarkable. In the first thirty years of operation, it founded 103 cooperatives from which only 3 closed. This is impressive given the deep recession which Spain suffered from 1975 to 1985. In this period, while the Basque region lost over 100,000 jobs, Mondragón cooperatives added workers. This was done by retraining workers and transferring them from depressed cooperatives to expanding ones (Huet [2001]). Presently, the Complex has a presence in 19 countries, is formed by 264 cooperatives and other entities in finances, industry and distribution, employs more than 80,000 workers, and even has its own university, the Mondragon Unibertsitatea. MCC has become a significant factor of the Basque economy, accounting for 3.8 percent of its GDP and employing 3.7 percent of the working population. It is one of the world's largest workers cooperative (MCC [2007] pp.27, 28, 32 & 46). The experience of MCC is a case to be studied, whose failures and successes can provide valuable lessons to the present solidarity economy movement[69].

Economic activities in the present solidarity economy movement take place in many different forms in all the regions of the world. Some examples are Responsible Consumption, Corporate Social Responsibility (CSR), share-holder activism, Fair Trade, Ethical Banking, Microfinance, etc. These activities include thinking about the environmental and the social effects of purchases before making them, promoting business activities that bring simultaneous economic, social and environmental benefits, claiming power as company owners to influence a corporation's behavior, trading based on agreements based on principles of economic analysis, social justice, anti-corruption, anti-civil-strife, pro-environment and other policies, financing companies, institutions and projects that add cultural value and benefit people and the environment, enabling the poor through small loans to lift themselves out of poverty and make better lives for their families, etc (Asian Forum for Solidarity Economy [2006-2007], Interrupcion [n.d], Department of Trade and Industry [2004], p.2, Stiglitz and Charlton [2005] pp.5, 134 & 135, Shareholder Activism [n.d], and Grameen Foundation [2007]).

Presently, the solidarity economy is at a budding stage and does not yet have a systematic theory or policy. Nonetheless, in various places it is at a stage where it is starting to be put into practice[70]. There are four types of policies which can help lead towards the implementation of a solidarity economy. The first policy is

[69] MCC tries to adhere to its founding principles, but it sometimes engages in practices which depart from the spirit of cooperativism: hiring nonmember wage labor when demand increases, using women as a reserve army of labor, and going into joint ventures and acquisitions of capitalist enterprises abroad and not cooperativizing them (Bowman and Stone [2005] p.6). Despite this, MCC shows the necessity of combining the solidarity economy into a strong national or international unit. Without this, it won't be possible for solidarity economy organizations to compete on the same level with capitalist firms (Singer [2001] p.52).

[70] In Colombia since the mid 1980s, the sector of the solidarity economy has been recognized as being vital to the overall national economy. In order to foment and supervise this sector, several institutions were created, leading in 1998 to the establishment of the Administrative Department of the Solidarity Economy and the Superintendence of the Solidarity Economy within the Ministry of Finance and Public Credit. As of December 2006, the Colombian solidarity sector comprised 5943 cooperatives with assets of 13.72 trillion pesos (approximately 6.1 billion dollars as of 12/31/06, declared value) (SSE [n.d.]). In June 2003, the Brazilian Ministry of Labor and Employment established the National Secretariat of Solidarity Economy (SENAES), recognizing that a social transformation was taking place, caused by a crisis in the labor market that has ravaged the country since the 1980s. The mission of the SENAES is to expand and promote the solidarity economy in the whole territory of Brazil, giving political and material support to the initiatives of the Brazilian Forum of Solidarity Economy whose objective is to build an alternative economy to the present neoliberal one (Singer [2004] pp.3 & 4). In 2005, there were 14,954 solidarity economy enterprises (SEE) in Brazil, with a monthly production value of 491,451,037 reais (approximately 211,109,838 dollars as of 12/31/05, 31% of SEE did not declare the value of their production) (MLE [2006] pp.15 & 36). In September 2004, the Venezuelan government created the Ministry of the Popular Economy (MINEP) later renamed the Ministry of Popular Power for the Communal Economy (MINEC), whose purpose is oriented towards the transformation of the dependency creating capitalist economic model into a model for a social, co-managed and sustainable economy (MINEC [2006]). Up to June 2006, there were 131,581 cooperatives registered in Venezuela (Sunacoop [n.d]).

related to the transfer of surplus from the socially powerful to the disadvantaged, giving them a second chance based on social solidarity and rehabilitation through inclusion. The second policy refers to the empowerment and protection of the socially excluded which constantly surface under the present market economy system. The third policy concerns the building of a social cooperative network (promoting the activities of NGOs and NPOs) where individuals can become self-reliant based on self motivation and non-profitability. The fourth policy is envisaged towards the creation of social trust through the mutual surveillance, exchange, and cooperation of the government, market and nonprofit sectors (Nishikawa [2007] pp.21-22).

2. Different cases of solidarity economies in Argentina and Japan

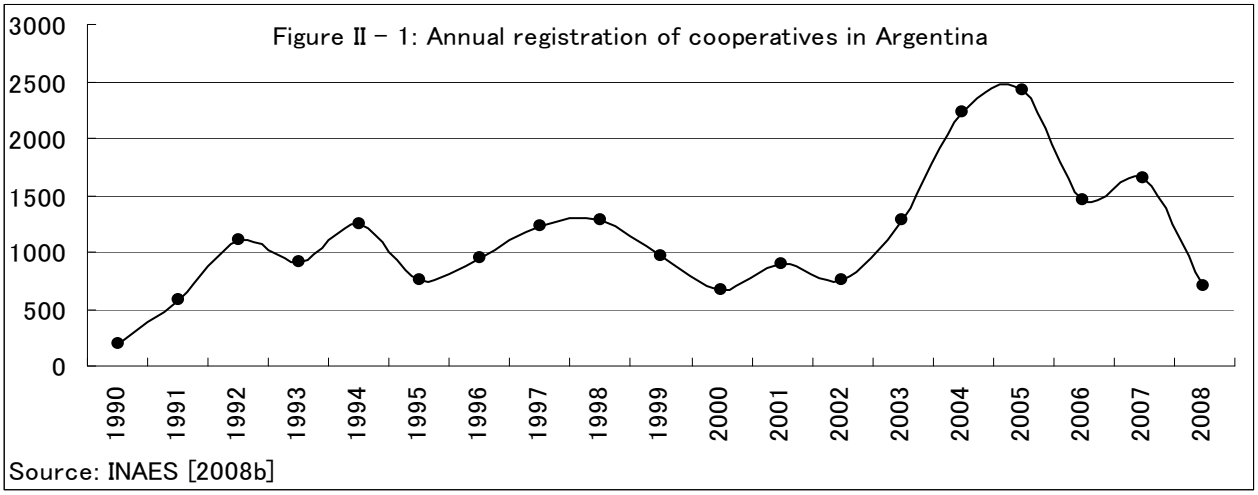
2.1 Solidarity economies in Argentina

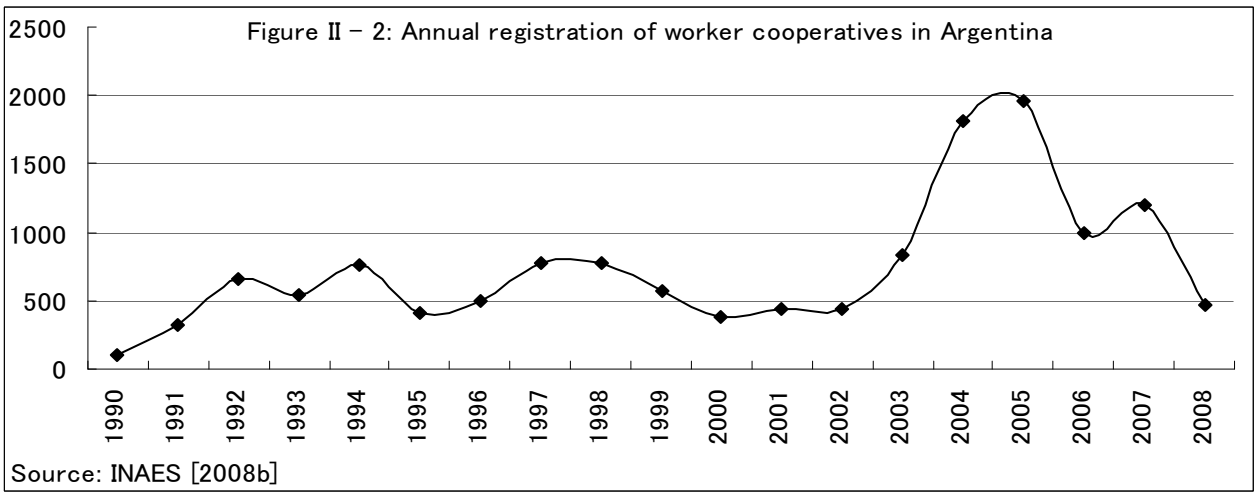
Cooperatives, introduced by Spanish, German, British, French, and Italian immigrants at the end of the 19th century are the earliest forms of solidarity or "old" social economies in Argentina. The first cooperatives, founded in the mid 1880s, consisted of consumer and producer cooperatives and were created in order to face up to monopolies and other forms of economic concentrations, and can be considered in many cases as an important factor in the regulation of prices (Mateu Gordon [2005] pp.86-7 and Schujman [1984] pp.125-127). Today, the biggest number of cooperatives corresponds to worker cooperatives (54%), housing cooperative (14%), agriculture cooperatives (10%), retailer cooperatives (10%), and public services cooperatives (8%) (INAES [2008a]). Since 1996, the National Institute of Associativism and Social Economy (INAES) is the main organ in the promotion of cooperativism and mutualism in Argentina (Boletín Oficial [1996]).

The "new" social economies, part of the contemporary solidarity economy movement, have appeared as a result of the increasing poverty, which has propagated itself throughout the whole region of Latin America in the last few decades, especially in Argentina. This expansion of poverty has its roots in the neoliberal policies that were implemented by successive governments in many countries of the region[71]. These policies resulted in the retreat of the role of the welfare state and the subsequent reduction in its capacity to offer solutions to social problems and by the greater emphasis placed on the role of the market in the allocation of resources and the distribution of income. Marginalized from the mainstream economy, many people and social groups found themselves with a very serious problem of subsistence. They have had to come up with strategies to ensure their survival, performing any type of economic activity in order to obtain the necessary income to satisfy their basic necessities. This reality led to a process of economic activation and mobilization of the most impoverished sectors of society which consisted in the creation of cooperative societies to foster self-employment, self-sufficiency in goods and services, to provide public services that the state was unable to fulfill and carry out those activities that the private sector was unwilling to do. In Argentina, since the 2001 crisis, this nonprofit

[71] Although the World Bank holds the position that "market-based policy reforms have been neither a curse nor a cure for income inequality", it does admit that on balance the reforms suggest "mild disequalizing effects" (World Bank [2004] p.221).

sector has gone through important changes as the government has become more involved in the economy with more social and pro-work policies. The important rise in the number of cooperatives after 2002 (as seen in figures II – 1 and II – 2) is probably a reflection of the appearance of cooperatives in the context of the solidarity economy (such as recovered factories and *cartonero* and *piquetero* cooperatives and initiatives).





2.1.1 Recovered factories

During the 1990s, in the context of deindustrialization and disintegration of the productive apparatus caused by the implementation of market friendly policies, the first cases of recovered factories start to appear. They are businesses that went bankrupt or were abandoned by their owners and taken over and operated by their workers. They belong to various sectors: metallurgy, meat industry, textiles, medical clinics, private education institutes, etc. Most of these businesses were reorganized into worker cooperatives and managed to retain a significant portion of workers in their posts. From the mid 1990s to 2003, 157 businesses were recovered by workers, preserving approximately 10,000 jobs (Saavedra [2003] p.33).

The reclaiming of businesses comes as a consequence of the prevailing economic crisis and stems basically from the efforts and ambitions of its workers, whose number one priority is to keep their jobs,

independently of who is managing the business. This reflects the fact that if workers were to lose their jobs, given the tight labor situation, finding another job would prove to be extremely difficult. In some cases, the reclaiming of businesses was done peacefully and in accordance with its owners. In other cases, it was done through several means of pressure – occupation of the business premises, posting people as guards at the entrance of the business to prevent the stripping of its assets by the owner, demonstrations, *piquetero* protests, etc. Most cases of recovered businesses were met with the support of neighborhood assemblies, students, professionals, and local neighbors who assisted with food, capital, raw materials and other types of assistance. It is this climate of solidarity that enabled workers to go through the first steps of organization and management of the businesses. Some universities, unions, and other social actors have brought support and technical assistance to many of these enterprises (Arévalo and Calello [2003] pp.5-6).

Two of the most pressing issues for reclaimed businesses are: their undefined legal situation (relating to the private property rights of the business owners and creditors vis-à-vis the right of workers to keep their jobs) and the need for economic resources (working capital, access to formal credit, raw materials). The state assists these businesses on various levels (city, provincial, and national), seeking to regularize on their legal situation as well as providing subsidies and training. Since this official assistance is done through multiple and uncoordinated channels, sometimes overlapping efforts, it makes the use of human and economic resources for such assistance inefficient (Caputo and Saavedra [2003] p.24). Nonetheless, as the economic performance of Argentina keeps on improving, reclaimed businesses seek strategies to become more viable and depend less on subsidies given by the government (Morosi [2007] p.4). Some recovered businesses have become profitable and have started exporting part of their production (Urien [2007] p.12).

Are such businesses, centered on a rationality which is not only economic but mainly social, viable in time? In today's globalized world with its logic of accumulation and competition, it seems unlikely. Nonetheless, there are many cases which defy this rule, such as the businesses of the "economy of communion" proposed by Chiara Lubich, founder of the Focolare Movement, which are based on a "culture of giving" and number 764 in 34 countries (Gold [2004] pp.636-7). The movement of reclaimed businesses is part of a larger context that puts into question the viability of the neoliberal economic model.

2.1.2 *Piqueteros*

In 1996-97, a new form of social protest called *piqueteros* emerged, composed of unemployed men and women whose modus operandi consisted of *piquetes* or road blockades on main national roads or important highways. The appearance of *piqueteros* is due to the collapse of regional economies and to the accelerated program of privatization of public enterprises, such as YPF[72], carried out in the 1990s. In other parts of the country, such as the metropolitan area of Buenos Aires and adjacent areas, *piquetero* protests are mainly done by

[72] Many towns in inner Argentina (such as Cutral-Có, Plaza Huincul, Mosconi, and Tartagal) were heavily dependent on YPF, the national oil company and also the biggest state owned company.

those in the popular and lower middle classes whose standard of living has been deteriorating since the mid 1970s (Svampa and Pereyra [2004] p.424). The men and women of the *piquetero* movement barricade themselves behind burning tires preventing the free flow of traffic (except for emergency vehicles), goods, and people, in demand of social assistance from the government in the form of temporary jobs, special subsidies, and food assistance. Sacrificed by the prevailing neoliberal model and shunned by the media, through these protests the *piqueteros* have sought to acquire some form of visibility. *Piquetes* have been carried out all over the country, but gradually they concentrated upon the national capital. Successive governments have dealt in many ways with the *piquetero* movement, from some sort of repression to inclusion in the government[73] (Massetti [2006] p.29 & footnote 2).

One of the ways in which the government has assisted the *piquetero* movement is through the National Plan for Local Development and Economic Solidarity "*Manos a la Obra*"[74], launched in August 2003, directed towards individuals and families living in poverty, unemployed, and/or socially vulnerable willing to engage in productive and/or communitarian projects. Up to 2006, this plan together with local, regional, and provincial institutions and organizations has helped 400,000 entrepreneurs (*piqueteros* and non-*piqueteros*) (Massetti [2006] p.34 and MSD [2006] pp.3-4). *Piqueteros* also engage in cooperative activities through their own initiative, such as community vegetable gardens, canteens for children, etc. Some of these activities are financed by the government through workfare programs (such as the plan *Jefas y Jefes de Hogar* (PJJHD)[75]) while others through what they can earn in specific activities, such as makeshift bakeries (Clarín [2002]).

2.1.3 Local currencies

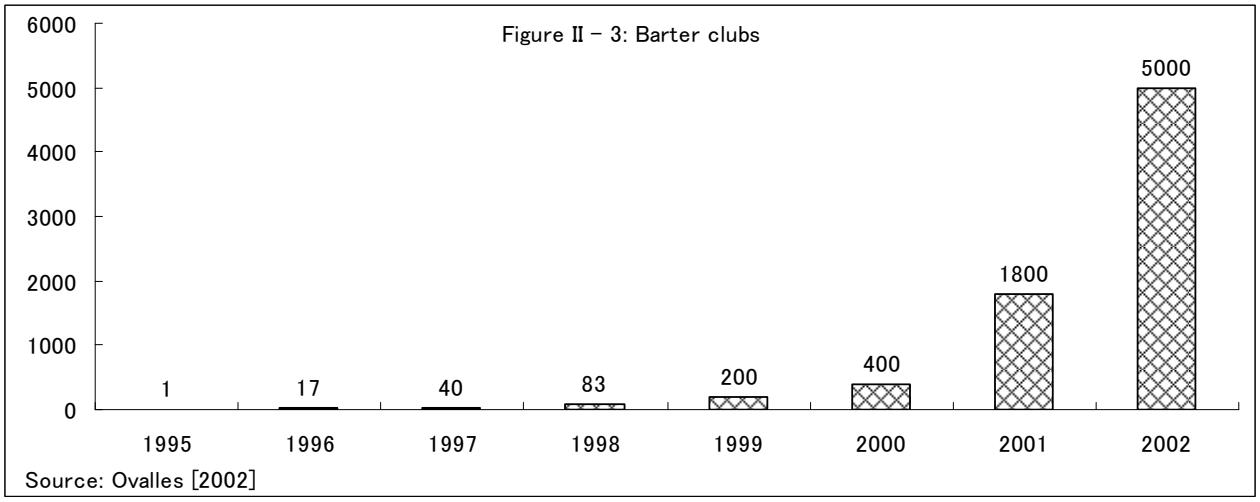
In May 1995, the Global Barter Network (*Red Global de Trueque*), a local currency movement which began in Quilmes, province of Buenos Aires, started to provide a lifeline to sections of the marginal population composed of the "new poor", the long term (structural) unemployed, and other marginalized sections of the population. After the economic crisis in December 2001, the number of people trading in barter clubs, known as *nodos*, grew exponentially. By the middle of 2002, it is estimated that between 1 and 2.5 million people were trading occasionally or on a regular basis (some newspapers ballooning the figure to 6,000,000) in some 5000 *nodos* (see figures II – 3 and II – 4) (Pearson [2003] p.214 and Hintze et al [2003] pp.74-6). Bartering had become a "survival strategy" for wide sections of the population in Argentina due the failures of the neoliberal market economy. This became more evident after the *corralito*, a banking restriction on the withdrawal of money

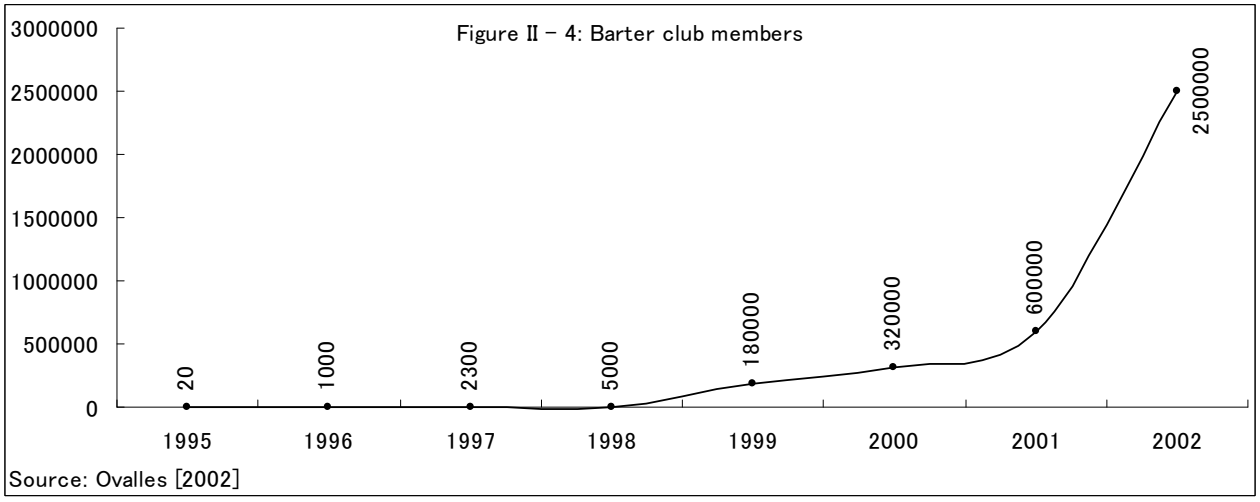
[73] Such as Luis D'Elía, a *piquetero* leader who was the housing secretary of President Kirchner from February to November 2006. The inclusion of *piqueteros* in government posts served to bring the social conflict within the sphere of the state so that the issues of poverty and unemployment would be handled by the state apparatus. The high economic growth rates after 2003 and the decrease in unemployment together with the assimilation of part of the piquetero movement greatly enhanced governability in Argentina (Escudé [2007] pp.6, 12, 16 & 20).

[74] "Manos a la Obra" means "let's get to work" or "let's start working".

[75] The *Plan Jefas y Jefes de Hogar Desocupados* (PJJHD) or Unemployed Men and Women Heads of Household Program is a workfare program in which a handout of 150 pesos is given to unemployed heads of households in exchange for a minimum of four hours of daily work. MLESS [n.d.].

to prevent bank runs, was imposed following the financial crisis at the end of 2001.





Members of the *nodos* are known as *prosumers*, and as their name suggests, they are engaged in the production of goods and services which they offer, while in turn demanding (or consuming) other goods and services from other prosumers, all within the *nodo* (barter club). Goods traded include vegetables and fruit, new and used clothing, baked goods, garden supplies, handicrafts, etc, while services include those rendered by doctors, lawyers, masseurs, plumbers, carpenters, dentists, etc.

Initially, when *nodos* and members were few, a book entry system was used to control transactions. As the numbers of *nodos* and transactions grew, credits were introduced to facilitate trading. In general, local currencies perform only some of the functions of money, such as being a medium of exchange and a unit of account, but they do not and cannot act as a store of value or a standard of deferred payment (which involves charging interest). This definition restricts the extent to which these currencies can replace the official currency for transactions beyond immediate exchange (Pearson [2003] p.229). In order to prevent hoarding and stimulate spending, certain ideas by the German economist Silvio Gesell were put into practice, namely the rusting of money (Gesell [1916] part 2.1). For example, in the *nodo* of Venado Tuerto (province of Santa Fe), the local currency called *punto* expires every 4 months. On the expiration date, when acquiring new *puntos*, a discount of 5% is applied. After 15 days, the discount goes up to 20%, after a month it is 50%, and if two months go by, the

old *puntos* are not accepted anymore (Ilari [2003] p.151).

In early 2002, the fixed exchange rate system in place since 1991, making one peso equal to one dollar, was abandoned. The ensuing devaluation led to an export-led economic recovery improving the labor market situation to some degree. This in turn led to the beginning of a reversal in the number of participants in the *nodos* who rejoined the labor market. Another factor contributing to their declining membership is due to the loss of value of local currencies caused in part by inflation as a result of the devaluation of the peso. This devaluation made some of the materials which are bought in the formal market but are used to make products exchanged in the *nodos*, more expensive. Speculative practices and counterfeiting were also a factor. By the beginning of 2003, membership had gone down to 100,000 and the number of *nodos* stood at 400 (Sano [2003b]). Today, even though the economic crisis has gone by, many people are still exchanging products at local barter clubs (Río Negro [2007] p.27). Also new *nodos* are still being created (RGT [2007])[76].

2.1.4 *Cartoneros*

A very visible social phenomenon stemming from the 2001 economic crisis is the appearance of *cartoneros* in the city of Buenos Aires and other urban areas. *Cartoneros* (from the Spanish word *cartón*: cardboard) are poor and unemployed people whose lives depend on the garbage they collect daily from the streets. They earn a living by collecting cardboard paper and other recyclable materials and selling them to recyclers. Most *cartoneros* work in small units with members of their families while others have united to form cooperatives. The collecting and recycling activities that *cartoneros* do is not a recent phenomenon, but their explosive growth at the end of the 20th/early 21st century is. A more thorough analysis is provided below.

