

Labor Migration Policy and the Governance of the Construction Industry in Israel and Japan

David Bartram

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Abstract

Significant “guestworker” immigration occurs when the state lacks the capacity to inhibit rent-seeking by private interests that benefit from imported labor. Policies allowing imported labor result in government subsidies for employers’ profits. These subsidies are usefully conceived as rents. A developmentalist state (*e.g.* Japan) will constrain the creation of such rents, especially because imported labor carries long-term costs not borne by employers and inhibits productivity growth and positive structural change. A clientelist state (*e.g.* Israel) falls prey to this type of rent-seeking because of a weaker institutional capacity for creating conditions that make alternative solutions feasible and profitable for employers.

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This paper investigates variation in extent of use of unskilled foreign labor in advanced capitalist countries, drawing on the contrasting experiences of Israel and Japan. I begin with the contention that a fruitful frame for understanding state policy regarding foreign workers is the comparative political economy of development. The issue of foreign labor is not only a question of migration, of individuals changing the location of their residence and employment. It is, more importantly, a component of capitalist development, of the structure and trajectory of capitalist economies.¹

My argument is that labor migration flows reach significant dimensions when the receiving country state generally does not have the ability to constrain or control rent-seeking behavior on the part of private sector (employer) interests. There are alternative solutions for addressing perceived labor shortages (such as increased investment to achieve higher labor productivity, and relocating production to low-wage countries), but those solutions require inducing employers to make choices that are often difficult and not necessarily the most profitable. Importing foreign workers may be the path of least resistance, the cheap and easy solution from employers' point of view (especially for nontradables like construction) – though from other points of view importing labor is costly on many levels, especially in the long term. Receiving country governments, therefore, can frustrate this preference only if they work from a position of strength *vis-à-vis* capital. Whether a country imports low-skilled labor, then, depends heavily on state policy making processes, concerning not simply immigration policy but economic governance more generally.

A central innovation here is to consider employers' pressure for access to foreign labor as a form of rent-seeking. When governments permit importation of unskilled (and perhaps also skilled) labor, they subsidize the profits of employers of such labor, under conditions described below. Governments (taxpayers) also absorb externalized costs associated with the use of foreign labor. Policy makers devoted to some conception of the public welfare might well object to this transfer of resources from taxpayers to employers, especially to the extent that cheap foreign labor also undermines positive structural economic transformation (an admittedly arguable proposition). What matters most, however, is whether the institutional structure of the state allows policy makers to resist employers' pressures, foreclose the foreign worker option, and restrict employers to alternative means of resolving labor shortages. The relevant structural factors are described best in the literature exploring connections between development and the state: a government in a developmentalist state (such as Japan) is more successful in pursuing alternatives to foreign labor, while a government in a clientelist state (such as Israel) is more likely to succumb to employers' demands for access to foreign labor.

The argument is restricted in its scope to those countries that have faced the question of whether to import labor after 1970. As explained below, I assume that during this more recent period importing cheap labor is a policy option pursued only with great reluctance on the part of key decision makers. This reluctance derives from awareness of how guestworker programs affected the European countries that began importing workers earlier. Many of the significant drawbacks of using foreign labor became apparent to observers in and of countries like West Germany and France during the late 1960s and early 1970s. Countries that faced labor shortages (and employers' demands to import labor) at a later

stage had the opportunity to draw lessons from that experience. Labor migrations that have begun since roughly 1970, then, are a different phenomenon from migrations that began in an earlier period. Gerschenkron established that the explanation for “late development” had to be different from the explanations for development in countries such as the US and Britain.² The same point holds for labor migration. Less developed countries do not see their future in the past of the advanced countries: the environment changes precisely because of this history, and therefore the phenomenon of labor migration changes as well. This is an important distinction, and its significance is that my theoretical claims here are not meant to apply to the earlier period, *e.g.* to the cases of Turks in West Germany or Algerians in France.

THEORETICAL PRELUDE: RENTS, EXTERNALITIES, AND THE STATE

The matter of concern here is the extent to which advanced capitalist countries turn to low-wage foreign labor in response to labor shortages, as against reliance on functional substitutes. Against some theoretical perspectives in this field, I start with the propositions that use of low-wage foreign labor is not inevitable in advanced capitalist countries and that there is real variation in labor migration outcomes among such countries.³ There is a crucial methodological principle that poses serious challenges to much of existing migration theory: to explain a “dependent variable,” one must pay attention to variation in that variable.⁴ Migration scholars have tended to study migration only where it has happened; little attention has been given to cases where migration hasn’t happened. Even quite insightful analyses have encountered this difficulty; Hollifield, for example, offers an explanation for post-war migration constructed from analysis only of positive cases.⁵ Japan is identified as an anomaly, but no theoretical hay is made of it.

To begin to explicate potential causal factors, I will make the case that foreign worker programs are often perceived as unwise ventures by most interested parties – with the significant exception of employers of foreign workers. The key point here is that such programs concentrate short-term benefits on employers but impose long-term costs on other interests⁶; as such they constitute a transfer from the latter to the former. The language of costs and benefits might raise the question of whether the latter outweigh the former, so that importing foreign workers can represent a net gain for the receiving country as a whole. I suggest that this question is less important – and less relevant to policy makers – than the issue of how employment of foreign workers leads to this sort of transfer: if employers benefit a great deal and consumers and taxpayers lose just a bit less, it will nonetheless be difficult to conclude that the resultant net national gain is worth pursuing. The point does not extend to the question of benefits of immigration more generally (about which there is significant disagreement); instead, the point relates specifically to *guestworker* programs.

The contention that guestworker programs are (in reality and in perceptions of scholars and policy makers) highly problematic is strengthened when we take a broad view of what counts as costs and benefits. The limits of a narrowly economic view are obvious and well known: we can consider not only the effect of foreign workers on such measures as GDP per capita but also social and political costs. In other words, while there is disagreement about the economic impacts (concerning *e.g.* whether foreign labor delays or facilitates industrial rationalization), there is a consensus about the broader impacts,⁷ as expressed in a piece by Philip L. Martin and Mark J. Miller:

These programs [*i.e.*, in Western Europe] have produced a widespread sociopolitical malaise, evident first in the integration problem that has developed to the point of altering the sociopolitical fabric of Western European democracies ... [and] has also fostered right and left-wing political extremism, which periodically erupts into violence.... Second, the presence of a large alien population without full rights has been detrimental to the functioning and legitimacy of Western European democracies.⁸

The fact that these impacts are more difficult to measure than economic factors has not inhibited analysts from recognizing their fundamental significance.

This discussion will focus on two common features of foreign worker initiatives. The first is that foreign labor typically involves significant externalities – costs associated with its use that are not borne by its employers (policing, infrastructure, etc.). More fundamentally, the settlement of foreign workers in the receiving country typically results in the creation of distinct minority groups. Through no fault of their own, these communities often create or constitute – at least from the point of view of their “hosts” – social problems that call for attention from governments and, therefore, government budgets. Settlement is unanticipated, undesired, and nevertheless inevitable, and foreign workers are typically concentrated in ghettos that embody problems common in ghettos everywhere: most notable are inferior education and social isolation, which help reproduce the disadvantaged position of the new minority group(s). Over time this stratification becomes a problem not only for the minorities themselves but for the larger society, as the immigrants and their descendants become part of “us” rather than remaining simply as “them” and as the immigrants themselves become politically active.⁹ One need consider only briefly the history of American race relations to appreciate the magnitude of this sort of problem: Martin and Miller assert that “foreign workers have given rise to a European variant of what Gunnar Myrdal termed ‘the American dilemma.’”¹⁰

The second feature relates to the fact that legal foreign workers typically hold permits that tie them to a particular employer. This politically determined restriction allows employers to pay such workers less than they could otherwise get in the open labor market.¹¹ This lowering of wages (relative to a competitive rate) results in a “quota profit” for the employer: the decreased wage bill creates additional profits that increase with the number of permits for workers an employer can acquire from the government, when the overall number of permits available is limited.¹² If permits are inequitably distributed (say, in consequence of political connections), those who succeed in acquiring permits for foreign workers would see their production costs decline relative to those of producers relying on citizen labor. The market price of the product would not decline by as much, and the firm employing foreign workers would enjoy increased profits.