2.2 Solidarity economies in Japan

"Old" social economy cooperatives in Japan date back many years. During the Edo period (1603-1867) groups made of less economically powerful individuals got together and formed mutual assistance associations (Fujitani [1992] p.375). The modern history of cooperatives has its beginnings during the Meiji Era (1868-1912). At that time, the most active cooperatives were in silk and tea retail. Their main purpose was to improve quality and increase exports. Other types of cooperatives included rural purchasing cooperatives. Before World War II, the government put substantial effort into the development of agricultural cooperatives. These cooperatives were to serve four main functions, which can still be seen today: credit, marketing, purchasing, and management. After the defeat, the land reform and the establishment of the Agricultural Cooperative Law significantly influenced the operation of cooperatives. As the economy grew in the 1960s, a number of cooperatives

[76] In 2008, the creation of new *nodos* (barter clubs) comes as a result of the accelerating rate of inflation, the fall back into poverty of certain segments of the population and the uncertainty on the availability of many products due to the farm tax conflict (La Nación [2008a]). This conflict severely disrupted life in Argentina from March through July 2008, limiting supplies of food, gasoline, medicines, and many other goods needed by the population.

experienced rapid growth. However, after the 1973 oil shock, as the growth rate of the Japanese economy has declined, so have cooperatives grown slower (Klinedinst & Sato [1994] pp.510-511).

Presently, there are cooperatives in many sectors: agriculture, insurance, food distribution, medicine, banking, etc. The strongest and most diverse cooperatives are the agricultural cooperatives or *nokyos* (mostly organized into the JA group), which by the mid 1990s controlled 95 percent of Japan's rice crop and 90 percent of the fertilizer market (Klinedinst & Sato [1994] p.512). In 2006 fiscal year, the JA Group had 9.14 million regular and associate members engaged in 811 multifunctional agricultural cooperatives with total transactions of its different business operations equal to 5,350.1 billion yen (Zennō [2007] pp.4 & 33). Other important cooperatives include consumer cooperatives, classified into purchase, service, mutual, medical, social welfare, housing, and cultural cooperatives. In 2005, there were 1097 consumer cooperatives active in Japan with 60,323,892 members (MLHW [2007a]). In particular, the Japanese Consumers' Co-operative Union, which by March 2007 numbered 621 cooperatives, had 24,190,000 members, and a total annual turnover of 3,368 billion yen (NSKKR [2007] p.1). Additional cooperatives include forestry cooperatives, fisheries cooperatives, and workers' cooperatives (such as the Japan Workers' Cooperative Union (JWCU), workers' collectives, and other groups).

Initiatives and undertakings of the solidarity economy in Japan in the present neoliberal context have appeared as a consequence of worsening socioeconomic indicators. Two cases of solidarity economies in Japan are local currencies and homeless collective initiatives. They address issues caused by growing regional and social differences, increasingly perceptible since the 1990s. These two initiatives represent a small effort being taken at the grassroots level in order to deal with the growing problems caused by the neoliberal liberalization, deregulation, and opening of the economy.

2.2.1 Local currencies

Recent instances of solidarity economies in Japan are local currencies which began to be used in the middle of the 1990s. As of January 2005, 519 local currencies have been promoted in local communities around Japan by local government towns and/or NPOs in order to revitalize community economies, develop community businesses or promote welfare services for its inhabitants (Araki [2005] p.318 & Ishizuka [2002] p.263). The use of local currencies was especially used to revive local shopping districts or *shōtengai* where small "mom and pop" stores are located. These shops play an important role in the support and development of their communities. This is why their decline greatly affect the communities they are connected to (OFSKK [2004] p.22). In the 1990s, the main reason for their decline was due to the easing of regulations in the *Daitenhō* or Big Store Law and subsequent abolition and replacement by another law as a part of the ongoing neoliberal reforms, which permitted the access and proliferation of large-scale retail stores, mostly supermarkets as well as shopping centers, and international big retail stores into the Japanese market (Yahagi [2005] pp.2-10). The entrance of these big stores brought increasing competition to the *shōtengai*. Recently, although this factor still weighs as

one of the reasons for the decline of the mom and pop shops, more important reasons include the waning appeal of *shōtengai*, the small sense of participation of shop owners in the activities of *shōtengai*, the aging of shop owners, and the unwillingness of their children and other successors to continue into the business, etc (ZSFKR [2007] p.39).

The use of local currencies was at first introduced and later popularized by the mass media. One famous case is the "Peanut" used in the city of Chiba since February 1999 and named after the region's local specialty. By the end of 2002, it had almost 600 users (542 individual users, 51 shopkeepers and farmers, and 2 institutions). First begun as a check system, it changed to a book entry system in September of that year. As a reference, one Peanut was made equal to one yen and one hour of work was worth 1,000 Peanuts. Saving in Peanuts did not yield any interest. In order to use it, a member registration was necessary at the Chiba Urban Planning BORN Center (NPO). At the time of purchase, an entry would be made in the debit column. When selling, an entry would be made in the credit column. To confirm the transaction, the signatures of both parties would be needed. Following that, buyer and seller would say to each other "¡amigo!" (friend in Spanish). After three months, the entry book would be sent to the center head office where a 1% charge would be deducted (applying the same principle of the rusting of money by Gesell) for every month of positive balance and a new entry book would be issued. This deduction was done to prevent hoarding and stimulate spending, much in the same way as the RGT of Argentina. For negative balances, a new entry book with the same balance would be issued. Anything that could be thought of was offered under this system: vegetable farming, babysitting, conversation partners, computer lessons, language lessons, massages, natural produce, teaching how to make kimchi, etc (Yamada [2002] pp.16-17 and Chiiki Kasseika Sentā [2004] p.41).

2.2.2 Homeless people

An issue which has brought increasing public concern is the presence of homeless people which started to appear in great numbers in the city streets of Japan in the 1990s as the Heisei recession was starting to take its toll on the Japanese economy. From the beginning, homeless people received help mainly from Christian organizations such as the Salvation Army. The waste created by Japan's cities has kept them going and this is one of the reasons for the absence of mendicancy (Pons [1999] pp.239 & 241). Although late, the government, with the passage of the Special Law on Temporary Measures to Support Self Reliance of Homeless People (or Special Measures Law) in August 2002, has provided for the building of shelters for homeless people as well as promoting the housing and employment of homeless people. This law has helped some homeless get jobs and move into apartments, but a big part of them still remain in the streets. Also, this law does not seem to be helping a new kind of homeless, known as net café refugees, composed of young people who work as *freeters* (part-time job-hoppers) and temporary workers and are forced to spend their nights in internet cafés or other establishments open around the clock. One way to help homeless people get off the streets could be to promote the establishment of social enterprises or cooperatives as some *cartoneros* have done in Argentina. A further

analysis is provided below.

3. A comparison of Argentina's *cartoneros* and Japan's homeless.

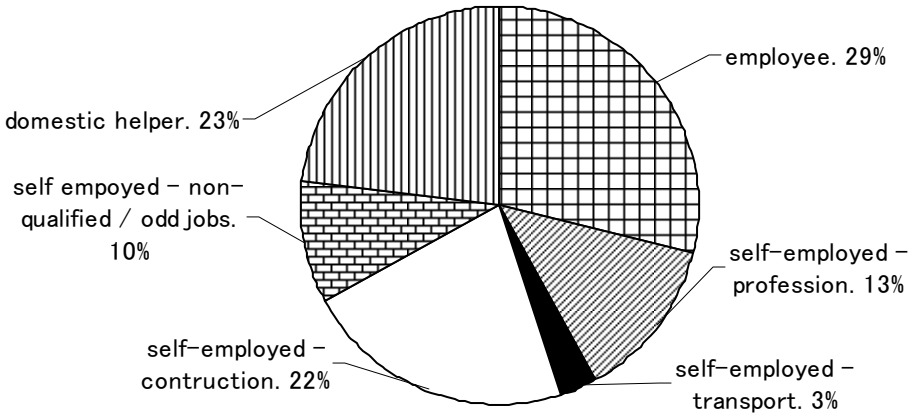
3.1 Origins and present situation

3.1.1 Cartoneros

Scavenging activities have a long history since the establishment of the city of Buenos Aires in the 16th century. The people who have engaged in these activities are called *cirujas*. A *ciruja* is a person who survives from what he finds when scavenging in garbage. Since December 2001, in the middle of the economic crisis, the media started using the term *cartoneros* to describe these same people. Since then *ciruja* and *cartonero* are used indistinguishably (Paiva [2006a] p.189 footnote *).

Cartoneros are part of Buenos Aires' poorest citizens, collecting cardboard and other recyclables to make a living. Some of the elements which contributed to the growth in their numbers are (1) the absence of measures and the stifling attitude taken by the State towards recycling; (2) the growth of unemployment and poverty which started to increase after 1995; and (3) the bustling activity of the recycling business after the devaluation of the peso and the increase in price of imports which skyrocketed the price of paper and other materials (causing an import substitution effect) (Paiva [2006a] p.195). Before they started scavenging, most *cartoneros* were engaged in other activities, 29% even had jobs as employees (see figure II – 5) (UNICEF and OIM [2005] p.30). The crisis of 2001 hit them especially hard. With an unemployment rate of 21.5% in 2002, and without any social security, rummaging through garbage is the only way they found to survive: no previous knowledge or skills are necessary, just the ability to walk and collect materials. Also, there are no capital requirements (except for carts) and no connections are needed to start the job.

Figure II – 5: Occupation held before becoming a cartonero
(Source: UNICEF & OIM [2005] p.31)



There are no official statistics on the numbers of *cartoneros*, in Buenos Aires numbers go from a minimum of 8,762[77] (UNICEF and OIM [2005] p.9) to an estimated 25,000 to 40,000 people (Paiva [2006a] p.195). In the whole of Argentina, in the last quarter of 2004 the estimated number of *cartoneros* (classified together with street vendors by INDEC, the national statistics office (INDEC [2001a] p.39)) accounted for 6% of self-employed workers, or approximately 165,000 people (Lepore and Schleser [2006] p.198 footnote 8). According to a survey by the International Labour Organization office in Argentina, during 2004 56,960 children were engaged on a regular basis in activities related to garbage collecting and recycling. Another 50,729 children had also performed the same activities in the past but were no longer doing so at the time of the survey (ILO Argentina [2007]).

The materials collected by *cartoneros*, recycled and used by various industries, are part of an economic circuit with positive ecological consequences. Without these activities, garbage and waste material would usually end up as landfill. In early 2003, a law went into effect in the city of Buenos Aires recognizing *cartoneros* as important actors in the Hygiene Services of the city, permitting them the recovery of all recyclable matter[78] (BOCBA [2002]). As a part of this law, *cartoneros*, cooperatives, and small and medium businesses related to recycling were entered into a registry[79]. *Cartoneros* would receive gloves, an ID badge, and training (for the activities they perform and for the formation of cooperatives and enterprises).

Cartoneros who don't live in the city of Buenos Aires[80], come into the city every night from the Greater Buenos Aires area, by truck, horse wagon or train. Until December 2007, there was a night train, named the Tren Blanco (White Train), which was stripped of its seats so that *cartoneros* could put in their carts, and without heating and air-conditioning. The train left after midnight and returned before dawn. There was a monthly fee of 18 pesos (+/- 6 dollars) but few paid it and Trenes de Buenos Aires (TBA), the company which offered the service, rarely enforced payment. Upon the elimination of the train service (for security reasons), TBA offered to replace it with a truck system (Clarín [2007] & La Nación [2008b]).

Cartoneros collect paper, cardboard, aluminum cans, metal (specially copper), plastic, electrical appliances – anything they can sell to recycling companies. Some *cartoneros* don't have a fixed route while others demarcate a territory for their activities. At the end of the day, each *cartonero* (sometimes accompanied by his/her children) covers approximately 90 blocks hauling their carts with their collection of the day. After, when they get home, they classify the different types of refuse collected. According to a study by CEAMSE and FIUBA [2006], in 2001 before the crisis, 600 tonnes of paper were generated a day in the city of Buenos Aires. This represents the amount collected by waste management companies (at that time *cartoneros* were not yet as visible as they are today). After the devaluation and the rise in price of paper *cartoneros* made headway into the

[77] Almost half (48%) of them children (i.e. aged under 18) (UNICEF and OIM [2005] p.27).
[78] Before the enactment of this law (number 992), waste management companies were the only ones legally entitled to collect waste found in the streets. The massive appearance of *cartoneros* put a dent in their profits, since they get paid by the tonne (Schamber and Suárez [2002] p.11). This system was changed in 2004, waste management companies are now paid per clean area (Fundación Metropolitana [2004] p.30)
[79] Since October 5, 2002, only 7,200 cartoneros have registered themselves in the city of Buenos Aires (GCBA [2007a).
[80] *Cartoneros* who live in the city of Buenos Aires have a strong presence in Villa 31 (a shanty town) (UNICEF and OIM [2005] p.102)

recollection of paper. In 2006, waste management companies collected 450 to 500 tonnes of paper a day while 250 to 300 were collected by *cartoneros*. That year, in total approximately 11% of the residential solid refuse produced in Buenos Aires was handled by *cartoneros* (CEAMSE and FIUBA [2006] pp.165-6)[81].

Sometimes, *cartoneros* are harassed by the police and are forced to pay bribes. Working conditions are full of hazards as many are pricked by syringes or cut by glass. The weekly average earnings of a family unit is 58.4 pesos (+/- 19 dollars). According to UNICEF and OIM [2005], 51% of *cartoneros* are recipients of the PJJHD workfare program[82]. In this way, the average monthly intake can vary between 350 and 400 pesos (+/- 113-129 dollars). Children (especially teenagers) also contribute to the family income. 38.2% of heads of household simultaneously perform other activities in construction, peddling, domestic service, and odd jobs such as mowing lawns, doing deliveries, etc. to complement the family income. Without these extra activities it would be difficult to cover the cost of the basic monthly food basket. In December of 2005, a family made up of five members (two adults and three children) living in the Greater Buenos Aires Area needed 418.62 pesos (+/- 135 dollars) to afford the basic monthly food basket and cover its nutritional needs (INDEC [2006] p.4). The family structure of *cartoneros* is very diverse, under one roof cousins, uncles, and other family members may cohabit, sometimes grandmothers look over small children as their (single) mothers go out to scavenge, families sometimes share a home and collect garbage together, etc.

3.1.2 Homeless in Japan

As the economy deteriorated in the 1990s, an increasing number of homeless people have appeared on Japan's city streets. Their rise in numbers is a consequence of the burst of the economic bubble, the reduction of public works in the context of neoliberal reforms carried out by the government (Shima [1998] p.590), as well as the economic volatility brought about by the coming and going of government policy into the economy leading to the creation of Neoliberal Cycles in Japan (as described in chapter 1).

Homeless people are not new to the streets of Japan's cities. As day laborers, they have had a constant presence in *yoseba* (urban day labor markets), where they end up sleeping on the streets when they fail to get day jobs for prolonged periods of time. During the era of high speed growth, there was a massive influx of construction day laborers towards cities which became engaged in city renovations and improvement of industrial infrastructure in preparations for the Tokyo Olympics in 1964 and the Osaka Expo of 1970. Later on, with the rationalization of industry and because of economic fluctuations, those unable to cope were thrown on the streets. Day labor is a consequence of the need by industry of the fluidization of the labor force, i.e. the creation of a low wage labor force without employment security. The characteristics which differentiate the

[81] The 11% figure is calculated from the garbage collected in 5 of the 6 zones in which private waste management companies operate in Buenos Aires (CEAMSE and FIUBA [2006] p.145). According to UNICEF and OIM [2005], the 8700 cartoneros working in the city of Buenos Aires collect between 9% and 17% of the waste produced by residents (UNICEF and OIM [2005] p.9).
[82] See footnote 33.

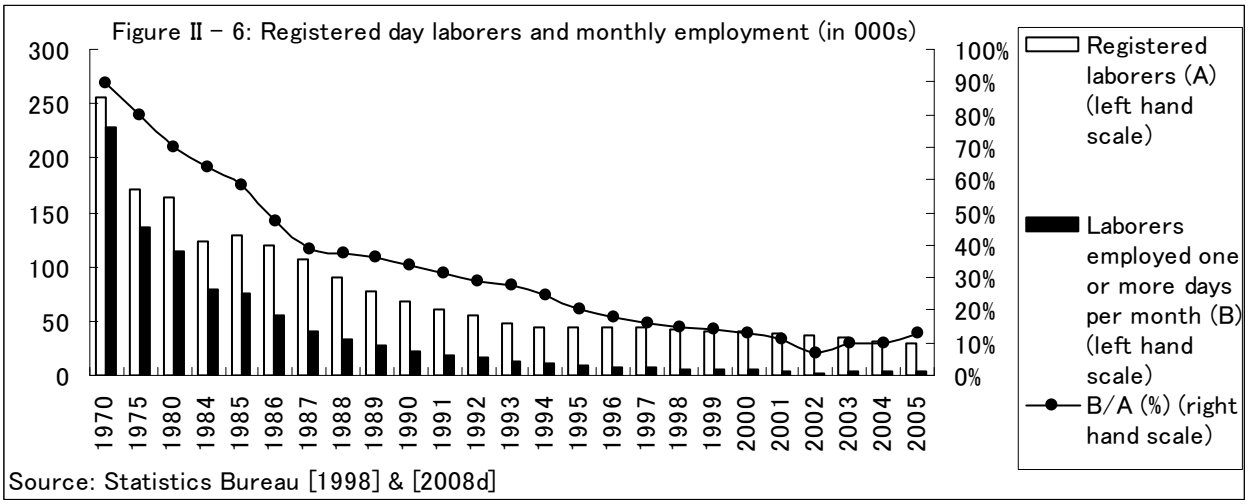
homeless problem of the 1990s are: (a) their explosive growth in numbers, (b) their expansion beyond the *yoseba*, (c) their persistence as homeless, (d) their emergence from other industries beside construction, such as services and from small and medium enterprises, (e) their advanced age, and (f) their spontaneous union into groups of solidarity (Kasai [1995] pp.6-8).

In the hierarchical Japanese labor market, day laborers are situated at the very bottom. According to Isogai et al [2000], the Japanese socio-economic system can be described by the "hierarchical market-firm nexus" hypothesis which seeks to explain the structures of the labor market and inter-firm relations between big companies and small or medium-sized enterprises (SME) (the latter subcontracted by the former). Big companies in Japan are said to offer job security in exchange for active commitment of workers to their company. In order to ensure efficiency, firms reduce the number of core workers eligible for lifetime employment and promote multi-skilling in order to enhance productivity. There are costs for mid-career job changes, labeled "institutionalized job-loss costs", which entail the downward mobility towards a firm of lower rank in the context of a hierachically segmented labor market. This downward mobility presents substantial differences in terms of lifetime incomes and other employment conditions. In this way, the "institutionalized job-loss costs" play a crucial role in stimulating the work efforts of regular employees at large companies. Job security of regular workers in big companies is further guaranteed by the flexibility of non-regular workers. In times of recession, big companies cut back on hiring or lay off part-time employees. Also, SME act as a "sponge" of employment of these employees as well as accepting the transfer of workers from a parent company. In these small firms, there are regular and non-regular employees, but the smaller a firm is, the higher the proportion of part-time workers. During the 1990s, the increase in overall unemployment has affected all industries, most noticeably big firms. Following the restructuring of big firms, dismissed employees have been partially reabsorbed by SME. Nonetheless, SME experienced a sharp decrease in employment at the end of the 1990s. Job security in big firms, although somewhat undermined by an increased fluidization, has not been discarded. The preservation of long-term employment of regular workers has been made possible by the increasing hiring of part-time workers whose jobs are very sensitive to economic fluctuations. Big Japanese construction companies, such as Kajima Construction and Shimizu Construction are a classic example of the hierarchical socioeconomic structure associated with Japanese management methods. They maintain the smallest possible permanent, salaried work force, and supplement it when necessary with subcontractors. Day laborers are never employed directly by such companies. Rather, they are employed by small companies at the very bottom of the line of subcontractors (Gill [2001] p.33).

According to Aoki [2003], the increase in the 1990s of the number of homeless people is due to *deyosebisation*, i.e. the gradual disappearance of day laborers from *yoseba* (see figure II – 6), and the disemployment of casually employed unskilled workers in the general labor market, both phenomena brought about by globalization (whose effects in Japan are characterized by a shift from manufacturing industry to services in the industrial structure and the intensification of intercorporate competition). For Kasai [1995], their increase in numbers is due to chronic structural unemployment and their exclusion from the housing market due

to insufficient low-cost housing after the bubble collapse. Their massive appearance on the streets became a barometer for labor destruction in Japan. According to the 2007 nationwide survey on homeless people (MHLW [2007c]), 31.4% of respondents became homeless due to a decline in job offers, 26.6% because of company bankruptcy, and 21% due to illness and old age. Evidently, job loss, whose scale is enormous when compared to previous recessions, is the main factor leading a person into homelessness.

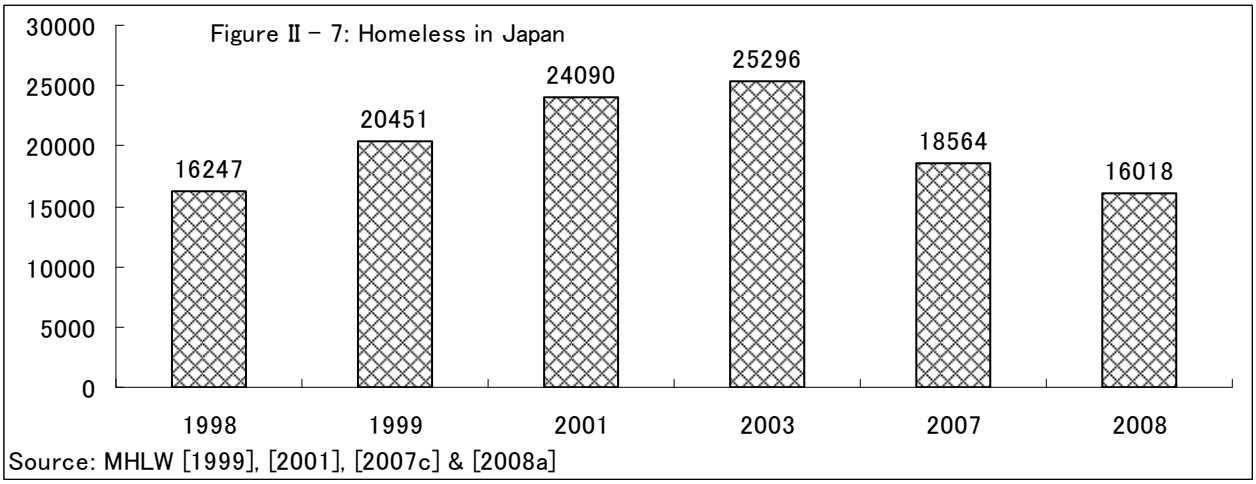
Figure II – 6: Registered day laborers and monthly employment (in 000s)



Source: Statistics Bureau [1998] & [2008d]

According to estimates from the Ministry of Health, Labor and Welfare (MHLW [2008a]), there were 16,018 homeless in January 2008 found in all 47 prefectures of Japan. This represents a 36.7% decrease from the survey carried out in 2003 which informed of 25,296 homeless people (see figure II – 7). This decline is attributed to the economic recovery which has lowered unemployment and to the work and welfare assistance provided by the Special Measures Law. Nonetheless, the true figures are most likely higher since homeless people are counted on sight, tents in parks are counted individually without confirming how many homeless people are actually inside, and since surveys are usually done during the day, they do not consider those homeless which take refuge in places like libraries during the day and later sleep on the streets at night (Kitagawa [2007].

Figure II – 7: Homeless in Japan



Source: MHLW [1999], [2001], [2007c] & [2008a]

The definition of homeless in Japan, according to the Special Measures Law, refers exclusively to "rough sleepers", which is "one of the most extreme manifestations of homelessness" (Third [2000] p.448). The

Japanese definition of homeless (unlike European and US definitions) does not include those people who have unstable housing conditions and live in *hanba* (temporary living quarters allotted to laborers), in *doya* (cheap lodging houses) or people who are dependent on friends and relatives to get a place to sleep. One reason why the definition is so narrow is due to the fact that only the immediate visible form of rough sleeping is regarded as being important socially and politically. The other forms of homelessness, not taken into consideration by the government, are not yet a concern of public policy, and no measures seem to be taken to prevent the situation from getting worse (Aoki [2003] pp.363-4 & Kakita [2004] pp.7-8).