Even when permits are distributed “equitably” (say, according to firm size), we can expect profits to be higher than they would be in the absence of foreign labor. (As we shall see, permits to employ foreign workers in the Israeli construction industry are not distributed equitably). If a main hypothetical alternative to foreign labor is more expensive domestic labor¹³ (perhaps also requiring capital investment to make that labor more productive), the increased product prices associated with this option should, in competitive market sectors at least, result in decreased demand, decreased sales, and a diminished volume of profit. *Ceteris paribus*, access to cheap foreign labor facilitates lower costs, greater sales, and thus larger profits than would otherwise be possible. Of course, in this instance, consumers also benefit from the lower costs. But in certain key sectors, the benefits of cheap foreign labor will not reach consumers.

The main sector of interest here is construction. The excess profit mechanism is especially relevant to sectors, like construction, where product prices are determined more by the level of consumer demand than by production costs (given a relatively inelastic supply). If a contractor can sell a house at a demand-determined “market price” independent of production costs, then every dollar saved on labor is an extra dollar of profit for the contractor: labor cost savings are not passed to consumers, and in those instances the availability of foreign labor can be a significant boon for employers, with few obvious benefits for consumers.

The extra profits deriving from employment of foreign labor are usefully conceptualized as rents¹⁴ – or, more specifically, monopoly rents.¹⁵ They derive from access to a scarce commodity/factor (foreign labor) via government concessions (employment permits) where the return on the factor is greater than the cost of putting that factor into use. A similar point holds concerning externalities: to the extent that the prices of certain products do not reflect the entire range of costs associated with them, the demand for them is higher and, therefore, the profits for producers are greater as well. Taxpayers in effect subsidize these profits for producers when governments provide access to cheap foreign labor and absorb some of the costs associated with its use.¹⁶ The additional profits can be characterized as rents. The subsidy character of these rents is reinforced when the tax burden is borne primarily by middle class earners and employers are predominantly upper class or bourgeoisie.

In other words, foreign worker programs are an area of government policy that is potentially fertile territory for rent-seeking (*i.e.*, rent-seeking of a specific type, as I will explain below). The question is then usefully put: what kind of state typically rewards rent-seeking via implementation of foreign worker programs? And what kind of state is more likely to follow an alternative path, including productivity increases and offshoring of low-productivity work, such that foreign labor is not “necessary” to the same extent as in other countries?

Posing the question this way allows us to connect concerns about labor migration with the literature on capitalist development and the state; this is the real usefulness of the discussion of rent-seeking in this context. Evans opposes the developmental state to the “predatory” state.¹⁷ In the latter, state power is used primarily to extract resources from the society for the personal benefit of the rulers. There is little or no rationalized bureaucratic capacity for governance beyond keeping order (if even that), and the lack of ties to the dominant social class means there are few constraints on the arbitrary actions of government officials. But few if any developed capitalist countries have a state of this type. A more appropriate contrast to the developmental state in the present context draws on a refinement to Evans’ typology suggested by Wright.¹⁸ When there is a high degree of embeddedness between the state and civil society but a weakly rationalized – or simply weak – bureaucracy, we may speak of a “bourgeois clientelist state.” Such a state facilitates unconstrained rent-seeking, but because of the ties between government officials and the dominant class, private elite groups as well as government officials can use state power for their own self-aggrandizement.

In contrast, a developmentalist state typically does a better job of directing rents only to firms that engage in activities that advance the state’s interest in a particular form of economic transformation. Rent-seeking is by no means absent in a country with a developmentalist state – a fact well illustrated by the pervasiveness of rent-seeking in Japan.¹⁹ Rather, the state is more successful in preventing private interests from gaining rents purely as a result of their political power, without regard to the intended purposes for which the state is making such resources available. In Alice Amsden’s words, the key issue is whether *quids* are given only in return for meaningful *quos*.²⁰ When a subsidy is

offered in exchange for a certain level and type of export performance, for example, the government needs to be able to enforce the terms of the policy, to ensure that the subsidy does not simply become an unconditional entitlement. In this regard we might make a distinction between productive and unproductive rent-seeking, *i.e.*, from the point of view of state policy makers.²¹

A developmentalist state is characterized, first and foremost, by the dominance of the professional bureaucratic staff over politicians with regard to policy making authority or power.²² The autonomy of the state – and thus the ability of the government to pursue policies intended to advance the general welfare – is enhanced when decision makers are insulated against the political pressures of private interests; a core insight of the developmentalist state literature is that the professional staff can resist such pressures more successfully than politicians, whose personal interests are inevitably bound up with the interests of particular constituencies. The importance of state autonomy derives from the basic logic of state-led development, *i.e.*, using state power to address “collective action” problems and get private actors to make decisions they would not otherwise make, *i.e.*, because of market forces alone. Investors, if left to their own devices, would follow certain paths simply because they expect to profit from doing so. When the government attempts to alter their choices, some investors are likely to face diminished profit opportunities; government actions stand to harm their interests. To implement such policies, the core decision makers need not to depend excessively on these private actors for their own reproduction. Other important characteristics of a developmentalist state include a bureaucratic culture rewarding rule-based (as against personalistic) behavior, high prestige for professional bureaucrats, and long-term single-party dominance. Evans’ key contribution is to emphasize that the state must be not merely autonomous from society but embedded in its society: unless the state is going to count primarily on coercion as a mode of policy implementation, it needs to secure the cooperation of the relevant private sector interests that are the objects of the policy.²³

Clientelism results to a certain extent from the absence of the features characterizing a developmentalist state. In some societies (e.g. the US), clientelism will appear as the normal mode of doing politics/policy – an understanding that highlights the extent to which clientelism is not a disappearing vestige of traditional societies but a basic feature of politics in many modern societies.²⁴ In a specifically bourgeois clientelist arrangement, political support becomes a means for private actors to extract resources from the state. The resources in question may be direct government expenditures, but they are just as likely to be economic policies beneficial primarily to certain private interests (and with little or unclear public purpose). Clientelism remains a primary mode of policy formation either when politicians (and not bureaucrats) make the important policy decisions or when the bureaucracy itself is staffed by political appointees beholden to particular interests. In both cases we are referring to an institutional feature of the state that indicates a significantly expanded role in policy making for private interests (especially business) – expanded, that is, relative to the role for such interests in a developmental state.

Given the opportunities for unproductive rent-seeking associated with initiating foreign labor flows, my argument is that foreign worker initiatives are more likely to be adopted in a country with a clientelist state than in a country with a developmentalist state. A crucial piece of the explanation of labor migration, then, is that the state in the receiving country in question does not have the capacity or the structural characteristics necessary to induce or facilitate the various structural economic changes that can minimize the demand for and use of foreign labor. Instead, the state is a

vehicle for rent-seeking, as employers press a policy of importing foreign labor. There is a strong element of path-dependence here: once a country has allowed employers to import foreign workers, it becomes much more difficult to alter the direction of policy and attempt the productivity solution. On the other hand, if the productivity-centered solution to labor shortages is successful in the first instance, foreign labor comes to appear to employers as less “necessary.”

This argument is intended as a refinement of Gary Freeman’s discussion of immigration policy and clientelism.²⁵ Freeman’s analysis of clientelism is similar to the one presented here: employers exploit weaknesses of the state to gain access to cheap foreign labor. What is missing, however, is recognition of the fact that not all liberal democratic states import large numbers of foreign workers – perhaps because not all liberal democratic states are characterized by the same degree of clientelism. The key to advancing the argument is explicit attention to variation, studying countries with few foreign workers as well as those with many.

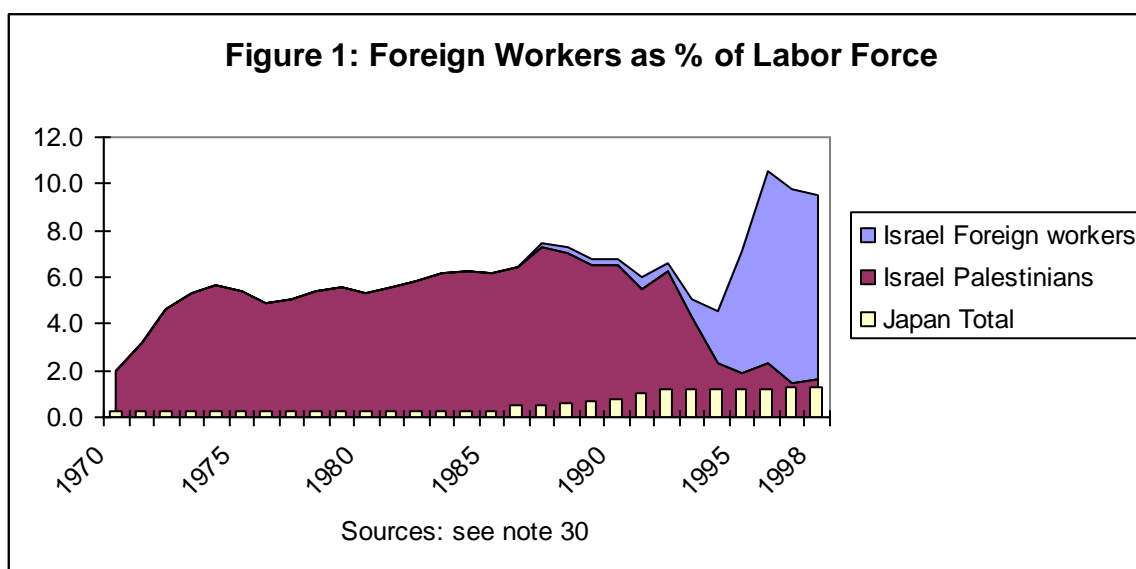
The primary conflict portrayed here is between employers and the state. For the two countries in question, the organization of labor (construction workers in particular) is not a factor that differentiates them. Construction workers in Israel (especially foreign/Palestinian workers) are not well organized. But the same is true of Japan: Pempel and Tsunekawa’s well-known discussion refers to “corporatism without labor.”²⁶ The organization of labor might be a relevant factor under-pinning state structure and strategy for other countries, but it will not be considered in depth here.