One important point that must be considered is whether homeless people were enrolled in the national social insurance system before becoming homeless. It must be noted that day laborers and temporary and part-time employees are not covered by the social insurance system. The 2003, 2007, and 2008 nationwide surveys do not address this subject. For this we turn to a survey by Osaka Prefecture which informs on the state of the homeless in 2001 in Osaka. According to this survey, 55.7% of homeless respondents were not enrolled in any social insurance system. This clearly shows the relation between unstable labor conditions and absence of coverage by social insurance. This means that before they became homeless, homeless people already lacked access to the social insurance system (OFDSFGTFK [2002] p.102).

Homeless people do not make a living by begging, 70.4% of them have some means to earn income. However, the income received for their working activities is not enough to ensure them a decent level of life. For example, collecting cans brings in as little as 1,000 yen a day (Kakita [2004] p.11). Since 44.2% of homeless receive 30,000 yen or less per month, this classifies them as working poor whose occupations give them insufficient means to support themselves. In view of this, 29.7% don't have enough food to eat, making this the number one problem that afflicts homeless people (MHLW [2007c]).

Before becoming homeless 47.8% of respondents had worked in the construction sector, 12.2% in manufacturing, and 9.9% in services. 43.2% of respondents had been employed as regular employees, day laborers accounted for 26.2%, and temporary and part-time employees represented 19.4%. These numbers need careful interpretation since many of those who declared themselves as regular employees were workers which worked almost every day but whose status would generally be categorized as day laborers or temporary and part-time employees (MHLW [2007c] & Kakita [2004] p.12).

With respect to being able to sustain themselves, 35.9% of respondents said they wanted to find proper work, 9.1% want to earn income by doing various activities such as collecting cans, while 10.8% want to do light work while receiving aid from the government. These 3 categories, which add to 55.8%, are all related to the desire to engage in working activities for self-support. Compared to the 2003 survey, it represents a decline from 65%. Those who cannot work and desire to live on welfare have gone up from 7.5% to 10.1%. Those who are content with their homeless life increased from 13.1% to 18.4% (MHLW [2007c]). These changes reflect the inability of homeless people to find work in their struggle to escape homelessness. In consequence, their priorities are gradually replaced by simple survival. The longer the period of homelessness continues, the less homeless people look for new jobs (Tsumaki [2004] p.24). According to Kakita [2004 p.17], most homeless

people want to be employed but haven't had a chance to get a job, they don't want to rely on public assistance as doing so is dishonorable, and they don't want to use government facilities such as shelters[83]. As they follow the general trends of the aging of Japanese society, an increasing number of them cannot get off the streets as more work go to the strongest and youngest[84].

The image that society has of homeless is mostly negative as they are generally perceived as a source of discomfort, annoyance, and troubles (Tsutsumi [2004] p.30). According to OSD [2000 pp.20 & 28], most citizens, based on discrimination and prejudice, believe that homeless are lazy and do not want to work, even though the 2003 and 2007 surveys on homeless state the contrary, as mentioned above.

Traditionally, measures to help the homeless become self-reliant only target those who have already lost their homes. Nowadays, there are increasing numbers of young people in their 20s and 30s who are not living in the streets but are homeless in the broad sense of the word. While sleeping at internet cafes, they work as day laborers earning 7,000 yen or so a day. These "net café refugees", part of the working poor, belong to a new classification called "precariat". Precariat, a combination of the words "precarious", which refers to the insecurity of part-time and contract work, and "proletariat", entails having a botched future and the impossibility of building a life (Schreuer [2006]). How do these refugees end up living in internet cafes? Many of these young people initially live in apartments and have no savings. After they lose their jobs due to illness or other reasons, they cannot pay their rent and are forced out on the streets[85]. Although the Special Measures Law has some measures established to prevent people from becoming homeless, it doesn't cover these refugees since they are not considered homeless in the true sense of the word. In few cases are requests for welfare granted to people who are of working age, i.e. those aged between 15 and 64 year. Additionally, the government is under fiscal constraints and there is a growing social pressure for people to be self-responsible[86] (Yuasa [2007] and Inaba [2007]). Initially, two surveys on net café refugees were carried out by the Metropolitan Youth Union (a labor union for workers under 30) confirming how widespread the phenomenon is in Japan. In the first survey, 9 out of 10 prefectures surveyed had net café refugees in 76.5% of net cafés inspected (Shutoken Seinen Yunion [2007a]

[83] According to the 2007 nationwide survey on homeless people, 84.5% of homeless people who know of shelters don't want to use them. 76.7% of those who know of self-support centers don't want to use them either. These numbers in the 2003 survey are 61.3% and 61.1% respectively. Only the 2003 survey gives reasons as to why homeless people refuse to use these facilities. In both facilities, approximately 25 to 35% of respondents say they don't want to be bothered by their fellow roommates. 20.3% say there are no job prospects in the self-support centers (MHLW [2003]). One reason why homeless people may refuse to use the facilities extended to them by the authorities is due to substandard living conditions given by the public welfare system (Kakita [2004] p.18). The effectiveness of support measures implemented in self-support centers is being questioned due to the fact that they do little to help people who are 50 or older get jobs. Since those who are 50 or more represent about 85% of all homeless, these measures clearly show the limits of the traditional support systems (Inaba [2007]).

[84] As long as they are strong and in good health, and if economic conditions are good, day laborers can easily make a living. In 1994, a unskilled day laborer earned between 10,000 and 13,000 yen a day. If he was qualified, his pay could reach 20,000 yen (Pons [1999] p.197 footnote 1).

[85] In addition, net café refugees, by not having a fixed address, cannot apply for National Health Insurance. If they get sick, they have no choice but to use up their savings for the full cost of medical treatment (Yuasa [2008] p.113). In October 2008, the Japanese Supreme Court ruled against a homeless man that his tent placed in a park cannot be recognized as a legitimate address. This ruling seriously affects the livelihood of homeless people since without a registered address a citizen is excluded from many rights and opportunities, including the right to vote, join the national health insurance system, obtain a driver's license or passport, etc (Japan Times [2008]).

[86] The harshness of the government in the provision of public assistance can be seen in Kitakyushu, in western Japan. Fort the last three years in a row, somebody has died of starvation as a result of his welfare application being refused or his benefits cut off (Yuasa [2008] p.28).

p.1). In the second survey, 17 out of 19 prefectures surveyed had net café refugees in 70% of net cafés inspected (Shutoken Seinen Yunion [2007b] p.1). According to a government report published after, 5,400 people were found to be sleeping in internet cafés using them as home substitutes across Japan. The report stated that 26.5% were in their twenties and 23.1% in their fifties. In Tokyo, 32.6% lost their home after quitting work and 20.1% said they left dorms and live-in housing after leaving their jobs. In Osaka, the same figures were 17.1% and 43.9 respectively. When not sleeping in net cafés or similar establishments, 29% of respondents in Tokyo and 19.5% of respondents in Osaka said they slept on the streets[87] (MHLW [2007b]). What these surveys show is the existence of hidden forms of homelessness not considered in previous investigations, especially among younger people. If irregular jobs keep increasing and with them the new underclass of net cafés refugees, there is a possibility that these net cafés might turn into modern slums (Asahi [2007]).

3.2 Cooperatives

3.2.1 Cartoneros

There are many *cartonero* cooperatives operating in the city and metropolitan area of Buenos Aires. The Buenos Aires city webpage lists 12 such cooperatives (GCBA [2007b]). Among the most important ones is El Ceibo Trabajo Barrial (or just El Ceibo). El Ceibo, initially formed in 1989 as a housing cooperative, evolved in 1996 as the economic situation of the country became increasingly unstable. As many low income families and groups began to see garbage collection as a survival strategy to earn some cash, Cristina Lescano, president of El Ceibo, and other members of the cooperative saw that if they collected garbage in cooperation, they would be able to negotiate and sell it at a better price (Reynals [2002] p.10 and Sano [2003c]). Since its beginning, El Ceibo has been in contact with various organizations from civil society, the government, as well as neighbors. Local neighborhood assemblies have helped *cartoneros* by providing child care for parents who go out on night shifts. Most importantly, *cartoneros* from El Ceibo have had to establish contact with local neighbors in order to optimize the recollection of waste (Reynals [2002] pp.4 and 8).

In February 2001, with the establishment of its articles of incorporation, El Ceibo became a formal cooperative engaged in supply, transformation, and commercialization of recyclable material (IMFC [2001] art.1). The purpose of the cooperative is, among other things, to receive solid waste from residences, industry and commerce as well as from other cooperatives. It is supposed to store, classify, and compact or transform the waste it receives. It can sell the waste in the same way it has been received or processed. The cooperative can

[87] After this survey, starting in the 2008 fiscal year, the government decided to implement in the city of Tokyo an Action Plan towards the Stabilization of Life and Regular Employment by (1) establishing a support center in Shinjuku ward where net café refugees could receive consultation, (2) giving interest free loans of up to 600,000 yen as a fund for living expenses and to move in an apartment, (3) providing a monthly subsidy of 150,000 for living expenses for those undertaking a forty course public vocational training, (4) lending up to 500,000 yen for those who have found employment as a "lump sum for finding employment", and (5) giving a subsidy of 600,000 per worker to companies who hire net café refugees as regular employees. Despite all this, it is not easy for net café refugees to find regular employment as 40% of them are school dropouts (Yuasa [2008] pp.116 & 120).

acquire or rent by any legal means buildings, machinery, and necessary installations for storage, classification, and processing of waste (IMFC [2001] art.5). In connection with this, in August 2003 the Buenos Aires city government donated the use of a warehouse where workers from El Ceibo can separate and sort out the recycled waste in preparation for its sale (ONABE [2003] p.1). Anybody can become a member of the cooperative by contributing to the paid up capital through the subscription of membership dues (worth one peso each). Becoming a member entails following the obligations of the cooperative as well as participating in its management, taking part in ordinary and special general assemblies, etc. Members can also be expelled (IMFC [2001] arts.10-14). Each member is allowed only one vote in the assemblies, irrespective of the number of membership dues in his/her possession (IMFC [2001] art.34). Decisions can be taken by a simple majority of members present at the time of voting except for those pertaining to changes in the articles of association, corporate purpose , merger, incorporation or dissolution of the cooperative for which a majority of two thirds of the votes of members present at the time of voting is necessary (IMFC [2001] art.36)[88].

Members of El Ceibo don't go out into the streets to collect from garbage bags that neighbors have put out, they go directly to homes and ask neighbors to cooperate with them. First they explain the benefits of recycling and teach neighbors how to sort out organic from inorganic waste. If neighbors agree to cooperate, a member of El Ceibo will pass by their house with his/her cart on a regular basis and take the waste to the warehouse of the cooperative. By fall 2006, 900 neighbors were cooperating with El Ceibo[89]. In the warehouse, the waste is separated, cleaned, and sold to specialized recyclers. This recycling activity generates 32,000 to 36,000 dollars a year for El Ceibo which translates into an average of 1,400 to 2,900 dollars for each of the 40 members, an amount which includes a city government subsidy (Berger and Blugerman [2006] p.27). But not all members get paid the same, since they perform other activities besides collecting waste (Fabiani [2005]). However, if this amount is representative of *cartonero* cooperatives in general, it is on average considerably higher to what families who are not part of cooperatives earn per month as informed by UNICEF and OIM [2005] above. Nonetheless, the 5 cooperatives that operated within the city of Buenos Aires as of 2006, employed only 110 people which represented approximately 1% of all *cartoneros* (L'Estrange [2006]). But, since according to GCBA [2007b], there are now at least 12 *cartonero* cooperatives, the percentage of *cartoneros* participating in cooperatives is probably higher.

3.2.2 Homeless in Japan

There are many instances of homeless cooperatives or cooperative work done by homeless people on their behalf in Japan. Asahi Shimbun [2003] tells the case of a former homeless person who joined an

[88] I am grateful to Professor Makoto Sano of Niigata University for providing me with reference materials IMFC [2001] and ONABE [2003].
[89] The number of people cooperating with El Ceibo increased after it began to collaborate with Greenpeace in a program called *Basura Cero* (Zero Garbage) which was passed as a law in the legislature of Buenos Aires in November 2005. The purpose of this law is to modify the solid waste management policies so as to reduce the amount of garbage which ends up in landfills by 50% in 2012 and 75% in 2017 (Berger and Blugerman [2006] p.27 & El Ágora [2005] p.10).

agricultural training center that gave him a chance to become a farmer and get off the streets. In 2003, for the first time, the man began organic rice farming for homeless people. With help from Moyai[90], the farmer invited Tokyo homeless people to help him plant the rice. Rather than waiting in a food line for a hand out, these people are using their own labor to grow their own rice. Jeon et al [2002] mention an important case of a cooperative effort by a homeless community settlement at Miyashita Park in Shibuya ward, Tokyo. In this community, 44 homeless persons answered questions to a survey regarding their lifestyle. 60% of respondents said they share their food due to the harsh conditions in obtaining it. 30% of them engage in day labor, nonetheless almost half of them earn 50,000 yen or less. Because of this, in October 2001, these homeless people formed a "resident's association" for the purpose of setting up a fund where a part of their income would be contributed for the benefit of all its members. In general, homeless people don't like companionship and prefer to live by themselves. But in Miyashita Park, approximately 80% of residents say they prefer to live in community. Reasons include, fighting loneliness, help in building a tent, companionship, etc. What they seek to build is a safety net that society itself has denied them. These people, by living in community, seek to create an environment which will permit them to live and work in better conditions. Through their own initiative and cooperative efforts, they seek to attain a joint self-reliance. The establishment of a cooperative is one step towards self-reliance for these homeless people (Jeon et al [2002], p.1145).

Table 1:Miyashita Park Cooperative

	Miyashita Park Cooperative		Total
	Want to be a member	Don't want to be a member	
Homeless who like to keep company with other homeless	30 (68.2%)	5 (11.4%)	35 (79.6%)
Homeless who prefer being alone	3 (6.8%)	6 (13.6%)	9 (20.4%)
Total	33 (75.0%)	11 (25.0%)	44 (100.0%)

Source: Jeon et al [2002] p.1146.

The homeless of Miyashita Park want institutional support from the government that will give them conditions to establish homeless communities. With this, they strictly oppose evictions and forced removals. Also, they seek access to social and economic resources that will enable them to become self-reliant. In their opinion, the government should consider the issue of "joint self reliance" by homeless communities (Jeon et al [2002], p.1146).

An association which is greatly helping homeless get off the streets is AWN (Asia Worker's Network), located in Arakawa ward in Tokyo. It started in August 2002 as a second-hand clothing recycle shop with the aim of becoming a worker's cooperative, which entails workers managing the business together and being responsible for all the decisions taken at AWN (Yuasa [2004]). At the beginning, its objective was to provide an income of 30,000 yen a month to homeless people in exchange for work so as to secure them a minimum amount

[90] Moyai, which means mooring (i.e., to fix in place, secure), is an NPO which assists needy people who are aiming to become self-reliant and start a new life by providing them with guarantors when renting apartments, offering counsel, by helping them build ties with the community, etc (Moyai [n.d.]).

of food. This was done with the help of an organization called Food Bank which donated rice (AWN [2003] p.7). Although at first AWN paid its homeless employees with food, it later started paying 3,000 yen a day which later climbed to 6,000 yen arriving at 6,500 yen in 2007. Presently, those who are veterans in AWN and work everyday receive 150,000 yen a month. Those who work a few days a week receive 60,000 yen a month (Nakamura [2007]). Besides clothing, AWN also sells used furniture, electronics, etc. and has expanded its business to include a handyman service. It also engages in audio typing, translation (English, Korean), solving problems with deposit money when moving out of an apartment, etc. (AWN [2006] p.7). By 2006 its total earnings reached 38,372,016 yen (AWN [2007] p.6). The purpose of AWN is to engage homeless and former homeless into mutually supportive work by instilling pride into them through the product of their labor. AWN has strived to promote, within a grass roots network formed by citizens and various other groups and associations, a decent livelihood where work is valued, not made "disposable" (AWN [n.d.]). AWN seeks to build human relations and in this way gets involved with the surrounding community. Some of its neighbors, besides buying at the store, go there because of the pleasant and relaxed atmosphere. Initially, many are not aware that it is staffed by homeless and once they find out are happy to contribute to their return to society by buying there (AWN [2004a] p.7). In August 2004, AWN participated in the San'ya Summer Festival for the fist time. Also that year, AWN started producing its own rice in a rented field in Tatebayashi City, in Gunma prefecture. The idea was to start eating rice produced by AWN without having to depend every month on Food Bank (AWN [2004b] pp.5-6). AWN first started with 5 employees which rose to 19 (15 men and 4 women) by September 2007. Two homeless people work in AWN and sleep in tents along the Sumida River and 13 former homeless live either in apartments or in *doya* (cheap hotel or flophouse) in San'ya. There is a housing allowance for the staff that depends exclusively from AWN's profits. Most of the staff is in their 50s, although there are 3 teens and 3 people are in their 30s. One teen is a *hikikomori* (social recluse) living in a medium-term shelter or "step house", another suffers from depression and is receiving welfare. These youngsters work 2 or 3 times a week in AWN to build self-esteem. According to Mr. Nakamura, handyman at AWN, AWN is not only for the homeless, it is for needy people in general (Nakamura [2007] and Yuasa [2004]).

3.2.3 Comparative analysis and some policy suggestions

The government in Japan, unlike in Argentina, does not seem to recognize the full potential of the solidarity sector to help solve some of the problems in society. The Japanese government does cooperate with NPOs, NGOs, and other associations in many projects created in order to tackle the homeless problem. What it does not do very much is delegate or "subcontract" these cooperative efforts. The government is not always efficient in its policies towards the homeless problem and does not fully appreciate the experience, know-how, and social capital that NPOs and other associations possess (Yamasaki [2005] pp.3-19). More public-private partnership (PPP) projects, where the full potential of these organizations can probably be put to use, can probably help a greater number of homeless people get off the streets.

Greater heed is necessary on the initiatives of the Argentinean government towards the socially downtrodden, such as the support in the establishment of *cartonero* cooperatives. The Japanese government could implement a program to foster, with the help of NPOs, the establishment of cooperatives and other initiatives on the behalf of homeless people. Although it is true that a small minority of *cartoneros* in Argentina actually engage in their activities in cooperation (most do it in small atomized family units), there is a certain government support to form such cooperatives. This is done in part to bring the activities of the *cartoneros* into the formal economy and to give them better working conditions. In Japan, the Special Measures Law does not seem to be enough in getting homeless of the streets through their own initiative. Unlike El Ceibo which receives subsidies and facilities to carry out its activities AWN does not receive any support from the government. The Japanese government by further recognizing the existence of enterprises with a social mission could help and promote businesses such as AWN by giving subsidies or preferential tax treatments. Recognition of cooperative or collective efforts as seen in Miyashita Park is also an important step in helping homeless through their own means to become self-reliant.

Promoting active citizen participation in community activities through NPOs, cooperatives, and community business enterprises in cooperation with the public and private sector is necessary to develop the solidarity economy sector. AWN and El Ceibo both have the support of their communities whose participation is essential for the running of each business. This can be seen in the classification of waste material that neighbors do for El Ceibo. In the case of AWN, this is reflected not only in the normal running of business, but also in the monetary contributions it collects from citizens as well as in the donations of goods it receives on behalf of homeless people.

Table II – 2: *Cartoneros* and Homeless organizations

	Configuration	Government support of organizations.	Civil Society support of organizations
Cartoneros in Argentina	Mainly individuals and families. Some cooperatives	Substantial support	Some support
Homeless in Japan	Mainly individuals. Some cooperatives and other organizations	Little support (the government puts more emphasis on the provision of job assistance and the personal rehabilitation of homeless into society)	Some support

Cartoneros have become an important economic actor in the recycling business in Argentina, not only in the collection of paper, but most importantly in the recycling of PET bottles[91] (La Nación [2006] p.4). AWN seeks to develop and tap the labor that homeless people are capable of doing as a way to help them achieve self-reliance. Nowadays, handymen are in demand for just about any service (Sunday Mainichi [2007]). This can present itself as a potential source of labor for many homeless people.

[91] Most of the PET bottles collected end up in China (Peralta [2005]).

Conclusion

In Argentina and Japan, after the implementation of reforms based on neoliberal policies, numerous socio-economic problems have appeared. As a consequence of this, in both countries there have been many efforts emanating from grassroots organizations to combat the many ills caused by neoliberalism. These organizations, formed in the context of the solidarity economy, have promoted initiatives based on a socio-economic logic not based primarily on profits, but on valuing people per se and not as an input or tool in the process of production. The cases of recovered factories, *piqueteros*, *cartoneros*, local currencies and homeless all illustrate the predominance of the social factor over the strictly economic one in each organization.

The comparison made between homeless and *cartonero* cooperatives comes to show the advantages of the associative solidarity economy over individualistic neoliberal capitalism in promoting a healthier and more decent way of life to the benefit of a greater number of people. *Cartonero* and homeless cooperatives strive to reintegrate into society those who have been cast out by neoliberal policies. In Argentina, *cartonero* cooperatives such as El Ceibo have the support of both government and civil society. Civil society in Japan seems to support initiatives by homeless such as AWN, but more government support is necessary.

The government in Argentina with its abandonment of neoliberalism as an economic program seems to understand the need to contribute to the betterment of society through solidarity economy projects. The Japanese government, in its present neoliberal context, probably does not yet realize their importance. This absence of support may be one of the factors of the underdevelopment of solidarity economies in Japan. Are solidarity economies a cultural phenomenon? Are they related to the degree of poverty of a nation? Further study is warranted into the causes of the lesser presence of solidarity economies in Japan in comparison to Argentina.

Chapter III – Neoliberal reform and solidarity economy in the Japanese health sector: the case of Niigata Medical Cooperative

Introduction

In chapters 1 and 2, comparisons were made between the neoliberal cycles in Argentina and Japan and the subsequent solidarity economies that developed in both countries as a result of these cycles, respectively. In this context, this chapter will discuss the role of medical cooperatives, in particular the Niigata Medical Cooperative, in guaranteeing access and availability of medical services to the general population in Japan. The health sector in Japan has been going through some important changes in the last few decades. As a consequence of the aging of the population, rising medical costs, and the decade-long recession of the 1990s in Japan, significant reforms in the context of neoliberalism have been promoted to rein in the increasing burden of the Japanese medical care system. Some of these reforms include shifting ever growing parts of this burden directly onto the users of medical services. As a result of this, with the increasing population of part-time and other irregular workers (who are sometimes not entitled to public health insurance for economic reasons), along with a general increasing income gap, there is a growing perception of a widening gap in the availability and accessibility to medical services.

In Argentina, medical cooperatives and mutual help organizations have a growing presence in the health sector. These include long established mutual aid societies as well as hospitals and clinics which have gone bankrupt and have been turned into worker-managed medical cooperatives (forming part of the recovered factory movement described in chapter 2). Cooperatives have seen their participation grow in the medical sector after the 2002 economic crisis by tending to the needs of those workers and their dependents affected by increased unemployment and unstable employment which have deprived them of access to health insurance and proper medical coverage. The solidarity economy is an important participant in the health sector managing care to approximately 8% of the total Argentine population in 2006 (Garriga & Olego [2006] pp.5-7).

In view of this, as in Argentina, the role of medical cooperatives and other medical organizations related to the solidarity economy becomes increasingly important for the maintenance and preservation of the health of Japan's population. At the beginning of the 20th century, medical cooperatives were created to serve medically underserved rural areas and provide healthcare to urban low income earners. Today, cooperatives such as the Niigata Medical Cooperative, successor to other historic cooperative movements in the area and situated in one of the prefectures with the highest shortage of doctors in Japan, can probably serve as an example and shed some light on the role that medical cooperatives can play in this age of structural reform with its ensuing problems.

The structure of this chapter is as follows. Part 1 gives an overview of the welfare state in Japan,

describing its evolution and extension. Part 2 deals with the various neoliberal reforms implemented by successive governments and how they have affected the general population with respect to job security, income distribution, and access to healthcare. Part 3 describes the role of medical cooperatives in the context of Japanese history. Part 4 introduces Niigata Medical Cooperative and its evolution in providing healthcare from the 1970s until today in the context of the neoliberal structural reforms. Part 5 gives a brief description of the Argentine Health sector and the role of medical cooperatives. Next is the conclusion.

1. The welfare state in Japan: extent and limits

Due to its impressive contrast between limited social expenditures on one side and low levels of unemployment and poverty rate on the other side, the Japanese Welfare State (JWS) has been considered quite unique. This limited size of the JWS rests on three pillars which have worked as substitutes for the functions normally found in other welfare states in the OECD. They are (1) lifetime employment in large scale enterprises which has contributed to the low unemployment and provided welfare for employees and their families; (2) protective regulation policy for small and medium sized enterprises is another mechanism which has helped maintain unemployment low; and (3) Japanese familialism which has attributed the role of care givers to full-time housewives (Miyamoto [2003] pp.12-13).

The development of social security policy in Japan can be divided into three periods. The first one, called the development period, begins in the mid 1950s with the start of the high growth era, and ends in the mid 1970s. Developments during this time include the implementation of the universal pension coverage and health care system, the establishment of free elderly care, the increase of health insurance benefits for nonworking dependents, the introduction of the reimbursement system for large medical expenses, child allowance, etc. The second period is characterized as a period of welfare retrenchment. Due to rising costs, by the mid 1970s opposition to the expansion of the welfare state started to grow in favor of a Japanese-style welfare society (JSWS) which emphasizes self-reliance and mutual aid fostering family and company welfare as substitutes for state welfare. In the third period, from the mid 1980s, retrenchment continued but with a fading of the JSWS discourse as the continued aging and declining birthrate was starting to put an excessive burden on the family (Miyamoto [2003] p.18 and Shinkawa [2005] pp.329-331).

During the development period, the formation of social security policy, carried out to correspond to the structure of Japanese-style corporatism, usually took place among the Ministry of Health and Welfare (MHW)[92], councils and ad-hoc committees. Of particular concern during this period are the policy initiatives coming from politics itself which the Liberal Democratic Party (LDP) proceeded to implement disregarding political rationality. When the universal pension coverage and health care system was established, the only concern of the LDP was to gather national support against the Japan Socialist Party[93]. Other policies include the Pension

[92] The Ministry of Health and Welfare became the Ministry of Health, Labor and Welfare in 2001.
[93] Now known as the Social Democratic Party.

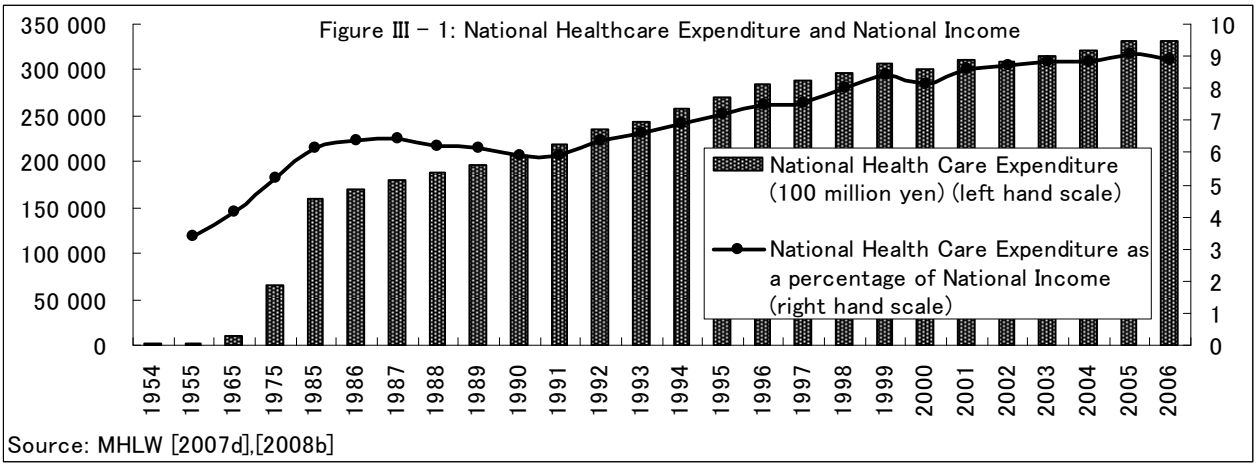
Reform of 1973 which improved the benefit level to 50,000 yen and free healthcare for the elderly, carried out despite opposition from the Ministry of Finance and the MHW about the excessive financial burden that this would impose. The reason for their implementation is due to the criticism received by the LDP in view of its industrialist policy which brought a deterioration of the environment and the backwardness of public welfare (Shinkawa [2005] pp.331-333).

The 1975 to 1985 period is characterized in Japan as being the first period of welfare retrenchment, when a Japanese-style welfare society (*Nihon-gata fukushi shakai*) (JSWS) was advocated. Conservative forces in the government feared the coming of a crisis as a result of the ever growing social security expenses, in particular healthcare (see figure III – 1). It was suggested that Japan should avoid catching the "developed country disease" related to welfare state expansion by promoting the instauration of a JSWS based on individual efforts of self-reliance, on family ties, and on the ties of solidarity in neighborhoods and local communities. This would enable the government to provide a more appropriate and efficient public welfare. In welfare state theory, the JSWS appears to defy strict classification. While Esping-Andersen [1997] identifies key elements of both the liberal and the conservative-corporatist model in the JSWS[94], Kwon [1997] has suggested the need for and "East Asian welfare regime type"[95]. Likewise, Holliday [2000] has added the productivist model to Esping-Andersen's theory to explain the JSWS[96]. Miyamoto [2003] has placed the JSWS between Esping-Andersen and the East Asian Model. This follows the fact that in comparison to East Asian countries Japan has a longer history of welfare, higher social expenditure and a longer presence of parliamentary democracy which has played a role in the formation of the welfare state. This is lower in all accounts when compared to European and American welfare states (Miyamoto [2003] pp.16-17).

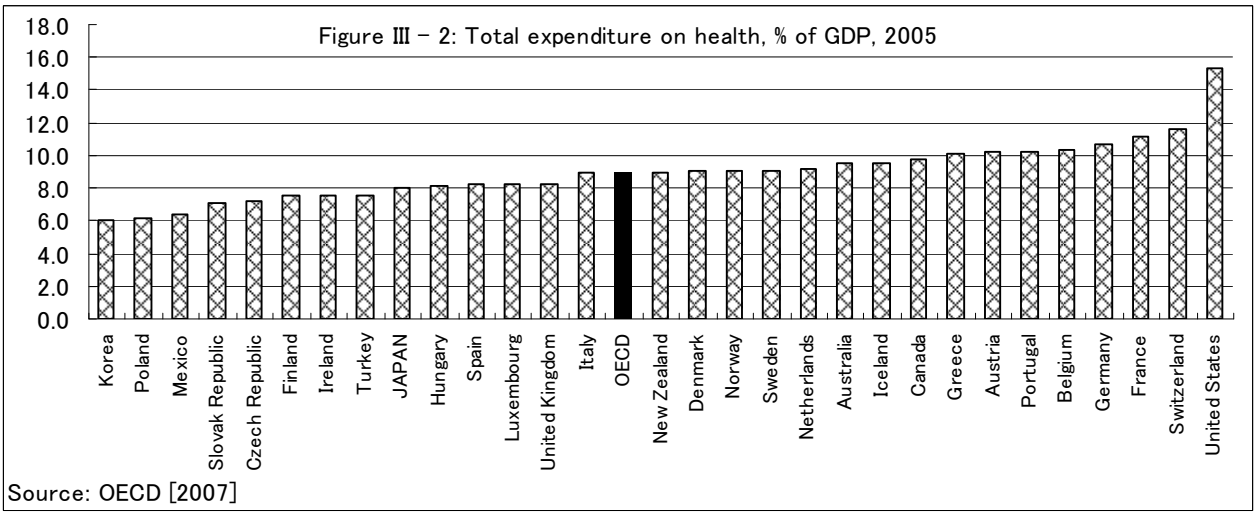
[94] Esping-Andersen's welfare-state regime theory identifies three models of the welfare state: 1) the social democratic model is aimed at expanding the public sector to regulate market principles. It is committed to a full-employment guarantee and is less dependent on the family. As a result, the state takes the responsibility of caring for children, the aged, and the helpless. In this way, women are liberated to choose to work rather than tend to the household. 2) The liberal model insists that the market is both a preferable and adequate source of welfare for most citizens, though work benefits or purchased welfare (such as company benefits, life insurance, etc). In this model the limits of welfare equal the marginal propensity to opt for welfare instead of work. Therefore, entitlement rules are strict and often carry a stigma; benefits are usually modest. 3) The conservative, corporatist model is based on employment and contributions. Its social insurance, segmented by occupational status, emphasizes equity (contractual fairness) over equality (redistribution). Under the "subsidiarity" principle, it places an emphasis on the roles played by the family and local community as the natural and ideal loci of welfare provision. The state only intervenes when the principle of "subsidiarity" is exhausted (Esping-Andersen [1990] pp.26-28 & [1997] pp.182-183).

[95] The East asian welfare states (Japan, South Korea and possibly Taiwan) are small welfare states which put priority on economic development over social welfare. The smallness of welfare states does not imply a weak state in terms of power, on the contrary, they exercise a strong influence as regulators of private welfare provision. In addition, the development of the welfare state has been fragmented providing specific welfare schemes to different social groups. Lastly, familialism is an important feature of East Asian welfare states (Miyamoto [2003] p.16 and Kwon [1997]).

[96] The productivist model of welfare capitalism identifies two central aspects: 1) a growth oriented state and 2) a subordination of all aspects of state policy, including social policy, to economic/industrial objectives (Holliday [2000] p.709)



Based on the JSWS ideology, under the Second Ad-hoc Council for Administrative Reform, the welfare state started to be trimmed. First in 1982, with the Law of Health and Medical Services for the Aged, free health care for the elderly was eliminated. In 1984, an amended Health Insurance Law introduced a co-payment of 10% to the insured. In 1985, the pension system was reformed unifying the many pension plans, gradually raising pension premiums while reducing benefits. These reforms had the effect of reducing the rate of growth of social security in Japan during the 1980s. As a result, in the 1990s, Japan still had the smallest government among OECD members and one of the smallest a decade later (see figures III – 2, 3 & 4). Since the 1980s, the MHLW has advocated the need for reform due to the menace posed by the aging of society and its impact on welfare and the economy. In this context, the JSWS[97] is said to maintain the vitality of the private sector by keeping the national burden rate (taxes + social insurance premiums/national income) under control[98] (Miyamoto [2003] pp.14 & 19 and Shinkawa [2005] pp.281-286).



At the beginning of the 1980s, the healthcare and pensions sectors were already in a state of crisis. But this is less due to aging and more to the intrinsic weaknesses in the many divisions of the social security system. After WWII, healthcare and pension plans were divided according to an occupation-based system. The present

[97] Also known as "Active Welfare Society" (Miyamoto [2003] p.19).
[98] In this context, the "theory of the country ruined by medical costs" by Jin Yoshimura, casts a light onto the problems caused by unnecessary medical tests and treatments, fraudulent claims on medical expenses, corrupt doctors, etc. (Shinkawa [2005] p.334).

system is a continuation of the one in place during the war where major manufacturing corporations provided welfare and age-based remuneration in order to secure skilled workers on long-term employment. Nowadays, establishments with more than 5 employees are obligated to be affiliated to a health insurance. These establishments, depending on their size, may have their own health insurance society which is separated from government managed health insurance. Also, many occupations established their own separate insurances (Shinkawa [2005] pp.286-289)[99] [100].

Since the mid 1980s, the JSWS has gone through some important changes. This third period is characterized not only by retrenchment but also by expansion towards universal welfare policy. In order to restore the soundness of public finances concerning medical insurance, a patient co-payment system was introduced (as mentioned above), the flat charge system for medical service fees was reexamined, and corrective measures for drug price margins were carried out, among other things. The effect of these measures was to lower the increase in healthcare costs over national income from 10% in 1983 to 5-6% thereafter. Nonetheless, in the mid 1990s, this ratio started growing again. The background in these changes can be found in the promotion of policies towards home welfare services. This can be seen with the passage of the Ten-year General Strategy for the Promotion of Health and Welfare for the Elderly, also known as the "Gold Plan" in 1989, which planned for a vast expansion of community-based long term care by providing grants to local governments over a ten-year period. However, with expenditures rising throughout the 1990s, policymakers started to become concerned about the long-run costs of the Gold Plan on the government budget. This is when passage of the Long Term Care Insurance (LTCI) law was passed in 1997 and put into practice in 2000. Its main objectives were the "socialization of care" in which the state would assume a significant part of the responsibility for care of the frail elderly, expansion of local government responsibility for social policy, sharing of costs by elders via insurance premiums as well as co-payments, etc. This change of welfare policy from the Gold Plan to LTCI, does it represent a withdrawal from the JSWS? While some critics might say that this represents a failure of the JSWS others say that it represents a rectification. On one hand, the introduction of LTCI placed an additional burden on the budget by increasing state contributions into healthcare. On the other hand, the lack of facilities and manpower training in the 1980s and the increase in social hospitalization[101] contributed to a (useless) rise in medical costs. The corrective measures in the 1990s have tried to set the JSWS on a rightful track (Miyamoto [2003] p.21, Campbell & Ikegami [2003] pp.21-23 and Shinkawa [2005] pp.297-300 & 337).

Nonetheless, it is in the second half of the 1990s where the JSWS can probably be said to have started to fail. With the crumbling of Japanese-like labor-management relations (with the end of lifelong employment),

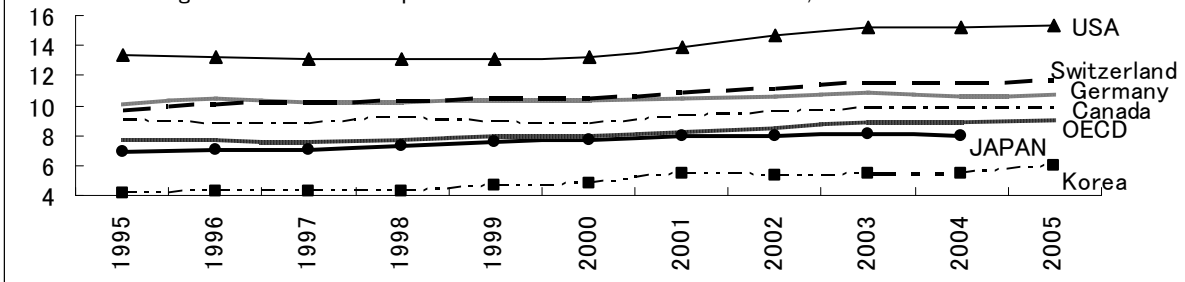
[99] The Japanese health insurance system can be broadly classified into two parts: A Health Insurance (HI) for employees and National Health Insurance (NHI). The HI for employees is further subdivided into various types, such as Government-managed Health Insurance for employees of small businesses, Employees Health Insurance (for employees of large corporations), and mutual aid associations for public employees, teachers, etc. The NHI applies to farmers, the self-employed, the retired, and the unemployed (NIPSSR [2007b]).

[100] One of the present overhauls being implemented in the healthcare system is the financial adjustment carried out in order to equally disperse elderly healthcare costs (Health Insurance System for the Elderly + Retiree Health Care System) among the many health insurance plans. This adjustment consists of correcting the imbalances between the various plans in order to build a stable social security system (Shinkawa [2005] p.330).

[101] I.e., the hospitalization of elderly people for non-medical reasons due to shortages of nursing care facilities.

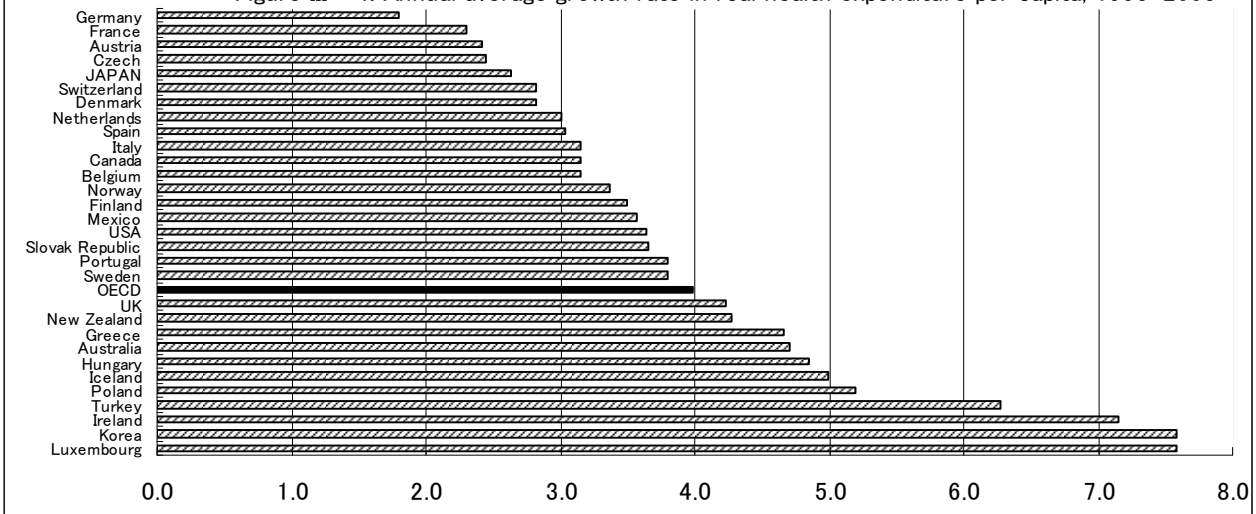
corporate welfare (due to labor flexibilization), and family welfare (because of a higher percentage of women who go to work and are unable to provide care for the growing elderly population), it has become increasingly difficult to support the JSWS (Shinkawa [2005], p.308).

Figure III – 3: Total expenditure on health as share of GDP, 1995–2005



Source: OECD [2007]

Figure III – 4: Annual average growth rate in real health expenditure per capita, 1995–2005



Source: OECD [2007]

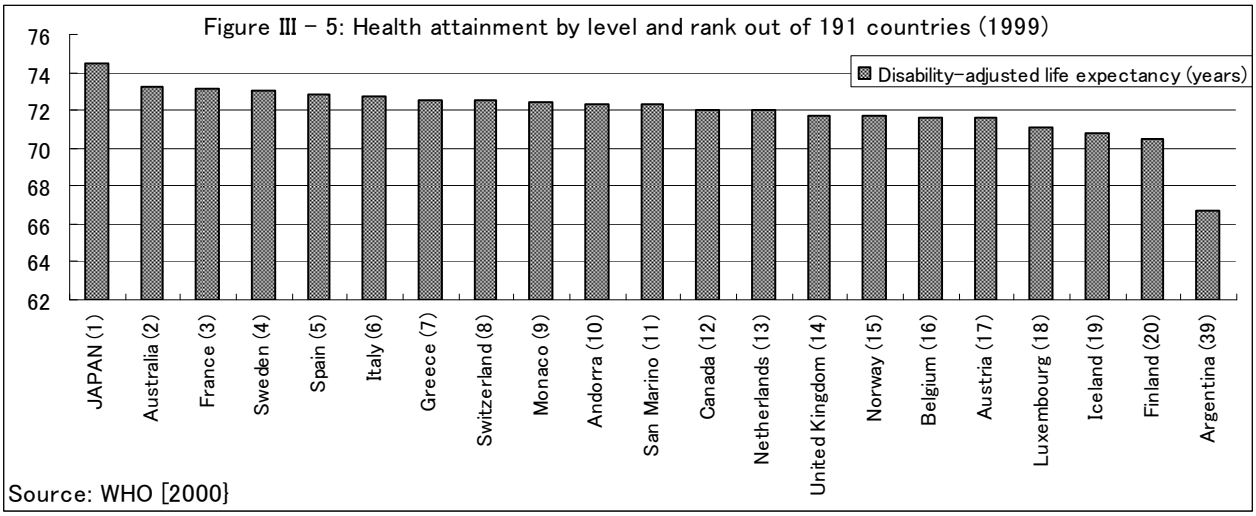
2. Neoliberal reforms and their effects

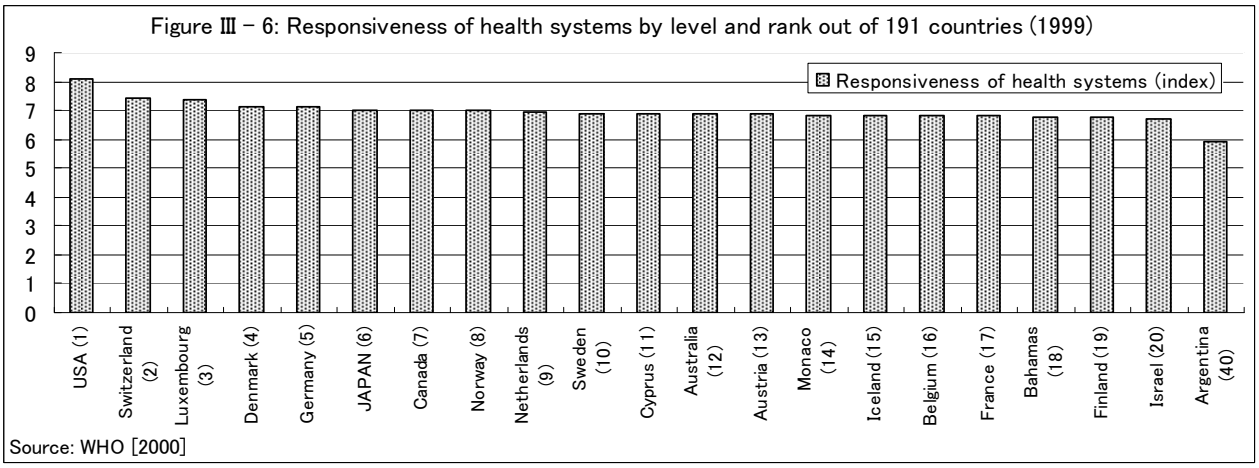
Japan is credited as having one of the best healthcare systems in the world, keeping its population exceptionally healthy at a lower cost than most other countries in the OECD group. In this respect, the World Health Report 2000 placed Japan first in 191 countries for overall health system attainment (WHO [2000] p.197). This ranking is a composite of other rankings which include health attainment[102] (1st) (see figure III – 5), responsiveness of health systems[103] (6th) (see figure III – 6), and fairness of financial contribution to health

[102] Health attainment assesses overall population health and thus judges how well the objective of good health is being achieved using the disability-adjusted life expectancy (DALE) indicator. DALE is understood as the expectation of life lived in equivalent full health, i.e., life expectancy estimated from mortality alone, without disability (WHO [2000] pp.27 and 146).

[103] Responsiveness is not a measure of how the system responds to health needs but of how it performs relative to non-health aspects, meeting or not meeting a population's expectations of how it should be treated by providers of prevention, care or non-personal services. The performance of health systems is evaluated regarding seven elements of responsiveness: dignity, autonomy and confidentiality (jointly termed respect of persons); and prompt attention, quality of basic amenities, access to social support networks during care and choice of care provider (encompassed by the term client orientation) (WHO [2000] pp.31 and 147).

systems[104] (8th) (see figure III – 7) (WHO [2000] pp.176, 184 & 188). In sum, in overall health system attainment, Japan is ranked 1st (see figure III – 8) (WHO [2000] p.196)[105]. Nonetheless, despite all these positive traits, significant inequities have been and are increasingly present in Japanese health care. These inequities include financial inequities between private and public hospitals[106], the number and quality of hospitals and physicians between rural and urban areas as well as inequities between users of medical services. The ongoing structural reforms, begun by the Ryūtarō Hashimoto governments and continued by its successors, have only deepened and exacerbated these inequities.