The Weaknesses of Existing Theory and the Logic of the Comparison

The paper contrasts Israel’s experience with imported labor to Japan’s alternative approaches to resolving labor shortages for unskilled workers. Each country experienced serious labor shortages at different times, and so the discussion relates to those different periods: Japan first in the late 1960s and early 1970s, and Israel in the early and mid-1990s.

The empirical discussion begins with the observation that Israel has many foreign workers (as a percentage of its labor force) while Japan has relatively few. In 1996, foreign workers constituted approximately 8.4% of the Israeli labor force (including a conservatively estimated 75,000 undocumented workers, but not including an estimated 20,000 non-citizen Palestinians from the occupied West Bank and Gaza).²⁷ In Japan in the early 1970s, on the other hand, and despite a labor shortage that received a great deal of attention in the government and the media,²⁸ foreigners constituted approximately 0.3% of the labor force; most of these individuals were permanent residents of Korean origin, and the “guestworker” type was virtually non-existent, apart from a few thousand “trainees.”²⁹ Even by the mid-1990s, the figure remained below 1.5%, including undocumented workers and permanent residents (see Figure 1).³⁰ The Japanese figures, then, are near the low end of the range describing OECD countries, while the Israeli figures are near the high end of that range. I will explain this difference by connecting it to the clientelist nature of the Israeli state as against the developmentalist characteristics of the Japanese state. Some methodological issues must be discussed first, however.

At first glance the comparison between Israel and Japan may seem odd, given a cursory consideration of the very significant differences between them. If they are different in many respects, how can we hope to establish that the cluster of variables relating to state structure really accounts for the difference in the outcome variable of foreign workers?



As it turns out, the comparison is useful not in spite of these differences but *because* of them. The most important factors that ought to complicate and inhibit the comparison concern the differences between the two economies themselves. Japan, a very wealthy country, has an extremely large and diverse economy. Israel is much smaller and less diverse, with a per capita income that places it towards the lower end of high-income countries as defined by the OECD. Does this difference help account for the different levels of foreign workers in the two economies? We may be tempted to answer yes, until we consider that, according to existing migration theory, we would expect on these grounds that the outcome would be *the opposite* of what it is in reality. In other words, the comparison is theoretically fruitful precisely because it demonstrates a key weakness of existing theories: these accounts are unable to explain both why some countries have many foreign workers while others (such as Japan) have relatively few. That is, they do not successfully account for variation.

For example, in neo-classical economic theory, economically more advanced countries are said to “need” cheaper foreign workers, which are supplied by workers from poorer countries who seek to increase their wages.³¹ But the “development” gaps between Israel and its regional neighbors (and other senders of workers) are not different in a meaningful way from those between Japan and its neighbors, yet Israel's labor force contains a much higher percentage of foreigners. In 1970, Japan's per capita GNP was more than 7 times that of South Korea, almost 9 times that of the Philippines, and at least 7 times that of China³². In 1993, Israel's p/c GNP was approximately 9.5 times that of Jordan, 17 times that of Egypt, 4 times that of Turkey, 11 times that of Romania, and 6 times that of Thailand.³³ Workers came to Israel not from Egypt or Jordan but from countries (Romania, Thailand, and Turkey, among others) with multiples that both exceeded and did not exceed the multiples relating to Japan. There is no theoretically meaningful empirical pattern here.