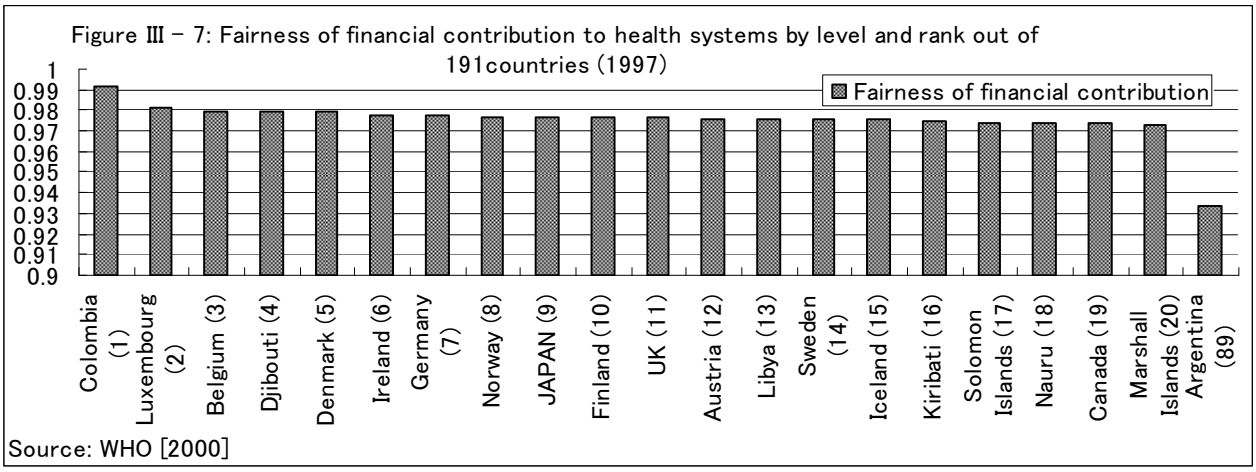


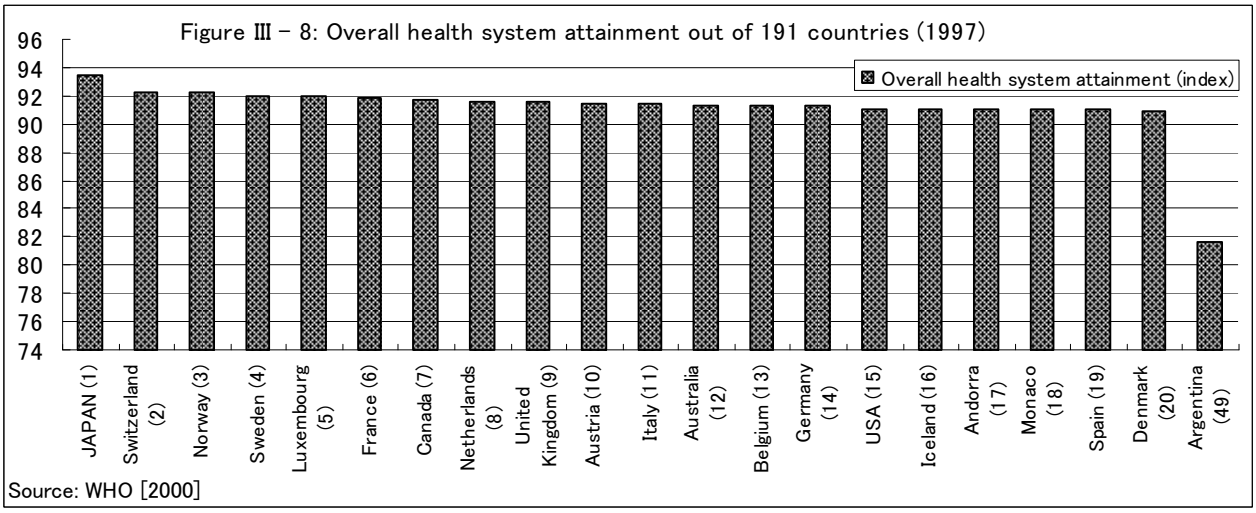


[104] Fair financing in health systems means that the risks each household faces due to the costs of the health system are distributed according to ability to pay rather than to the risk of illness: a fairly financed system ensures financial protection for everyone. A health system in which individuals or households are sometimes forced into poverty through their purchase of needed care, or forced to do without it because of the cost, is unfair (WHO [2000] p.35).

[105] Overall health system attainment is a composite measure of achievement in the level of health, the distribution of health, the level of responsiveness, the distribution of responsiveness and fairness of financial contribution. It is constructed on a scale from 0 to 100, the maximum value. The weights on the five components are 25% level of health, 25% distribution of health, 12.5% level of responsiveness, 12.5% distribution of responsiveness and 25% fairness of financial contribution (WHO [2000] p.149).

[106] Public hospitals receive subsidies from the government and are thus able to provide more intensive and expensive high quality medical care than private hospitals which are required to finance capital expansion and wage increases by either increasing revenues or reducing delivery and facility costs (Yoshikawa [1996] p.33).





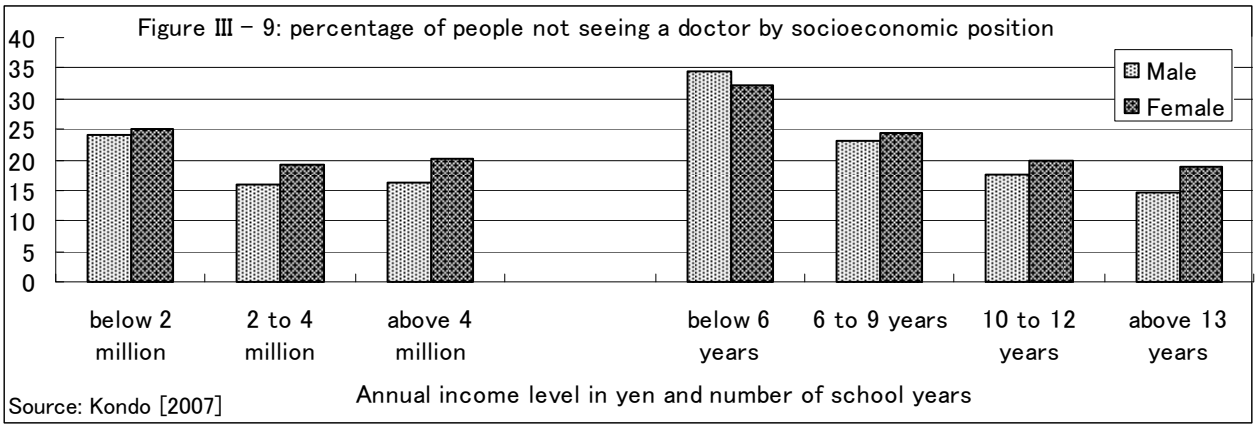
The various structural reforms, begun under Hashimoto and continued by Jun'ichirō Koizumi and subsequent governments, have made life more difficult for an increasing number of people. Many young people are being forced to live with low wages doing unstable jobs under harsh conditions. Old people have seen their living conditions worsen thanks to tax reforms which has increased their tax burden. Also, with the reforms in healthcare, their burden of medical expenses (out of pocket expenses) has also increased. In addition, with the revision of the Elderly Care Insurance Law, their nursing care services have been cut. The worsening living conditions not only apply to the young and old. The number of households on welfare (receiving livelihood protection) has increased from 751,303 in 2000 to 1,041,508 in 2005 (NIPSSR [2007a]). Structural reforms have been carried out in order to help the corporate sector recover from the burst of the bubble economy. This has been done through an easing of regulations in which companies were given a free hand to trim labor costs. This labor flexibilization permitted the cheapening of personnel costs. Company mergers and acquisitions did nothing to protect employees: many were dismissed and those who stayed on the job saw their working conditions worsen. In this way, the general condition of workers became more severe, especially for young people. Presently, aproximately half of those aged 24 and under hold an irregular job (usually without healthcare and/or pension benefits) as casual employees, working part-time, under contract or as dispatch workers earning one third of the income of regular workers. In line with the above policies, the Shinzo Abe government sought to

further loosen labor regulations by implementing a "labor big bang" policy. This included a reform of the social security system consisting of an increase in out-of-pocket medical expenses and a decrease in nursing care services. Abe upheld his vision to establish a sustainable social security system where those who finance the system (companies and the nation) would do it within a manageable range (Yanbe [2007] pp.4-7).

The structural reforms, with the insistence in shrinking an already small government, have increasingly made the government abandon the social responsibilities it is supposed to fulfill. This is perceptible in the growing gap among the regions in Japan. This gap, connected to the process of regional decentralization, is due to the reduction of tax allocations among the regions. The disparity of tax revenue, related to the interregional income disparity, leads to a difference in the quality of services provided by local communities. This difference in services creates a feedback effect concerning the income difference of people in these communities. In order to correct this imbalance, the thinking of Koizumi and later Abe has been to stimulate the rich by making them richer and making companies achieve higher profits. This would foster a trickle down effect towards the rest of society. This has not happened. Companies have hoarded their cash rather than pay more out in the form of higher wages. Also, the trickle down effect performed by the income redistribution policy of the welfare state in Japan is weak and with the lowering of taxes on companies and high income earners, the minimum level of taxable income has been lowered. This puts an additional burden on household budgets whose expenditure on healthcare and education already occupy a big part. The small government model advocates a relatively small amount of expenditure on public services, helping only a part of the poor through social assistance. It insists that people should really struggle and find ways to get ahead on their own. The model states that there are many easy-living false poor people receiving aid and that assistance should be narrowed down to those who are genuinely poor (Miyamoto [2007] pp.10-11).

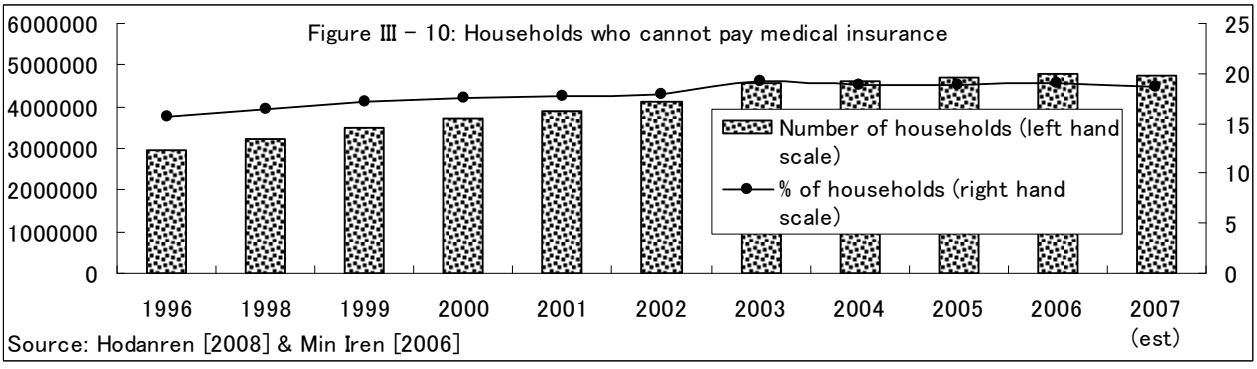
There is a growing perception in Japan that the structural reforms have brought about a widening income gap. This income gap has led to disparities in the healthcare people receive. According to a survey by Kondō [2007], for people aged 65 years and up, there is a socioeconomic gap in the access and availability of healthcare: a direct relation can be established between various health indicators (subjective sense of well being, depression, remaining teeth) and the level of income and education. Among the many causes in the socioeconomic disparity of healthcare, the most obvious one is the lack of financial means. After satisfying their everyday necessities, people are left without enough means to go to a hospital or see a doctor. The present ongoing healthcare reform, whose objective is to moderate national healthcare costs, has as a strategy to transfer an increasing part of medical costs onto patients. This has the effect of restraining people, who wish to receive medical treatment but can't afford it, to see a doctor and may thus contribute to their deteriorating health, in effect widening the healthcare gap[107]. According to the findings of the survey, unhealthy people who have low income and a low education levels tend to see doctors less (see figure III – 9) (Yoshī [2007] pp.14-17).

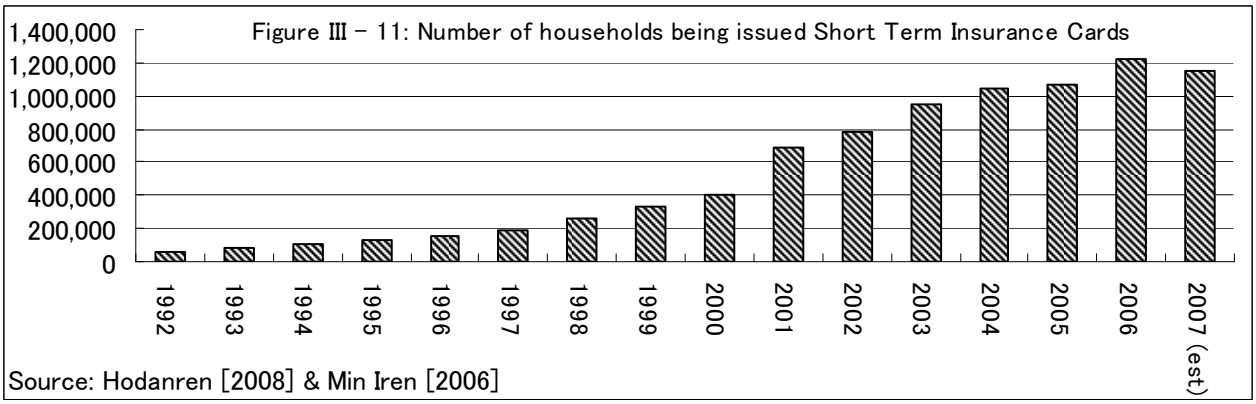
[107] This is perceptible in the general population as a whole according to a study by Babazono et al [2008]. The study suggests that higher co-payment rates appear to cause consultation gaps among lower income enrollees and their dependents. In this way, the "equal access to medical care" system, for which Japan has been praised, could be collapsing.

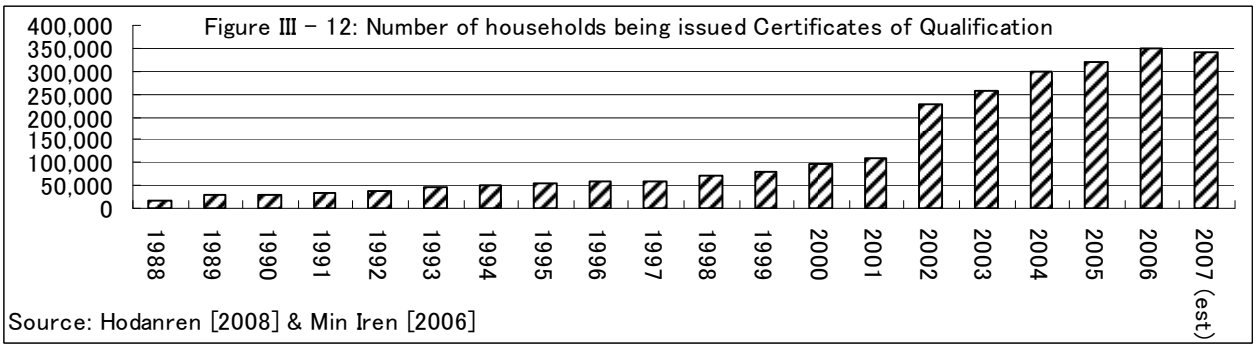


The reforms implemented by Koizumi and continued by Abe have brought great suffering to the Japanese. All over the country, serious cases are been reported of people who are refused medical treatment because they have been deprived of their National Health Insurance (NHI) card. The number of households affiliated to the NHI who cannot pay medical insurance remains high. In 2007, this number stood at 4,746,032 which is a slight improvement on the previous year whose number was 4,805,582 (see figure III – 10) (Hodanren [2008]). In a two year survey (Jan 2005 – Dec 2006) by Min Iren [2007], affiliated establishments in 16 prefectures across Japan reported 29 cases of death from deprivation of the NHI card.

The national government has been very strict about lowering its burden of medical costs, which have increased on a par with elderly health care. As it has done so, local communities have had to increase their health insurance premiums. The nation, which contributes to approximately half of the NHI finances, seeks to lower that proportion to 30%, which would need the NHI premium to rise to more than 10% of income. This is the same as being subjected to two or three times the burden of a salary man (usually affiliated to a corporate social insurance plan). This high premium will most likely produce more households which are unable to pay their premium, additionally worsening the finances of the NHI. When households stop paying their insurance, they receive a Short Term Insurance Card which lasts three to six months and are still able to receive healthcare (see evolution in figure III – 11). After that, they are issued a Certificate of Qualification (CQ), which despite its name, "qualifies" a patient to pay 100% of the costs of medical treatment. This certificate is nothing more than a deprivation of the NHI card. The rise in the issue of CQ is preventing people from seeking medical care and leading many to their deaths (see figure III – 12) (Hara [2007] p.22).







In April 2008, the Medical System for the Very Elderly (MSVE) was set up for the elderly aged 75 years and up. This system, by "establishing a more equal and transparent relation between costs and benefits across generations" (MHLW [2005b]), has increased the burden imposed on the elderly. Already in October 2006, the co-payment of people aged 70 years and older with an income level equal to active wage earners went from 20 to 30%[108]. In addition, with the MSVE those aged 75 and up have had to start paying insurance premiums. This also includes family nonworking dependents aged 75 and up. In total, this accounts for 2,000,000 people who started paying premiums (besides what they already pay for LTCI). Those who cannot pay will undergo the same treatment applied in the case of the NHI. This will deprive a growing number of elderly people access to healthcare and nursing care (Hara [2007] pp.22-23).

The structural reform is creating an increasingly unequal society, leading to unequal access to healthcare, affecting the quality of life and health of people. With the implementation of the healthcare reform, whose number one goal is to decrease costs, Japan is fast becoming a society where only the rich can live a long and healthy life.

[108] Below this category, elderly people aged between 70 and 74 paid 10% as co-payment, rising to 20% after April 2008 (Hara [2007] p.23).

Table III – 1: History and evolution of the health sector in Japan

1961	Universal health coverage.
1973	Healthcare Reform (improvement of benefit level, introduction of the upper ceiling for patient cost-sharing). Free healthcare services for the elderly.
1983	Introduction of Health and Medical Services for the Elderly (HMSE). Free healthcare services for the elderly abolished. The elderly start paying 10% of their medical expenses.
1984	Introduction of a 10% co-payment for all medical services. Amendment of the High Cost Medical Care Benefits Law of 1973 (introduction of a cap on monthly co-payment set at ¥63,000 per month for middle and high-income families and ¥33,600 for low-income families).
1989	Gold Plan (Ten-year Strategy to promote Health and Welfare Services for the elderly).
1990	Welfare Reform (Home services, Health and Welfare plans for the elderly by municipalities). Introduction of prospective payment for chronic care in geriatric hospitals.
1994	Patient charge on inpatient meals. New Gold Plan: Angel Plan.
1997	Launch of "drastic reform" offensive in Healthcare (the co-payment is raised to 20%, introduction of patient charge on prescription drugs).
2000	Increase in patient cost-sharing. Start of the implementation of LTCI (Long-Term Care Insurance).
2001	Launch of a prospective payment system pilot program for acute care based on the Japanese Diagnosis-Related Groups (DRG). Proposal for expansion of the Special Healthcare Expenditure.
2002	Healthcare reform (repeal of the patient charge on prescription drugs, contribution based on annual earnings).
2003	Experiment of DPC (Diagnosis Procedure Combination). Reform proposal on the healthcare system for the elderly. The co-payment is raised to 30%.
2005	LTCI reform.
2006	Increase from 20% to 30% in the co-payment of the elderly aged 70 years and older whose income level is equal to active wage earners.
2008	Increase from 10% to 20% in the co-payment of the general elderly population aged 70 to 74 years. Introduction of the Medical System for the Very Elderly.

Source: Fukawa [2005], Okamura et al [2005], Gotō [2002] and Yoshikawa et al [1996].

3. Alternatives to the neoliberal reforms: medical cooperatives – history and evolution

Before WWII, Japan did not have a single national hospital. Today's national hospitals were all army and navy hospitals. After the war, approximately 150 of these institutions became national hospitals. Before, in agricultural communities, most farmers were poor and had no health insurance, in particular, they had no access to doctors. Doctors and hospitals were to be found in the cities, but they were still out of reach of the general population. It is in this context that the "socialization of care" movement (which seeks equality in healthcare) is born (Takayanagi [2007] pp.12-14).

During the Edo period until the Meiji Restoration, the conditions under which the common person had access to medicine remained pretty much the same. Medical care was very expensive[109], and payments were made on an ability to pay basis. Payments were made during Bon Festival or at year end festivities. In theory, the rich paid munificently, to cover the services provided to the indigent. At the start of the Meiji period there were 30,000 doctors in Japan, but most followed Chinese medical practices. Only a few practiced Western medicine, which had been introduced by the Portuguese in the XVIth century and later continued by the Dutch. The new government, in its attempt to create a "prosperous country and strong army" decided to adopt Western medicine, following the German model, mainly for the support of the army, law and order, and for the preservation of the *Kokutai* (the Emperor-centered national policy). In 1877, the Faculty of Medicine of the University of Tokyo was established. In most prefectures, medical schools were also established as annexes to national hospitals. Many private hospitals were also founded, totaling 626 by 1882. Nonetheless, the population at large had to resort to private practitioners as these new national hospitals were made available only to commoners with a high social standing and to those of samurai ancestry. Also, medical fees at private hospitals were quite expensive. In 1887, with the Matsukata deflation, the number of national and private medical schools decreased. National hospitals were either closed or transferred to private control. Private hospitals and private practitioners prospered. Nonetheless, the common man still had no easy access to healthcare. That same year, the Japanese Red Cross (JRC) was founded, renamed from the Philanthropic Society which had been active during the Satsuma Rebellion (1877). Although a part of the JRC was devoted to helping the poor, its main purpose was to train human resources (army nurses) to correspond to the needs of the military and the Imperial Household. After the Russo-Japanese War (1904-05), through the Medical Service Law, it became a public medical institution with 100 establishments all over Japan (Ikegami & Hasegawa [1995] p.34 and Takayanagi [2007] pp.14-20).

The government, in order to bring under control the revolutionary danger posed by the growing plight of workers, established in 1911 the Imperial Relief Association (*Onshi Zaidan Saiseikai*) in order to provide free medicine dispensation and aid to the poor and sick. The next year it started establishing hospitals. By 1936, it was composed of 15 hospitals, 61 clinics and 4 other institutions. Nonetheless, in the post World War I depression, with the rise in the number of unemployed and poor, the Saiseikai could not meet expectations and went bankrupt. In 1924, with the termination of free dispensation of medicine in favor of fee-based medical care, the Saiseikai deviated from its original purpose. Cost Price Clinics (CPC: *Jippi Shinryōsho*) established in 1911, provided medical care to low income classes, comprised of minor officials, clerks, salespersons, teachers, patrol officers, students, apprentices, and other types of workers, i.e., those whose daily income was under 1 yen and 50 sen. While the objective of the Saiseikai was poverty relief, for the CPC it was poverty prevention. The establishment of these two models was seen as a way to ensure the provision of a healthy workforce and to prevent the outbreak of dangerous ideas that would threaten public peace and the political establishment (the *Kokutai*). They formed the basis of the social insurance system that emerged after 1926. By 1929, there were 153

[109] A day's supply of medicine for one shō (1,800 cc) of rice (Takayanagi [2007] pp.14-15).

CPC around the country, including local communities. By charging one quarter of private practitioner's fees, they were fiercely opposed by the Japan Medical Association (*Nihon Ishikai* or *Ishikai*), nonetheless, they provided services to lower class city workers which were shunned by the Ishikai. With the establishment of Health Care Utilization Cooperatives (HCUC: *Iryō Riyō Kumiai*) in 1919 and the implementation of the Health Insurance Law in 1927, a system started to be created to fill in the role of CPC, which after 1930 suddenly declined. Providing health care to rural areas was especially difficult. Remote, out of the way poor villages were increasingly without doctors as fewer of them were willing to practice in rural areas. The number of rural towns and villages without doctors increased from 2,900 in 1929 to 3,200 in 1935, roughly one third of all towns and villages at that time. Also, another third were being served by a single doctor. In big cities there was a surplus of doctors, but only those with financial means had access to them. In the villages, trachoma, parasitic infections and tuberculosis were widespread. Since farming villages were the source of supply of workers and soldiers, the health problems of villages naturally affected the whole country. The army could not disregard this matter, consequently a National Health Insurance System was established in 1938. The task of providing healthcare to medically underserved rural villages was also carried out by Health Care Utilization Cooperatives. The relationship between farming villages and healthcare dates from 1900 with the establishment by Diet legislation of industrial cooperatives (*sangyō kumiai*) predecessor to today's *nōkyō* (farmer's cooperatives). Initially, credit, purchase, and sales services were created. Then in 1919, the first medical cooperative was established in the village of Aobara, county of Kanoashi, Shimane prefecture. At the beginning of the Showa period, with the financial crisis brought on by the bankruptcy of the Suzuki trading company, farming villages were hit especially hard. In this context where people's livelihoods were reduced to poverty, medical cooperatives spread across the country, including cities. In 1931, the Tokyo Health Care Utilization Cooperative was established. In 1933, there were 103 cooperatives which increased to 149 in 1937. By then, 20% of municipalities across the country were served by these cooperatives. The HCUC's main goal was the self-preservation of farmers and villagers. Their purpose initially was to ensure the provision of doctors and medical institutions, then to reduce medical costs. The HCUC model arose in opposition to the private practitioner system. Its fees were half or less than those established by the Ishikai. In 1936, the hospitals of the HCUC took on the responsibility to provide nationwide health coverage in order to guarantee Japan's manpower resources. After WWII, the HCUC renewed this pledge through public welfare affiliated entities such as agricultural cooperatives hospitals, medical cooperative hospitals and prefectural hospitals (Ikegami & Hasegawa [1995] p.35, Takayanagi [2007] pp.21-29 and Irohira [2008a]).