The point holds concerning other respects in which the countries do not differ significantly. According to the dual labor market theory of labor migration, a large secondary economic sector is fertile territory for the assimilation of a foreign labor force.³⁴ But both Israel and Japan are characterized by a high level of economic dualism in their labor

markets. According to world-systems theory, strong investment, trade, military, and colonial ties typically lead to labor migration.³⁵ But Israel and Japan both have such ties with many countries. Moreover, the main sending countries to Israel (with the significant exception of occupied Palestine) – Romania and Thailand – do not have especially strong relationships with Israel of the type often thought to precipitate labor migration. Japan, despite a long history of military conquest and occupation in East Asia – not to mention its role as regional economic superpower – has not experienced labor immigration on nearly the scale of Israel or of the main European receiving countries.

In discussions of foreign labor in Japan one often encounters the claim that Japan's closure to foreign labor derives in large part from a marked xenophobia and a desire to maintain a high degree of homogeneity.³⁶ This is an important alternative hypothesis. In this context it might be imagined that Israel, a country that already has an ethnically diverse population, is not characterized by the same cultural closure to foreigners. While Israel is open to immigration, however, it is of course open to immigration only of a very specific kind, *i.e.*, of Jews. There is no plausibility in the claim that the presence of foreign workers in Israel derives from a greater openness to the increased presence of non-Jews from around the world; in fact, that presence was explicitly not desired at a popular level and has become highly problematic. (Foreign workers in Israel, particularly the unskilled ones, are by definition non-Jewish; if they were Jewish they would have immediate access to citizenship and would not require work permits.) The two countries differ culturally in a variety of important ways, but those differences do not add up to a distinction that helps account for their different policies with respect to low-level foreign labor. Despite some cultural differences, Japan and Israel share a marked particularism with respect to foreigners.

In fact this particularism is also shared by other labor importers, most notably Germany: it would certainly not work to argue that West Germany in the 1960s imported Turks and Yugoslavs because it welcomed an increase in cultural or ethnic diversity. In fact it would seem that the issue of guestworkers is likely to become salient precisely in those countries (experiencing labor shortages) that wish to maintain a sense of homogeneity: guestworker programs start with the notion that the workers will meet a temporary need and then leave when that need ends, thus posing no real long-term threat to homogeneity. Classic immigration countries such as the US and Canada can satisfy their labor needs by accepting more immigrants, *i.e.*, as candidates for permanent residence and thus full social membership. These immigration flows have drawn on a diverse set of origin countries and cultures. The empirical contrast is not complete: continued American use of Mexican guestworkers testifies to the fact that some types of potential immigrants are in fact not welcome as full social members in the US, at least not in greater quantities. But that fact simply confirms the more general point: guestworker programs become relevant when workers are required but the actual people involved are considered undesirable as, well, people. What is surprising, then, given that Israel, Japan and Germany (among others) embody an ethno-cultural sense of nationhood, is not that Israel and Germany have imported guestworkers but that Japan has not. The claim that a desire for homogeneity explains Japan's aversion to foreign workers fails to appreciate the more general problem and thus starts with the wrong premise.

More importantly, however, while aspects of Japanese culture might lay the foundation for a *desire* to exclude foreign workers, culture is insufficient as an explanation for the country's *ability* to maintain both an exclusionary immigration policy *and* a reasonably successful economy (at least in certain periods). The ability to satisfy both economic and cultural "imperatives," I will argue, is rooted in a particular state structure that facilitates a particular mode

of economic governance. The Israeli state falls short precisely in this respect: state structure, not culture, makes the real difference between the two countries.

The main point here is that, once we consider the two countries *in terms of existing theory* concerning labor migration, we see either that the main differences lead us to expect outcomes quite different from reality, or that the countries do not differ in terms of factors that should be presumed, on theoretical grounds, to explain the (different) outcomes. Odd as the comparison may seem, then, it is therefore quite promising for exploring an argument concerning how state structures help explain labor migration. The comparison is especially useful insofar as it highlights the lacuna of existing theory (the neo-classical economic account in particular.)

I will argue here that the different trajectories of Israel and Japan concerning foreign labor policy are best explained by the difference in state structures with respect to economic governance. In Israel the structure of the state frustrated policy makers' efforts to implement the kind of policy measures that would likely have significantly reduced the demand for cheap foreign labor. The policy process for at least some economic issues in Israel exhibits a number of characteristics that sharply distinguish it from economic policy making in a (formerly) developmentalist state such as Japan. In particular, this process is highly politicized, fragmented, and marked by a short-term perspective. These characteristics mean that in many cases private interests have the ability to block changes that threaten their interests, and in particular their profits. This statement is especially true concerning the difficult changes that would have been required for restructuring the construction industry in Israel, a precondition for limiting the number of foreign workers while also achieving other goals important to the Israeli government.

In Japan, on the other hand, state economic governance was already geared to facilitating the kinds of changes that were compatible with minimizing the need for low-level foreign labor. The point is phrased carefully: I do not assert that economic governance in Japan took as its primary *task* the minimization of foreign labor. Instead, the argument is simply that the government's economic bureaucrats have long attempted (successfully, in important instances) to achieve other objectives that also happened to support a closed-door policy with respect to low-level foreign labor. These objectives included (foremost, for our purposes) continual advancements in labor productivity through adoption of capital-intensive production processes.³⁷ Depending on the characteristics of the relevant product market, a production process with higher labor productivity will typically demand workers with higher skills and offer employment with greater stability and higher wages.³⁸ These characteristics will maintain the attractiveness to citizens of such jobs. While Israeli economic policymakers profess commitment to comparable aims, what really matters here are the *conditions for success* of policies intended to achieve them. This is the central relevant respect in which Israel and Japan differ, and I will demonstrate both that this difference is the key to understanding their contrasting experiences with foreign labor and that the difference centers on the nature of the Israeli and Japanese states.

The differences between the two countries amount to a need for use of different types of data. In Israel the story is about the rapid growth of a foreign labor force and the failure of policies that might have prevented that growth; in Japan the story is about the non-emergence of a large foreign labor force and the relative success of economic policy. The use of different methods relates as well to the fact that foreign labor in Israel is a relatively recent and not well documented phenomenon; research concerning Israel therefore has required primary data

collection, including interviews with political and economic elites. In Japan, on the other hand, the topics of foreign labor policy and economic governance have been treated extensively by social scientists; I am therefore able to rely mainly on existing analyses.

Different Paths

The contrast in the two countries' use of foreign labor is quite striking. The relevant indicator is the percentage of the labor force occupied by foreigners – or, more to the point, low-level foreign workers (as distinct from professionals, managers, etc.). In absolute terms, Japan has several times as many foreign workers as Israel – there are currently something like 1 million foreign workers in Japan, as against roughly 250,000 in Israel.³⁹ But the percentages tell the true story, as discussed above.

The issue of foreign labor in Japan has received a great deal of scholarly attention in the last decade, as observers rushed to account for what appeared to be the end of Japanese exceptionalism in this regard. The numbers of foreign workers appeared to be increasing substantially, and it was that increase that (for some) demanded explanation. This reading of the Japanese case misconstrues two essential aspects of the problem. First, even if it were true that Japan was becoming more like some Western European countries in its use of low-level foreign labor, this development would not erase the historical fact that Japan's very impressive economic growth in the 1960s and early 1970s took place *without* foreign labor, unlike that of Western Europe. Second, even though the population of foreign workers in Japan did increase rapidly beginning in the late 1980s, the growth began from a very small base, and as a percentage of the Japanese labor force foreign labor remains a rather insignificant phenomenon in comparison with foreign labor in countries such as Germany, Switzerland, and France. The impulse to explain "the presence of foreign workers in Japan" helps obscure these more noteworthy features of the Japanese case. What really demands explanation here are the twin facts that the numbers remained so small for so long and that they are still quite low in comparison to other relevant cases. In this sense it is useful to conceive of Japan as a "negative case" of labor migration – particularly because (as noted above) existing theories of labor migration would lead to the prediction that Japan should have large numbers of foreign workers.⁴⁰ I will argue that this description is especially relevant to Japan's first engagement with this question, in the late 1960s and early 1970s, when labor shortages and rapid economic growth first led employers to demand access to foreign labor.