Proletarian Clinics (*Musansha Shinryōsho*) first appeared in 1930. Ideologically as a part of the Proletarian Liberation Movement, Proletarian Clinics aimed at the socialization of medicine, by revolutionizing the medical system and guarding the health and livelihood of workers, farmers, and other working class citizens. Proletarian Clinics started as a volunteer organization, part of the Tokyo Imperial University Settlement, during the Great Kantō Earthquake. The Proletarian Clinics Movement was thoroughly against the capitalist moneymaking commercialization of medicine emphasizing the need to establish a system where everybody

could receive medical care. In the early 1930s, in a population of 70,000,000, only 2,000,000 factory and coal mine workers had health insurance without including family dependents. By 1936, the movement had 1 hospital and 23 clinics established in ten prefectures. It was especially strong in Niigata with the Gosen and Kuzutsuka clinics which lasted until 1941, year when the Proletarian Clinics Movement disappeared. Some of the reasons for its disappearance are the way it was used as a political tool, its lack of connection with the general public and its lack of unity. Nonetheless, among the Cost Price Clinics, the Health Care Utilization Cooperatives, and the Proletarian Clinics, it is in this last one that doctors themselves took a more active role in the socialization of healthcare. After the disappearance of the Proletarian Clinics, all medical organizations were absorbed into the wartime system. Under the slogan "*kenhei, kenmin*" (healthy soldier, healthy citizen), the army sought to secure healthy citizens in order to serve and fight in the war. For this purpose, it stationed health nurses and set up clinics in medically underserved villages, and established the Ministry of Health and Welfare in 1938. That same year, the Health Insurance Act instituted the National Health Insurance System. Together with the enactment of the Sailor's Union Law, the Employee Insurance Law (which gave health insurance benefits to dependents) and the Private Worker Pension Law, the general framework of Japan's social security system started to appear. After the defeat, major reforms were carried out during the occupation period (1945-1951). A new constitution was introduced in 1947 which states in its 25th article that the government is responsible for providing a minimum level to the people to help them achieve a healthy and culturally enriching life. This has formed the basis for Japan's public assistance programs. During the era of high speed economic growth, in 1961 the Universal Health Care Insurance System was introduced (Ikegami & Hasegawa [1995] p.37 and Takayanagi [2007] pp.30-38).

In the prewar and postwar periods, the private practitioner led Ishikai organization has long been accommodating to the authorities, turning its back on the people, in this way not fulfilling its social mission. It has often been thought of as the embodiment of money-making. During the prewar period, the Ishikai, in its pressure to limit the number of hospitals established (in this way guaranteeing its share of patients) has caused many rural communities and other areas to be medically underserved. The establishment of medical cooperatives in these areas can probably be attributed to this policy by the Ishikai. In the postwar period, by submitting to the policy of low medical costs by the Liberal Democratic Party (LDP), it has neglected its duty to fight for the rights of patients and healthcare workers. However, nowadays Ishikai organizations across the country openly criticize the healthcare reforms of the government. In this respect, the Ishikai has been greatly influenced by the concerted efforts of the Medical Practitioners Association (*Hokeni Kyōkai*) and the Japanese Medical and Dental Practitioners for the Improvement of Medical Care (*Hodanren*) and by the growing awareness of citizens. The Ishikai believes that introducing a mixed medical system (not covered by medical insurance), as has been proposed by Prime Minister Koizumi, would lead to the collapse of public health insurance coverage for all Japanese. The division between citizens and the Ishikai, promoted by the government, may be slowly starting to close (Hanai [2005] and Takayanagi [2007] pp.39-40).

The Japanese medical system, under the Universal Health Care Insurance System, has made good use of the division of roles performed by public medical institutions and by private non-profit medical institutions.

Since the Meiji period, private practitioners and medical institutions, such as national public hospitals, university hospitals, the Japanese Red Cross, the Saiseikai, Kōseiren[110] healthcare facilities and other categories of public hospitals have played a central role as providers of healthcare in local communities. This distinctive public and private mixed system has helped to guarantee the *publicness* or public nature of medical care[111]. Presently, the public and social nature of Japan's healthcare is supported by private medical institutions based on the public medical insurance system and the principle of non-profitability[112]. Private medical institutions include insurance associations, healthcare corporations[113], individual (physician) owned hospitals, cooperative organizations, etc. They represent 80% of hospitals, 95% of clinics, and have 70% of beds. With respect to cooperative organizations, the Kōseiren hospitals and health care facilities, operated by the prefectural welfare federations of agricultural cooperatives (JA group), play a very important role in rural areas. Cooperatives in cities include Medical Cooperative Hospitals, part of the Health Co-operative Association of Japan Consumers' Co-operative Association (JCCU). Also, medical and public benefit corporations affiliated to the Japan Federation of Democratic Medical Institutions (*Min-Iren*)[114] can also be considered as cooperative organizations (Yoshikawa [1996] p.31 and Kakurai [2007] pp.62-68).

A characteristic that distinguishes these cooperative organizations from other medical institutions is their active citizen participation. The structure of the business operation of cooperatives includes not only the board of directors and representatives of healthcare workers, but also representatives of members of the cooperative. In the management of medical cooperatives, the opinion of patients and local residents is also reflected. Healthcare professionals together with user members strive to improve the medical and welfare system of cooperatives. Health cooperatives of JCCU number 116 and have around 2,600,000 members. Most of them engage in health precaution and promotion activities, have *han* (groups) which raise awareness on the social security and medical systems as well as in health issues, and include movements led by patients and local residents to improve the medical system. Moreover, certain cooperatives publish regularly their own newsletters with opinion articles for members to read regarding the change in the medical system, the revision in the medical service fee, etc. When medical cooperatives are in need of funds to build new medical institutions or acquire new equipment and machines, they usually don't rely on the emission of shares and bonds, instead depending on the

[110] The Kōseiren (Prefectural Welfare Federation of Agricultural Cooperatives) was established in 1947 as a public welfare service for agricultural cooperatives. It is the successor of the Health Care Utilization Cooperatives (Iwamoto [2007] p.93).

[111] According to Saitō [2000, pp.viii-ix], the concept of *publicness* has three meanings. The first meaning is that it is *official,* i.e., it concerns the activities that the state performs for its citizens through laws and policies such as public works, investment and education, etc. The second meaning is that it is *common*, i.e., it implies being a common good, asset, interest, etc. The third meaning refers to being *open*, i.e., that access is not denied to anybody.

[112] Although this has not always been the case, as indicated previously by private practitioners and private medical institutions engaged in profit seeking activities in the prewar period. Nowadays, according to article 7 section 5 and article 54 of the Medical Care Law, it is illegal to operate health facilities on a for-profit basis and to distribute dividends, respectively (Kakurai [2007] p.68). Although dividends or profits are prohibited, private sector hospitals such as healthcare corporation hospitals, for example, are entrepreneurial businesses owned by a doctor (or doctors) operating under more or less the same financial incentives as for-profit enterprises. Japanese law merely prohibits the distribution of profits to noninsider shareholders. Consequently, although healthcare corporation hospitals may not distribute profits, they can be considered to be in between non-profit and for-profit hospitals (Yoshikawa et al. [1996] p.32).

[113] Healthcare corporation hospitals, known as *Iryō Hōjin* hospitals, receive preferential tax treatment and represent over 75% of private hospitals and more than 30% of general hospitals (Iwamoto [2007] p.80).

[114] Min Iren is the successor of the Proletarian Clinics (Iwamoto [2007] p.100).

contributions of people from the local communities. Nonetheless, Min Iren does often take “special cooperation loans” which pay very little interest from local residents (Iwamoto [2007] pp.92-93 & 100-103).

4. Niigata Medical Cooperative

In this chapter, the Niigata Medical Cooperative, member of the Health Co-operative Association of Japan Consumers' Co-operative Association, is taken as the subject of research. The reason for choosing this cooperative, a successor to other historic cooperative movements in the area[115], include the fact that it is situated in one of the prefectures with the highest shortage of doctors in Japan (see figure III – 21). This phenomenon, which affects all areas of Japan, is more perceptible in Niigata prefecture. In this context, Niigata Medical Cooperative can probably provide valuable lessons to other medical cooperatives in Japan as to the role that they can play in this age of structural reform and how to cope with its ensuing problems.

The history of the Niigata Medical Cooperative goes back more than 30 years. In 1976, Kido Hospital, part of the Niigata Medical Cooperative, was opened in Kamedagō (a part of Niigata City) counting 1100 members. Kamedagō was formerly known as Ashinuma, a flooded muddy rice field. In the prewar period, Ashinuma was repeatedly flooded every autumn by the two big rivers Shinano and Agano making life difficult for farmers. This, in addition to the annual land tax, pushed many of them into extreme poverty. In 1922, in the middle of this life and death situation, a great peasant revolt broke out, which became known all over Japan as the Kisaki Dispute. The power of solidarity and reform of this prewar struggle became directly connected to the postwar emancipation of farming land and to the beginning of a grassroots movement towards local, social, and livelihood improvement. The Ashinuma marsh was reclaimed in 1945 through the efforts of local farmers (Zenshinza “Akahige” [2007] p.2).

The Niigata Medical Cooperative itself was founded by a movement which has struggled to protect the land and livelihood of local farmers. The founding of the hospital reflected the wishes of the local citizens, promoting regional development based on the development of medicine and welfare. The factors behind the building of the hospital include: making a hospital for working people, establishing a place to protect the health and extend the lives of the common person while contributing to regional development, and to create a hospital cherished by everybody. The growing need for the provision of hospital services became very apparent in the 1960s, in the context of the 1964 Niigata Earthquake, the 1965 outbreak of Minamata disease, and floods in 1966 for the second straight year which demanded an increase in the availability of medical and relief services. Three very important people stand out concerning the establishment of Kido Hospital. They are Seiichi Sano, Communist Party city councilor, Tōzaburō Sano, chief director of the Kamedagō Land Improvement District and Shūhei Miyoshi, landowner and president of the Ishiyama First Farm Cooperative before the 1947 land reform. Together with the help from youth organizations, agricultural societies, land improvement board members, shrine

[115] Such as the prewar Gosen and Kuzutsuka Proletarian Clinics and the Kisaki Dispute.

parishioners, festivals, youth from villages, and local doctors, they set out to establish a medical system. In 1974, in the preparatory meeting for the establishment of the Niigata Medical Cooperative, founding executive director Miyoshi donated land. After careful planning, it was decided to build Kido Hospital at Kamedagō. Tōzaburō Sano initially expressed his wish to develop a good medical policy which could guarantee the satisfaction of all and where money concerns would come later. This has been the objective of successive directors such as Hisashi Saitō, Shigemi Inomata, Itsuki Hama as well as the many pioneering doctors and other healthcare professionals. This cooperative movement to protect the work, livelihood, and health of the socially vulnerable has in some way sought to emulate the Koishikawa Yojosho movement during the Edo period[116]. The Niigata Medical Cooperative seeks to carry out a system which consists in making the members of the cooperative and patients the main characters in the preservation of their health. Under the slogan "building a town where one can give birth, raise a child and grow old", the cooperative has expanded to include one hospital, two clinics and four nursing care establishments, and medical welfare institutions, rapidly developing into a local network[117]. The nursing care and welfare activities of the Niigata Medical Cooperative, its very own health examination center, the various health nurses systems in charge of the health monitoring of cooperative members and local citizens, and the measures for dealing with lifestyle related diseases have brought national attention to the cooperative. This includes the development of its night emergency reception system, unattended nursing as well as continuous nursing systems, nutritional management system, the implementation of a patient bill of rights, etc (Niigata Iryō Seikatsu Kyōdō Kumiai [2006] pp.2-3, 6-12 and Zenshinza "Akahige" [2007] p.2).

Despite these positive traits, Niigata Medical Cooperative has not been immune to the worsening conditions in the health sector brought on by the undergoing neoliberal reforms in Japan. Even though its membership has continually grown and with this the amount of paid up capital, and despite the continuing decrease in the level of indebtedness (in order to improve the financial standing of the cooperative)[118], gross earnings have only recently begun to grow along with the number of outpatients and inpatients (see figures III – 13 to 18)[119]. In recent years, hospitals in Japan have been subjected to chronic operating losses due to increasingly lower medical fees (as a result of the cost containment policies of the structural reforms under Koizumi)[120]. This is visible in both public and private hospitals. Nonetheless, public hospitals receive subsidies in order to continue operating; however, private as well as public hospitals have had to be closed down. Without

[116] The Koishikawa Yojosho was a healthcare facility established during the Edo period in 1722 by Tadasuke Ōka.

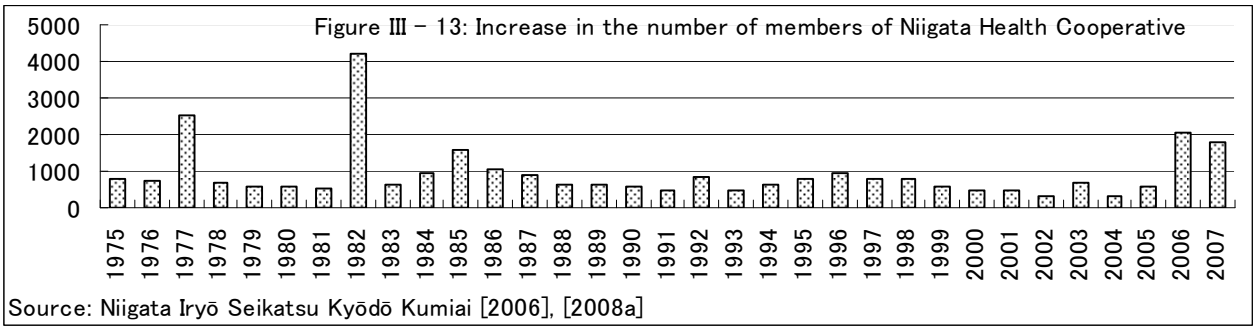
[117] This includes besides Kido Hospital, Kamedagō Ashinumakai Nursing Care Institution, the Hohoemi no Sato Nursing Care Rehabilitation Facility for the Elderly, Kido Clinic, Ishiyama Clinic, and the Health Examination Center, etc (Niigata Iryō Seikatsu Kyōdō Kumiai [2006]).

[118] In this respect, efforts are made to continually increase the capital adequacy ratio while at the same time decreasing the long-term debt and debt held by members of the cooperative, etc (Niigata Iryō Seikatsu Kyōdō Kumiai [2007] p.18 & Niigata Iryō Seikatsu Kyōdō Kumiai [2008a] p.21). At the end of the 2007 fiscal year, Niigata Medical Cooperative had no short-term debt. The remaining debt was composed of long term debt (Daishi Bank (10.12%), Mizuho Bank (1.07%), and Welfare and Medical Service Agency (24.65%)) and debt held by members of the cooperative (64.16%) (Niigata Iryō Seikatsu Kyōdō Kumiai [2008b] p.3).

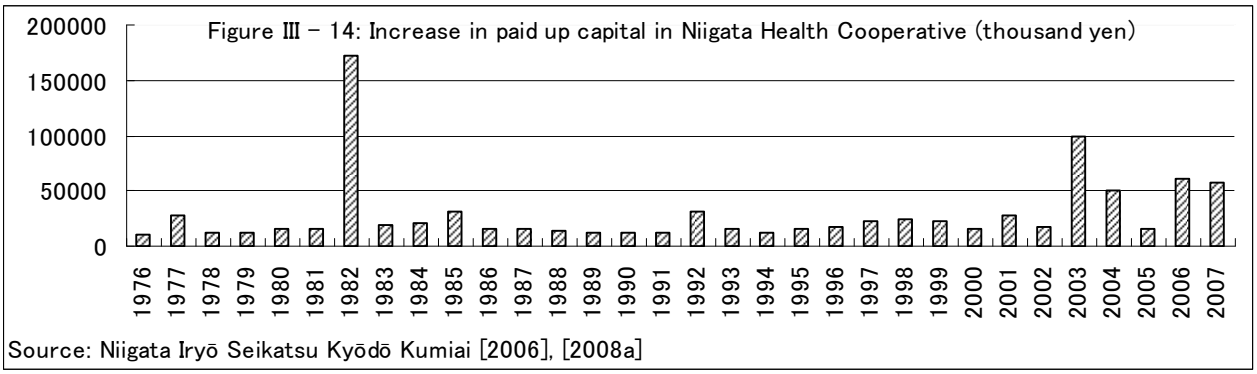
[119] The abrupt increase in 1982 in figures III – 13 and III – 14 is due to the joining of the approximately 5000 members of the Kamedagō Land Improvement District to the Niigata Medical Cooperative with a contribution in paid up capital of 150 million yen (Suzuki, K. [2008d]).

[120] Every two years, under the strict control of the government, revisions are made in the national fee schedule concerning national medical expenditures. These biannual revisions set the price for all procedures, drugs, devices, etc and are applied uniformly to all medical plans for reimbursements to virtually all hospitals and physicians' offices (Ikegami and Campbell [2004] pp.27-28).

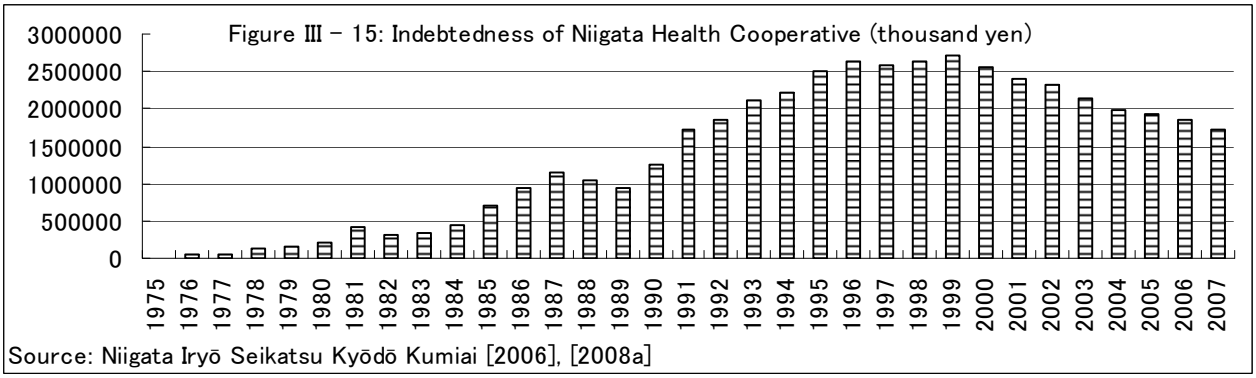
subsidies, private hospitals are facing a more difficult situation. Despite this, private hospitals can become profitable if they concentrate on specific, more remunerative sectors such as cardiology, gastroenterology, and ophthalmology while withdrawing from less lucrative sectors such as the outpatient sector, emergencies and pediatrics and by shortening hospital stays. Hospitals have been concentrating on inpatients and been transferring outpatients to clinics[121] (Suzuki A. [2003] pp.3-4 & 13-14). In this way, Niigata Medical Cooperative has had to find ways to use its available staff (nurses and doctors) in a more efficient way by giving priority to inpatients over outpatients (which require more staff), by giving more attention to patients with more serious illnesses, such as lifestyle related diseases[122], and by taking measures to improve the daily life of patients and promote preventative medicine, etc[123]. In order to do this, members of Niigata Medical Cooperative have been asked to voice their opinions, complaints and demands concerning how they would like to receive medical treatment. Staff and doctors, by providing medical care reflecting the concerns of patients, have managed to increase income. This has not come without a cost to the staff at Kido Hospital. As their workload has increased so has their stress level (Suzuki, A. [2008]). But these efforts seem to have paid off. The extra consultations, explanations, and attention given by doctors are appreciated by patients. And despite the difficulties that Kido Hospital has gone through, the quality of medical services has remained high over the years (Deguchi and Ogata [2008). However, depending on these measures alone may have its limitations. In the background of continuing structural reforms, the income coming from the provision of healthcare services may level off. But Niigata Medical Cooperative does not provide only healthcare services like other hospitals. In addition, it provides welfare services to the elderly. Normally in Japan, these two sectors are offered separately, by different institutions. But Niigata Medical Cooperative makes sure welfare services are given to the elderly in the community, which are anxious about their future. Niigata Medical Cooperative does not only depend on the income generated by healthcare for its operations, it also relies on the income coming from welfare which is expected to grow as the aging of Japanese society accelerates (Suzuki K. [2008a, 2008b], Iwamoto [2007] p.87 and Niigata Iryō Seikatsu Kyōdō Kumiai [2007] p.38).



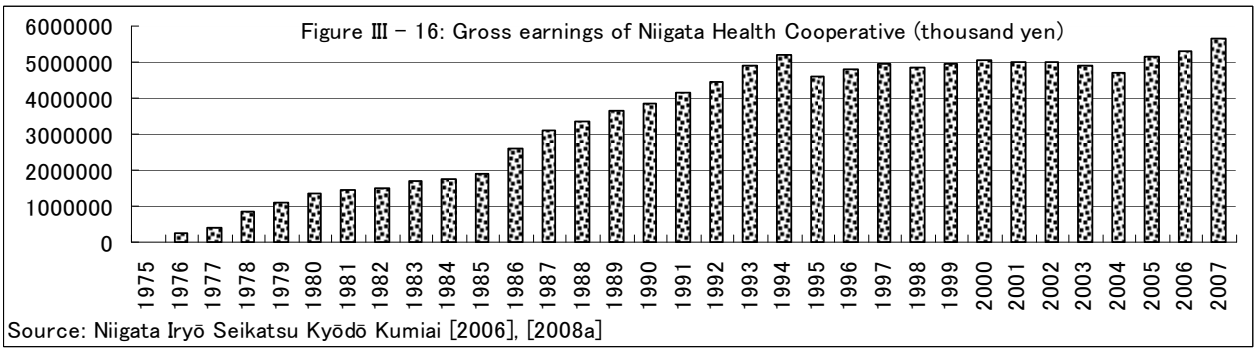
[121] Nonetheless hospitals are facing a dilemma since they still have a duty and responsibility to provide healthcare to those in need and cannot refuse outpatients or patients from other deficit causing sectors (Suzuki A. [2003] p.14).
[122] Such as diabetis mellitus, hypertension, cancer, cardiac diseases, etc.
[123] With the revision of the national fee schedule concerning national medical expenditures in April 2006, Kido Hospital was subject to a 3.16% reduction in its fees, which seriously aggravated its financial condition. However, by securing inpatients and making efforts to raise the yen received as payment per diem, the hospital managed to reach profitability. This is the result of the efforts of doctors and staff and the increase of more than 2000 members in the cooperative which contributed to the increase of outpatients (Niigata Iryō Seikatsu Kyōdō Kumiai [2007] p.7)



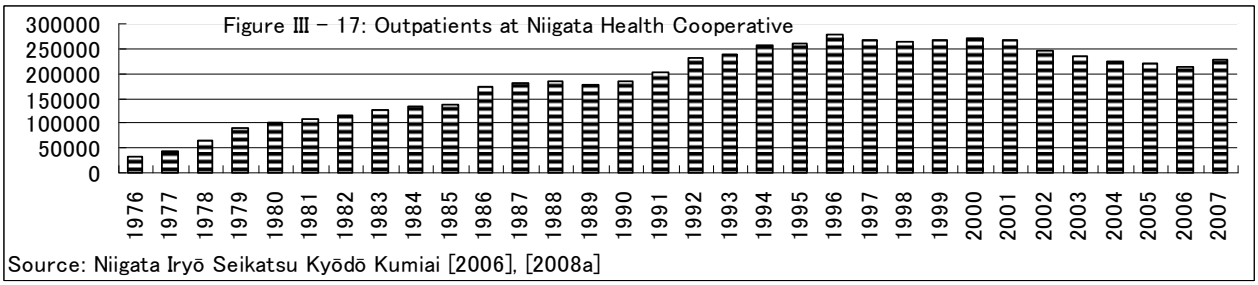
Source: Niigata Iryō Seikatsu Kyōdō Kumiai [2006], [2008a]



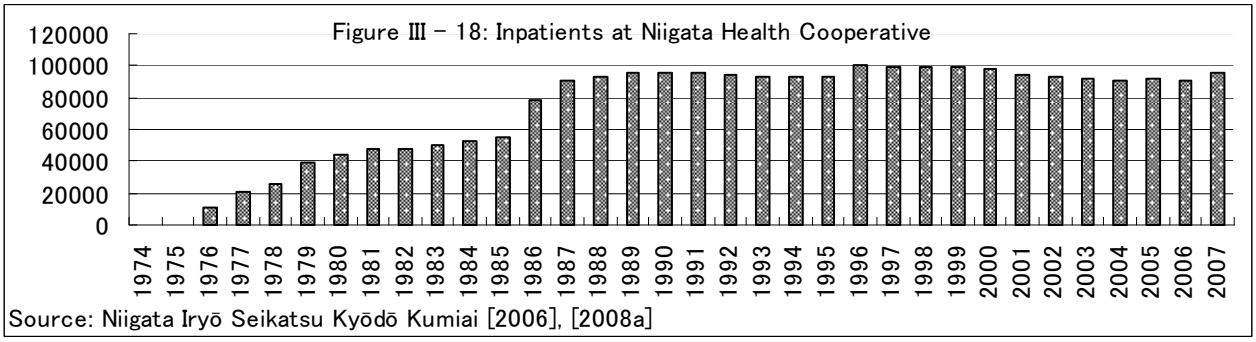
Source: Niigata Iryō Seikatsu Kyōdō Kumiai [2006], [2008a]



Source: Niigata Iryō Seikatsu Kyōdō Kumiai [2006], [2008a]



Source: Niigata Iryō Seikatsu Kyōdō Kumiai [2006], [2008a]



Source: Niigata Iryō Seikatsu Kyōdō Kumiai [2006], [2008a]

Due to the efforts by the government to bring medical costs down, it is increasingly difficult to

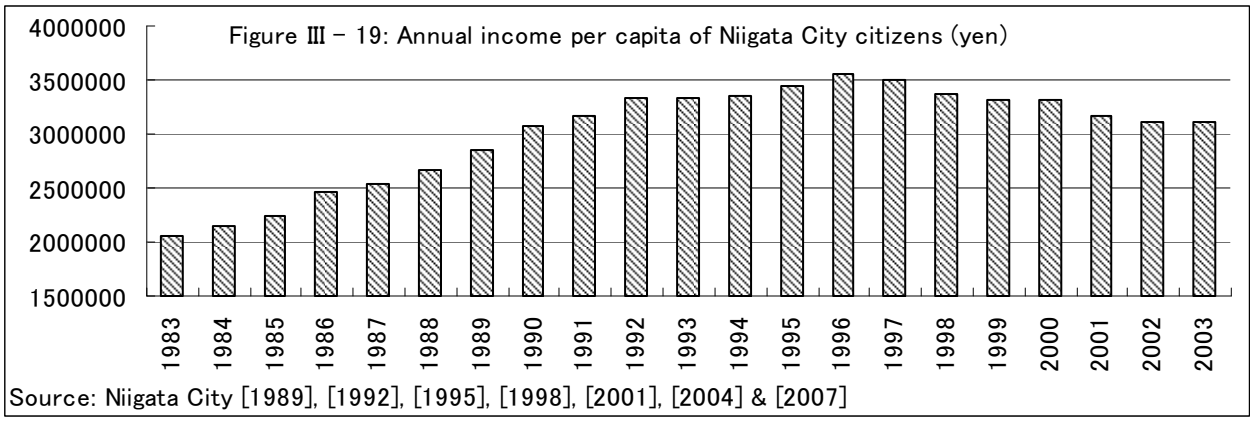
continue running private hospitals, which brings hardships to hospital workers who get terminated. To combat this, efforts have been made in Kido Hospital to raise earnings. This can be done not only by offering medical care, but also by offering services related to helping with livelihood problems. Accordingly, for this to happen, a new system with a bigger scale of operation is needed. At the present time, under the actual financial conditions, using income and profits to finance an expansion is difficult. In Kido, because of the close connection between members of the cooperative and the hospital staff, people from the community continually invest in it, and so more staff is allocated to meet their needs. It's a symbiotic relation between the hospital and the community. The contributions from the community have made it possible for Kido Hospital to continue to perform its work. The efforts of the hospital and the community, working together in cooperation, are what help improve the financial situation of the hospital and make it possible to offer better services. The increase in the number of members, who contribute to the paid-up capital, also contributes to the stabilization of income of the cooperative. With the planned construction of a new hospital, 10,000 new members are expected to join Niigata Medical Cooperative (Suzuki K. [2008a], [2008c]).

The plan for the construction of the new hospital was presented to the cooperative at the 2006 general representative meeting and approved, but it was determined that the number of doctors should be promptly decided (in the context of staff shortages in today's Japan) so as not to build a useless hospital. Due to the ongoing structural reforms, it is not possible to build a hospital depending on turnover and earnings. For this, members of the cooperative were consulted in order to help in the construction and to seek investment funds. One billion yens are needed in order to build the new hospital. Niigata Medical Cooperative does not want to rely on loans, reaching out instead to local citizens. But it takes time to gather interest free funds as well as to get the consent and understanding of local citizens. In addition, under the ongoing structural reforms in Japan, the income of local citizens has probably decreased following the general trend observed in Niigata City (see figure III – 19). There are approximately 30,000 members in the Niigata Medical Cooperative, but not all are expected to contribute, perhaps only half. If each one of these 15,000 were to invest 100,000 yen, the objective would be surpassed. Local citizens have understood that it is up to them to solve their growing fears and concerns about the future, that they cannot rely on the government. In October 2007, in a special general meeting, it was estimated it would take 5 years to collect the necessary funds for the new hospital. Construction is expected to start in autumn of 2008 (Suzuki K. [2008a, 2008b] and Niigata Iryō Seikatsu Kyōdō Kumiai [2007] pp.20-22).

The members of Niigata Medical Cooperative actively participate in the conduction of the cooperative. All cooperative members participate in *han*. In Niigata Medical Cooperative, if a member seeks to have his/her opinions heard by the administration, first he/she presents them at *han* meetings, then his/her opinions are written down and presented at executive meetings which are later passed on to the board of managing directors. Other forms of expressions by members and patients include surveys which are taken to see how patients rate the medical treatment that they receive[124]. Another possibility is leaving one's opinion in the homepage of Kido

[124] Surveys are conducted in Ishiyama Clinic, part of Niigata Medical Cooperative (Niigata Iryō Seikatsu Kyōdō Kumiai [2007] pp.97-104 & Niigata Iryō Seikatsu Kyōdō Kumiai [2008a] pp.111-119).

Hospital.



Niigata Medical Cooperative appears so far to endure despite the conditions imposed by the structural reforms. But can it be a model as a way to cope against the worsening conditions in the medical sector? Can the example of this cooperative be extended to other places in Japan? Niigata prefecture is witness to cases of perseverance such as shown by Niigata Medical Cooperative but it is also witness to failures as in the case of Himekawa Hospital, part of Itoigawa Medical Cooperative which went bankrupt in 2007. Himekawa Hospital was located in the city of Itoigawa (population: 50,000), in the southern part of the prefecture. Being a medically underserved area, 6,000 residents got together and established Itoigawa Medical Cooperative in 1985 contributing each with a share of 5,000 yen in capital dues, opening Himekawa Hospital in 1987. When it closed, it was fully equipped with the latest CT, MRI and SPECT machines. It included many departments such as internal medicine, respiratory diseases, cardiology, surgery, etc. The causes of its bankruptcy are: (1) the healthcare structural reform. Starting in 2002, medical service fees (paid to medical institutions under the medical insurance system) were reduced on three occasions. Each time, tens of millions of yen were lost in income. Income fell to 1.3 billion yen from 2 billion yen in 2000, its peak year; (2) shortage of doctors. The number of doctors went down from 14 in 2000 to six in April 2007. With this decrease in doctors, the income of the hospital also decreased; and (3) failure to rationalize management practices (NTV [2007], CB [2007] and Endō [2007]).

According to Katsuo Suzuki, executive director of the Niigata Medical Cooperative, the background and conditions under which Itoigawa Medical Cooperative developed, its management style and identity differed with Niigata Medical Cooperative and with other cooperatives throughout Japan. Niigata Medical Cooperative is part of the Health Cooperative Association of the Japanese Consumers' Co-operative Union (JCCU), to which Itoigawa did not belong. Even though it was a cooperative, it had different ways of doing things and of thinking compared to Niigata Medical Cooperative. Around 25 years ago, due to the local unfulfilled need for medical care, local citizens demanded that a hospital be built in the area. Under pressure, the mayoral authorities and local leaders at first planned to build a city hospital, but under the difficulty of directly building a city hospital, it was decided instead to build a cooperative hospital by copying the setting up of the Niigata Medical Cooperative. Nonetheless, from the start the objective of the authorities was to make a city hospital, not a cooperative hospital,

by using the contributions of local citizens for their own purpose. In the Niigata cooperative, the board of directors is a representative of the citizens of the community. Kido Hospital is managed by a director from the area. In Itoigawa, the board of directors did not have the same kind of connections with the community. Also, its management structure was more hierarchical. The director of the hospital received a substantially higher wage than the rest of the staff. The hospital did not perform as expected. The number of patients did not grow according to expectations. Managing the hospital became difficult. In the context of the structural reform, the number of doctors started decreasing (Suzuki K. [2008a] and HCA – JCCU [2007b]).

With the prospects of securing doctors diminishing and being riddled with debt, Himekawa hospital decided in a board of directors meeting in early June 2007, to close the hospital at the end of the month. In view of this, members of the cooperative got together to decide on what to do. They accused the board of directors of being negligent, of ruining the hospital. After the liquidation, the members of the cooperative have not received back any of their capital dues and have gone to trial. The amount in loans due to them reached a total of 1.22 billion yen, or an average of 3 million yen per person. This has brought severe hardships to these investors, most of them in old age, in the face of the impossibility of retrieving their money. The board of directors was irresponsible towards the people of the local community, which claim have been defrauded, and out of touch with their real needs (Suzuki K. [2008a], CB [2007] and Endō [2007]).

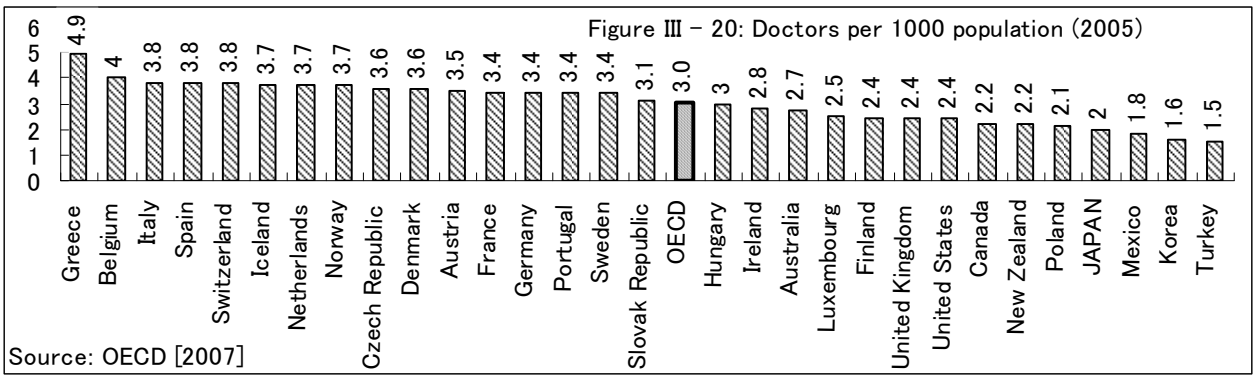
During the last month of operation, patients were gradually discharged and/or asked to be transferred to other medical institutions, such as the Kōseiren Itoigawa General Hospital. This general hospital, which has four times as many outpatients as Himekawa and whose waiting time for medical treatment is three and a half hours, has not been able to accept all of Himekawa Hospital's former patients. This has left many former patients of Himekawa Hospital without access to healthcare. To mitigate the situation, a former doctor of Himekawa Hospital opened a clinic on the premises of the former hospital by renting a part of it two months after its closing. Three nurses from the former hospital also work with him (NTV [2007] and Endō [2007]).

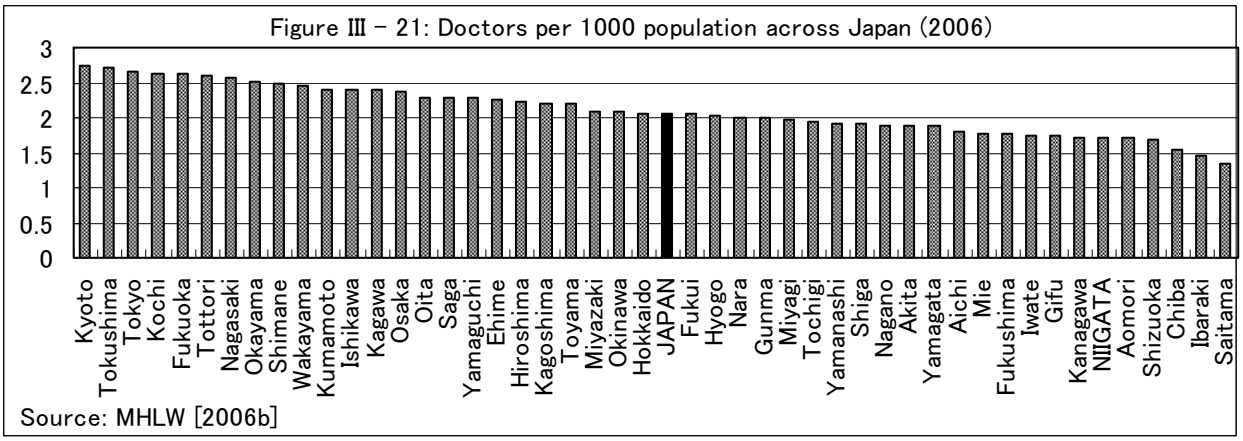
With respect to the shortage in doctors one aspect that must be taken into consideration is the fact that a decreasing number of medical interns choose to practice in rural areas and other outlying regions and municipalities. In 2007, in Toyama prefecture, southwest of Niigata prefecture, at Toyama University Hospital there were only 20 medical interns, half the number three years earlier. This decrease, which makes it more difficult for doctors to be sent to rural areas, is also aggravating the workload of established doctors at the university hospital forcing many of them to quit, in this way creating a vicious cycle. In the present clinical training system introduced in 2004, medical interns were given a free choice to which hospitals they could apply for their training. The most popular choices are in the big cities[125] (NTV [2007] and CB [2007]).

[125] The generally prevalent idea is that the shortage of doctors in the regions is due mainly to the new clinical training system. This may not reflect the whole situation. One important factor that needs to be taken into consideration is the fact that in medical schools across the regions of Japan, local students represent only 20% to 30% of the total enrolled in medicine. The rest come from the urban centers of Japan. Traditionally, after graduation, these non local students felt less inclined to go back to their place of origin to practice and saw the merit of staying in the regions close to their alma mater to work. Nowadays, these outside students are following the general trend of flocking to the cities to advance their career. What the new clinical training system has done is exacerbate an already established problem (Irohira [2008b].

In comparative perspective, among OECD states, Japan is among the last in average number of doctors. It averages 2 doctors per 1000 population against an average of 3 for the OECD (see figure III – 20). This means that there are approximately 260,000 practicing doctors in Japan. To reach the OECD level, Japan would need to increase the number of doctors to about 380,000. In addition, there is not a single prefecture in Japan whose number of doctors reaches the OECD average (see figure III – 21). This puts a strain on the working conditions of doctors. In terms of the number of consultations per doctor, Japan is almost the highest, only surpassed by Korea, with each doctor handling 2.7 times the number of patients as the OECD average (see figure III – 22). This is surely prejudicial to the quality of healthcare (OECD [2007] and MHLW [2006].

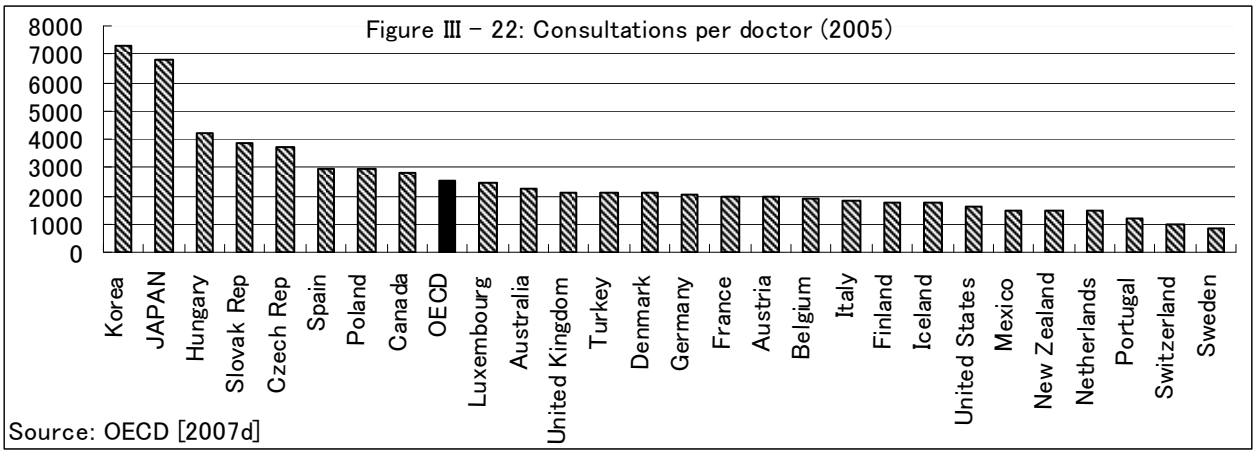
As can be seen in figure III – 21, Niigata is one of the prefectures with the least doctors per 1000 population in Japan. There is only one source of supply of doctors in Niigata prefecture: Niigata University. In the past 10 years, the number of doctors has decreased in the prefecture[126]. With the present clinical training system, approximately 30 to 40% of graduating doctors leave the prefecture. Together with the decrease in doctors and the exodus of recent graduates, this leaves Niigata prefecture with approximately half the doctors it should have (Suzuki, A. [2008])[127].





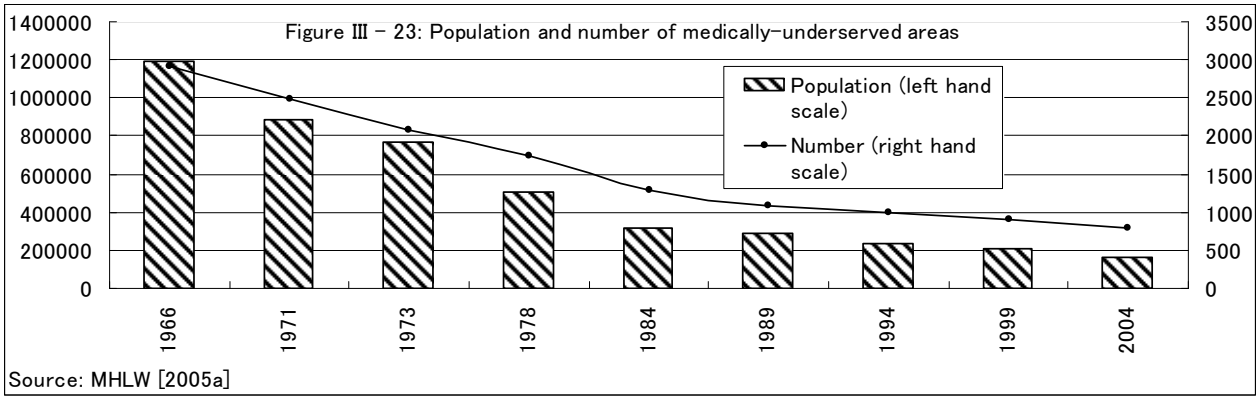
[126] In Niigata Prefecture, for every 100 doctor that retires or transfers to another prefecture, there are 70 to 80 successful applicants to the medical faculty at Niigata University. Also, in proportion to the general population, out of a total of 8000 medical students nationwide, there should be 167 students each year enrolling in Niigata (Takahashi [2006] p.308).

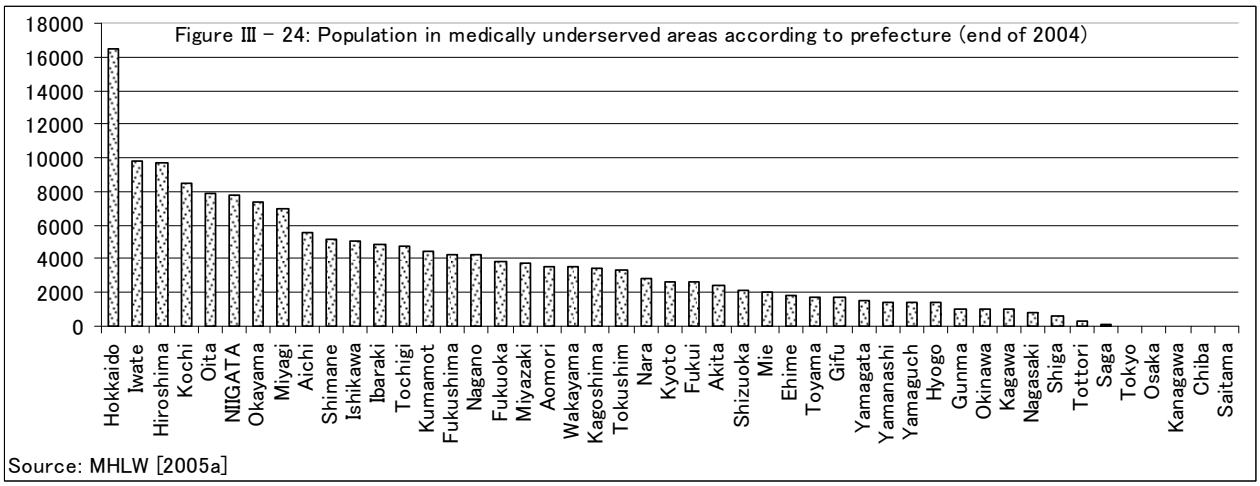
[127] It is difficult to secure doctors for Kido Hospital. As other private hospitals, it competes with prefectural hospitals in Niigata to hire its doctors. Most of them come from Niigata University. In order to differentiate itself, the hospital tries to recruit doctors who have an interest in "community" healthcare, who sympathize with the goals of solidarity and cooperation espoused by the Niigata Medical Cooperative (Suzuki [2008b]).

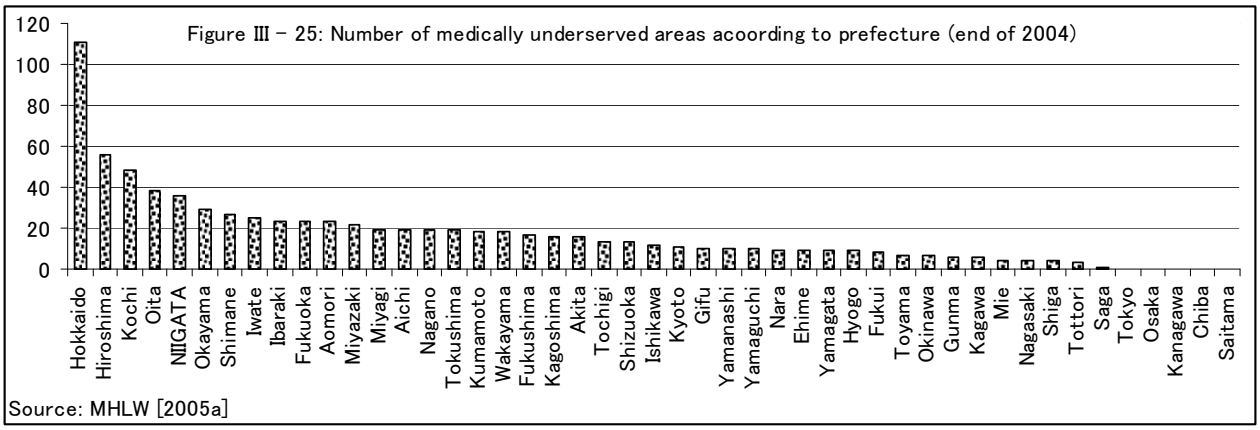


Despite the shortage of doctors, according to a survey by the Ministry of Health Labor and Welfare, in the last 50 years until the end of 2004, there has been a declining trend in the number of and population in medically underserved areas, i.e. areas with a radius of four kilometers with 50 or more inhabitants without easy access to a medical institution. By 2004, there were 164,680 people in 787 areas with limited local access to doctors (see Figure III – 23). Nonetheless, among those areas, only 10 had a population of 1000 or more. According to the survey, in sixty medically underserved areas with a population of 500 or more, the main reason for being medically underserved was the difficulty in securing a doctor in 41.7% of the cases and 33.3% reported that they could not establish a medical facility due to financial reasons. On the other hand, 11.7% were satisfied with the nearest medical facility and so did not need one in their area. Between 1999 and 2004, there was an increase of 56 and a decrease of 138 in the number of medically underserved areas. The main reason for the increase is the closing of the local medical institution in 58.5% of cases. Reasons for the decrease include better access (56.3%) and the population falling below 50 (24.4%). This last reason is related to the ongoing process of depopulation that afflicts the regions of Japan[128]. This could be made to imply that once an area has less than 50 inhabitants, they no longer have a need for medical attention. An additional reason for the decrease in the number of medically underserved areas is the opening of a medical institution (10.4%) (MHLW [2005a] pp.8-10 & 13). The declining trend in the number of medically underserved areas and population living in such areas does not yet reflect the clinical training system introduced in 2004. It is possible that the new system could reverse the trend shown in figure III – 23. As can be observed in figures III – 24 & III – 25, Niigata remains among the top in prefectures with population and number of medically underserved areas[129].

[128] In the case of Niigata, for 9 years in a row there has been a natural decrease (excess of deaths over births) in the population and for 11 years in a row, more people have been moving out than moving into the prefecture (Niigata Prefecture [2008]).
[129] Medically underserved areas in the prefecture of Niigata with a population of more than 1,000 people include Yoneyama (population 1124) and Higashiyama (population 1068) (MHLW [2005a] p.11).



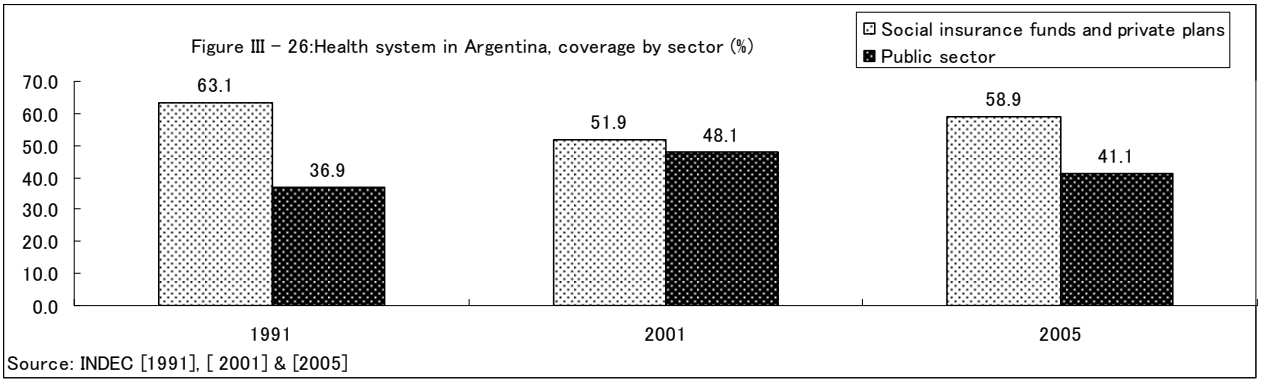




5. Medical Cooperatives in Argentina

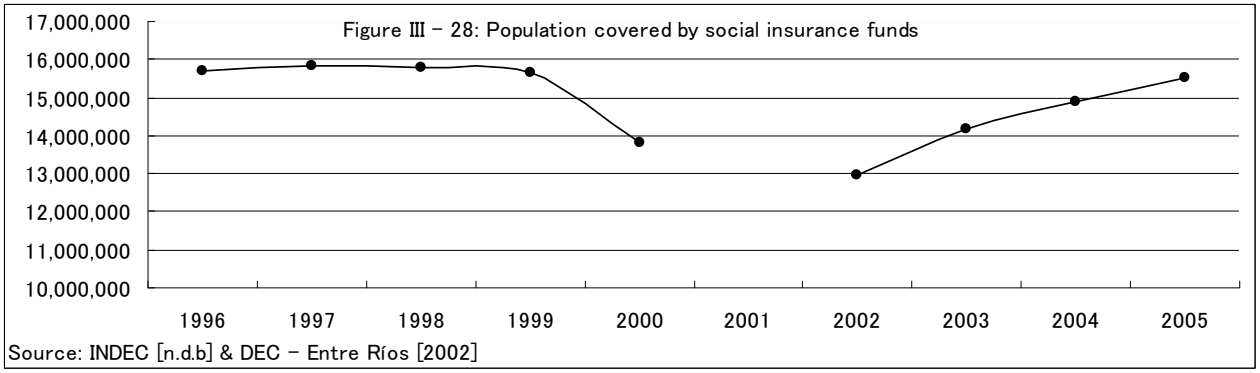
Argentina's health system consists of three separate funding components: the public sector, financed through taxes, social insurance funds (known as *obras sociales*), financed through obligatory insurance schemes, and private plans, financed through voluntary insurance schemes (see figure III – 26). The public sector provides health services free of charge available to the whole population through a network of public hospitals and health centers. Still, only forty percent of the population uses the services provided by this sector, mostly those with low

incomes who have no access to either social insurance funds or private plans (see figure III – 27[130]). This sector has suffered from decades of underfunding leading to a significant deterioration of the quality of public provision by the 1990s[131]. The social insurance funds sector, present in Argentina since the beginning of the twentieth century as worker mutual aid societies, became compulsory for formal sectors workers in 1970. The funds, which are usually demarcated according to economic activity, provide social health insurance for salaried workers and their immediate family. Contributions, which are mandatory, are made by both employees and employers, corresponding to a wage levy of 3% and 6%, respectively. By 2005, there were 290 funds with 15,514,299 affiliates. Despite their positive traits, these funds have been a significant source of social inequality since a large part of the population (essentially those without a close family member employed in the formal sector) has remained unprotected, especially among poorer groups. The growing precariousness of labor (observed in figure I – 6) saw a rise in informal work in the 1990s and caused less people to have access to social insurance funds and their benefits. This is reflected in figure III – 26 between 1991 and 2001. The economic recovery after 2001 stimulated the creation of formal work lowering the number of those employed in informal jobs, and permitting them to join a social insurance fund (see figure III – 28). The last sector is the private sector which provides services mainly to those in the middle and high income strata. It is estimated that by 1997, ten per cent of the population had private health cover, of who four out of ten were also affiliated to a social insurance fund. This sector has experienced a remarkable growth in the 1990s, becoming the main provider of medical services to those affiliated to social insurance funds. Between 1969 and 1995, the number of private medical establishments grew by a factor of four. While in 1969 private medical institutions represented 36% of total establishments, by 1995 they had increased to 55%. In addition, during that period the number of hospital beds in private establishments doubled reaching 43% of the total (Lloyd-Sherlock [2006] pp.355-358, Acuña and Chudnovsky [2002] pp.4-7, 11, 12, 15 and INDEC [n.d.a]).



[130] In figure III – 27 a person is considered to be poor if he/she cannot satisfy through his/her income the essential nutritional and non-nutritional needs (clothing, transport, education, health, etc) contained in the basic basket of goods. A person is considered to be destitute if he/she cannot acquire through his/her income a basic food basket, which covers the minimum nutritional needs of a person (INDEC [2005]).

[131] This is aggravated by the fact that both social insurance funds and private insurers have been permitted to send their affiliates to public hospitals, paying for these services in principle. Large numbers of affiliates used the public sector, particularly for more expensive and complex treatments, but hospitals were rarely reimbursed. This further reduced the resources available for uninsured Argentines. Nonetheless, by the 1990s, social insurance funds affiliates were becoming increasingly dissatisfied with the quality of care provided by the funds, prompting the growth of private health insurance (Lloyd-Sherlock [2006] pp.357-358).



There are 600 to 700 nonprofit organizations which provide medical services to approximately 3,000,000 people in Argentina or 8% of the population. These cooperatives and mutual aid societies, classified in the private sector, are grouped under the Argentine Federation of Mutual Health Organizations (FAMSA) and the Argentine Federation of Solidarity-based Health Entities (FAESS) and regulated by the National Institute of Associativism and Social Economy (INAES). The objective of these organizations is to provide primary care services, diagnosis, treatment and sanitary education to its associates and non associates with a high quality service at reasonable costs. Before the 2001 economic crisis, these organizations already had important social roles by going into agreements with social insurance funds and providing medical care to their affiliates. More important is the role that they have taken by providing services to (non-associate) informal workers. After the economic crisis, these organizations, with their more reasonable price-cost relation, experienced a growth of 30% in the provision of medical services to these informal workers. Cooperatives and mutual aid societies also provide medical services to areas where not even the public sector is able to fulfill its obligations (Garriga & Olego [2006] pp.4, 5, FAESS [2008], Clarín [2008] and Infobae [2008]).

In addition, new actors in the health sector of the solidarity economy include hospitals which have become bankrupt and have been taken over by their workers and turned into cooperatives. These worker-managed medical cooperatives, part of the Recovered Factories Movement (see chapter 2), include the former "EZRAH" Jewish Mutual Aid and Charitable Society (*Asociación Israelita de Beneficencia y Socorros Mutuos "EZRAH"*) which became the Jewish Hospital Worker Cooperative Limited (*Cooperativa de Trabajo Hospital Israelita Limitada*) in November 2004. In 2001, the hospital, which had a capacity of 400 beds, was equipped to offer the latest services, including plastic surgery and laser microsurgery, and had a nursing school, started bankruptcy proceedings. By the end of 2003, its workers stopped getting paid, and by September 2004 it

finally declared bankruptcy. During the auditing phase, in order to stop the stripping of the hospital's assets by the owners and to receive their back wages, the workers decided to appeal to the courts to have the management of the hospital handed over to them. At the end of that year, management was transferred to the 400 workers of the hospital. In January 2006, the hospital was expropriated and given in concession to the new cooperative and its workers for two years. After this period, the hospital becomes the property of the cooperative. In September 2006, the cooperative created a social insurance fund for workers of recovered companies. For 50 pesos per family group, paid by the companies, the fund of the cooperative offers the same services as any other social insurance fund (Página 12 [2004], Legislature of the Autonomous City of Buenos Aires [2005] & lavaca [2006]).

Conclusion

The growing complexities of the Japanese health sector in the context of the JSWS, together with the growing costs attributed to the expansion of medical expenditures, shortages of staff, and other problems, along with the general deteriorating economic situation of the population (increasing labor precarity, a growing income gap and poverty), is making it more difficult for the common person to have a somewhat fair and equal access to medical care in Japan. As in Argentina, as a result of the imposition of neoliberal reforms and to the subsequent development of the solidarity economy, medical cooperatives (including worker managed cooperatives), mutual help organizations and other like-minded institutions can probably play an increasingly important role to guarantee health services to the general population. This has been increasingly visible in Argentina after the 2002 economic crisis and the subsequent massive growth in the number of unemployed as well as those in unstable labor conditions. In Japan, medical cooperatives, like the Niigata Medical Cooperative, manage themselves without receiving any help from the Japanese government. With the continuing withdrawal of the welfare state in Japanese society, their continued existence and the role they can play in their communities might help guarantee local access to medical care. For the survival of medical cooperatives, it is essential that they develop deep connections with the community they serve, as Niigata Medical Cooperative seems to be doing and not as Itoigawa Medical Cooperative has done.

A change of policies from the Japanese government in the way it manages the healthcare sector is desirable. The government could divert some of the massive funds it allocates to public works into healthcare. Japan is probably the only country which gives precedence to public works (not always necessary) over healthcare (which is increasingly necessary) (Suzuki A [2003] pp.5-6). With this policy, the Japanese government is not following its most important law, the constitution, which guarantees the "minimum standard of wholesome and cultured living" through the "promotion and extension of social welfare and security, and of public health" (article 25). The introduction of private health insurance and more market participation in the health sector might help government finances, but it will not guarantee equitable and fair access to healthcare by the general population. The change of the medical intern system in 2004, detrimental to the fair geographical distribution of doctors, could undergo some changes to guarantee access to healthcare in medically underserved areas. In the

middle of worsening labor conditions, guaranteeing better access to healthcare for those working part-time, on a temporary basis, on contract and other unstable conditions will probably make healthier and thus more productive workers. Finally, the introduction of the Medical System for the Very Elderly in April 2008 does not seem to guarantee equal access to healthcare to the elderly, in particular to low income earners.

Conclusion

The implementation of neoliberal reforms in Argentina and Japan has had very damaging social, economic and political effects upon both countries. Deregulation of financial markets, liberalization of the labor market, privatizations have not been as efficient or conducive to economic growth as neoliberal supporters claim them to be. As described in chapter one, these reforms have brought about neoliberal cycles with very destructive consequences in which neoliberal policies are implemented, followed by a crisis which leads to compensatory policies, which end up in further implementation of neoliberal policies, starting the whole process again. The consequences of these reforms have had similar effects in both Japan and Argentina, although subjected to a varying degree in accordance to the intrinsic characteristics of each society. These consequences include a precarization of working conditions[132], a rise in the number of suicides, increasing poverty, wider social disparities worsened by a retreating state unwilling to provide welfare due to the pursuit of a "small government" policy, higher financial volatility, irregular GDP growth, etc.

After abandoning its neoliberal program after the 2001 crisis, Argentina has had a remarkable recovery and economic expansion. Although initially the economic recovery was due to the substitution of imports by domestic production, high prices of commodity exports, devaluation and the existence of much idle capacity, it was soon overtaken by components of domestic demand, in particular investments and private consumption. The economy has grown 8-9% on average from 2003 to 2007, unemployment has fallen by two thirds and poverty by 60% according to official figures. During this period, Japan has continued to impose neoliberal reforms, first under Koizumi followed by Abe and Fukuda. This period has had the longest postwar economic boom, longer than the *Izanagi* boom, nonetheless, it has been witness to worsening social conditions. Labor conditions have worsened, the income gap has widened, the number of suicides has remained at 30,000, an increasing amount of households cannot afford health insurance, homeless still roam the streets and net café refugees have joined their ranks. As will be shown below, social anxiety among the Japanese has been increasing on a yearly basis. This is one indication that suggests that Japanese are more and more dissatisfied with the present economic system. This dissatisfaction may be one of the reasons why the new Prime Minister Taro Aso may have postponed his call to elections. There is a likely possibility that the opposition Democratic Party of Japan may win an outright majority in the Lower House (Ito [2008]). With the present world economic crisis affecting exports, on which the Japanese economy is largely dependent, it is imperative that the economy be driven largely by domestic demand. For this, certain reforms or expansionary policies might be necessary since domestic demand has been sluggish since the Lost Decade of the 1990s.

In chapter two, as a consequence of the numerous socio-economic problems brought about by the

[132] Precarization at work means an increasing change of previously guaranteed permanent employment conditions into mainly worse paid, uncertain jobs (This Tuesday [2005]).

implementation of reforms based on neoliberal policies, it has been shown that a growing number of people excluded from the economy have had to resort to grassroots collective forms of economic organization in order to survive. These organizations, centered on community economic development, worker and consumer cooperatives, and community organizations, are part of what is called the solidarity economy. Different from government and profit oriented businesses, the solidarity economy has sought to correct government and market failures by creating an economy centered on people and human society. The cases of local currencies, recovered factories, *piqueteros* and *cartoneros* in Argentina and the cases of local currencies and homeless in Japan have appeared as a consequence of the failures of imposed neoliberal market friendly policies. In both countries, civil society has shown some degree of support for these grassroots initiatives. With respect to the government, Argentina has given support and promoted organizations belonging to the solidarity economy. In Japan there has been no such support or promotion since the government puts more emphasis on the personal, not the group rehabilitation of those people affected by the downsides of neoliberal reforms. This probably comes as a result of the belief (ingrained in neoliberal theory) that each individual is held accountable for his/her actions and well being and that success or failure is due entirely to his/her virtues or personal failings rather than being caused by class exclusion or any other characteristic not attributable to a person's intrinsic qualities. This line of thinking is detrimental to the recovery of socially excluded people who are unable to return to society on their own. The promotion and support of collective/cooperative efforts may help groups of people, who are unable individually to socially reintegrate themselves, to return to society and become self-reliant on their own joint initiative. AWN (Asia Worker's Network) is surely a clear example of an initiative where collective action has had a better result over individually oriented recovery programs.

In chapter three, it was explained that as a consequence of a retreating welfare state, the Japanese government has been neglecting many of its essential obligations, such as article 25 of the constitution which guarantees the "minimum standard of wholesome and cultured living" through the "promotion and extension of social welfare and security, and of public health". In the name of reform, the health sector in Japan has transferred an increasing part of rising costs onto the users of medical services. As is shown further below, Japanese perceive the collapse of the medical system as one of the main threats to their livelihood. Those people who are more susceptible to the reforms in healthcare are workers in irregular employment and the elderly. The former do not receive any health insurance and pension benefits from their employers and must either join on their own the National Health Insurance or pay the full price of medical care. The latter, especially those aged 75 and above, have been forced into a new Medical System for the Very Elderly since April 2008. This unpopular system deducts the health insurance premiums automatically from their pension benefits. This poses an additional burden on these seniors citizens since at least two million of them have had to start paying premiums. In view of the higher income disparity among older people, this cannot be considered a fair system.

Medical cooperatives can have an increasingly important role in Japan in the provision of medical services. They can probably help guarantee better access to medicine to the general population. In Argentina, after the economic crisis which exploded in 2001, medical cooperatives have provided healthcare to an

increasing segment of the population, especially informal workers without coverage by social insurance funds or private health insurance or those without access to the public health sector. With the ongoing withdrawal of the Japanese welfare state, medical cooperatives are acquiring an increasingly important role in the provision and guarantee to access of healthcare in Japan. In this case, Niigata Medical Cooperative can probably provide some suggestions. It not only faces government budget cuts, but also a regional shortage of doctors. This cooperative has managed to survive by establishing deep connections with the community that it serves. Without this symbiotic relation, it is very difficult for cooperatives to endure.

In view of the destructive consequences of the imposition of neoliberal economic reform programs, the question to be asked is: under what kind of economic model do Argentines and Japanese wish to live in?

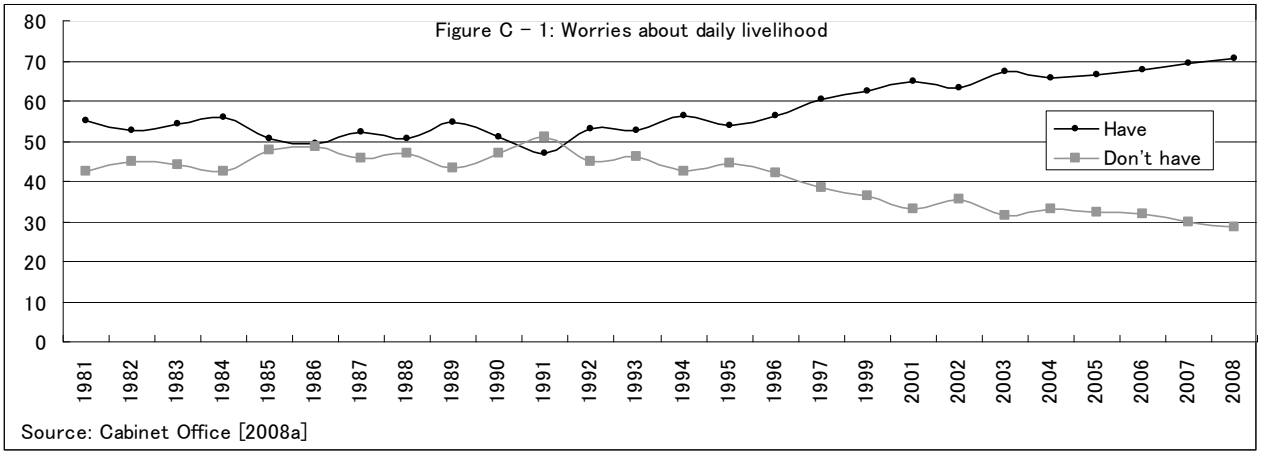
During the 2001 economic crisis, the most profound crisis in Argentina's history, Argentines asked themselves what kind of society they would like to live in. For this purpose, in late 2001 – early 2002, an Argentine Dialogue (*Diálogo Argentino*) started to take place. This dialogue is the first of its kind in which civil society has taken part. Previous pacts (such as the Social Pact of 1973, or the Pact (*Concertación*) of 1987, among others) excluded civil society and were mainly between the political, corporate and/or labor union sectors. In the Dialogue, initially the participating actors were the National Government, the Catholic Church and the United Nations Development Program. They were later joined by other religious denominations, non-governmental organizations, corporate representatives, workers (through the Argentine Worker's Center (*Central de Trabajadores Argentinos – CTA*) and additional international organizations (such as the World Bank, the Inter-American Development Bank, among others) (UNDP [2004] pp.9, 18-21). At the beginning, five strategic objectives were identified in which there was a general agreement among all participants:

1. Rebuilding social peace.
2. Guaranteeing social rights (work, health and education) along with civil and political rights.
3. Relying on a harmonious and balanced model of economic growth inclusive of all sectors and regions of the country.
4. Implementing a fairer system of income distribution
5. Guaranteeing the sustainability of democracy (Equipo de Análisis de la Mesa del Diálogo Argentino [2002] p.11)

The main achievement of the Argentine Dialogue includes the establishment of a dialogue which led to a consensus over many issues, in particular for the need of a more inclusive economic system. The Dialogue helped to defuse and resolve many conflicts contributing to the social pacification of Argentina. Also, in other more practical contributions, the Dialogue led to the establishment of the Unemployed Men and Women Heads of Household Program (*Plan Jefas y Jefes de Hogar Desocupados* – PJJHD) and the Remediar Program[133] (UNDP [2004] p.23).

[133] The *Remediar* Program was created in February 2002 in the face of the sanitary crisis that Argentina was going through at that time. The program is geared towards strengthening primary care, promoting policies towards better health, and guaranteeing access to medicine to the most vulnerable segments of the population, in particular those under the poverty line or without coverage by a social insurance fund (MOH [2008]).

In the last few years in Japan, in the face of growing social and economic problems, the public sentiment has changed regarding what kind of socioeconomic system is best for the country. Between 2005 and 2007, the national Diet has found itself divided as a result of elections in 2005 and 2007. In the first election, the electorate supported a smaller government, giving the Liberal Democratic Party (LDP) a huge majority in the Lower House. In contrast, the second election reflected a criticism of widening social disparities and a support for better work-life balance. In this election the LDP suffered a major defeat to the Democratic Party of Japan (DPJ) and lost its majority in the Upper House for the first time in its history. What this last election shows is that there is a growing social anxiety over issues such as growing social disparities and the sustainability of the social security system. This is reflected in a survey by the Cabinet Office released in August 2008 in which over 70 percent of Japanese men and women are worried about their everyday lives (see figure C – 1). In the survey, 57.7 percent of the respondents said they were worried about planning their future lives, 49.0 percent expressed concern about their health, and 42.4 percent said they were concerned about the outlook for income and assets (Cabinet Office [2008a]). In addition, in some sectors there is the opinion that the current laissez-faire approach towards the economy should be replaced with some kind of public regulation (Yamaguchi and Miyamoto [2008] pp.40-41).



According to a survey[134] by Yamaguchi and Miyamoto [2008] carried out before the present recession, despite Japan having experienced the longest post war expansion in the postwar era, only 7.8% have actually felt that the economy recovered its vitality. Similarly, the survey shows that few people have positive evaluations concerning the results of political and administrative reforms. In this respect, only 7.5% think that wasteful use of tax funds has been eliminated and less than 25% has the opinion that the lack of transparency concerning the special rights enjoyed by politicians and bureaucrats has been redressed. In contrast, a majority of people have a dim view of the future concerning their individual livelihoods, reflecting the findings of the survey by the Cabinet Office [2008a]. The main threats that they perceive to a stable life is the collapse of the pension system and medical care. In this respect, concerning the type of welfare state that would be more appropriate, a majority (58.4%) of respondents chose a Scandinavian welfare system, followed by a third (31.5%) who prefer a

[134] The sample of the survey was 1,500 people and was published in Sekai magazine in March 2008.

traditional Japanese system that stresses lifelong employment. Only 6.7% preferred a US style system that stresses competition and efficiency. This means that despite the neoliberal reforms which have been introduced since Koizumi, very few people support the US model. However, with respect to the financing the welfare state, there is a very strong opposition to a raise in the consumption tax. Nonetheless, it has been recognized that an increased tax burden is inevitable in order to maintain or improve the current level of social security. The public will accept a greater tax burden if it is levied in the form of corporate tax and income tax paid by the top income earners, but not in the form of consumption tax paid by ordinary citizens (Yamaguchi and Miyamoto [2008] pp.42-45).

What this survey shows is that the Japanese, in a similar way to Argentines, have been disappointed with how their governments, in the past in Argentina and in the present in Japan, have carried out and imposed their neoliberal views on the management of the economy. The Argentine Dialogue expressed the view that an alternative economic system is desired by the Argentines. In this way, the Argentine Dialogue contributed in directing Argentina in the transition away from neoliberal to more inclusive economic programs. In the case of Japan, is there a need for a Japanese Dialogue?

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