There are some idiosyncratic elements of the Israeli case as well, though the real point is that more recently Israel has in truth become much more like the Western European countries that have a longer history with guestworkers. Israel had no foreign workers through the mid-1960s, though it did have very large immigration flows, most of which came from poor countries. Israel's 1967 victory in the Six-Day War gave it control over a (Palestinian) population that before long began supplying labor in Israel proper. The interests of policy makers in this instance derived more from political and security than from economic considerations: giving Palestinians access to Israeli wages was perceived as an important means of muting opposition to Israeli control over the West Bank and Gaza.⁴¹ In the early 1990s, however, Israel began importing workers of the more traditional guestworker type, mainly from Romania, Thailand, and the Philippines. This organized immigration was quickly followed by a very substantial increase in the population of undocumented workers from a very large number of countries, especially

from Eastern Europe and Africa. In many cases these new workers were used to replace Palestinians who were unable to reach their jobs because of border closures that followed terrorist attacks in Israel. In both cases the most important sector of employment is construction; other key sectors are agriculture, domestic labor, and restaurants/hotels.

The fact that these workers in some cases replaced Palestinians has led some observers to form the impression that Israel's "security" situation is the main factor accounting for the decision to import foreign labor. This is another important alternative hypothesis, competing with the notion that that decision derived from institutions and state structures. The problem is that the new guestworker program and the new undocumented worker populations quickly outgrew the dimensions of the earlier use of non-citizen Palestinian labor: at its peak, employment of Palestinians involved approximately 125,000 workers, as against approximately 250,000 foreign workers. Moreover, tens of thousands of Palestinians eventually reentered the Israeli labor force as well, such that in an extended perspective the new foreigners are a *substantial addition* to the labor force rather than simply a replacement for Israel's more traditional foreign labor supply. This is not simply a substitution of one type of worker for another, driven by security considerations; this is a very significant change in the structure of the Israeli labor force. Geo-politics and security considerations probably acted as a catalyst for the change, but the change is structural and I will argue that it derives from more basic structural forces. In addition, the difficulties with Palestinian workers during the first intifadah could have been viewed as an opportunity for economic change in sectors that had relied on Palestinian labor (instead of a crisis demanding resolution through replacement from other cheap labor sources). In fact, some Israeli officials (*e.g.* in the Finance Ministry)⁴² *did* take this perspective, though their voices did not carry much weight in the end. Security considerations dictated only the closure of the borders to Palestinians – these considerations did not determine that it should follow that those workers should be replaced by other foreigners – and in even greater numbers. In the short term, perhaps, a limited replacement supply of labor made sense, along with a concerted effort to obviate the need for Palestinian workers, *i.e.*, through restructuring of the construction industry in particular – which would have provided more jobs that Jews would have considered acceptable. Instead, Israel failed to accomplish this restructuring and brought a much larger number of foreign workers – outcomes that security considerations alone cannot explain.

It is worth emphasizing that policy makers in both countries have been extremely reluctant to allow employers to hire foreigners in the lower reaches of the labor market. In both instances key government personnel have made frequent public statements demonstrating familiarity with the Western European guestworker experience. It is likely that Japanese policy makers were familiar with the West German situation in particular, as Japan frequently looked to Germany for guidance: "Because of the many striking parallels between the two countries, and because Germany modernized at an earlier date, Japan has a long tradition of seeking to draw lessons from the German experience."⁴³ I cannot provide direct evidence that Japanese policy makers decided to exclude unskilled foreign workers in the early 1970s because of lessons they drew from West Germany or other countries in Europe (lessons such as the inevitability of family reunification and permanent settlement and resultant socio-political tensions).⁴⁴ But it seems implausible that Japanese bureaucrats were not aware of the concerns being raised there. In the more recent period that awareness is beyond question.⁴⁵

The notion that Japanese policy makers were aware of the disadvantages of foreign labor would hardly be surprising; after all, the overall thrust of policy there has been to prevent significant growth in the low-level foreign worker population. But Israelis too drew on the European experience to warn against the temptations of foreign labor. Already in 1988 a newspaper editorial invoked lessons from the European experience (high social costs, the illusions about “return”).⁴⁶ Key informants in the Labor and Finance ministries demonstrated significant awareness of that experience as they indicated to me the basis of their opposition to the idea.⁴⁷ So the real task is to specify the conditions for successfully avoiding foreign labor. As indicated above, those conditions are intertwined with the broader relations between the state and the economy in each case.

ISRAEL: FAILED ATTEMPTS AT ALTERNATIVE SOLUTIONS

The rapid growth of non-Jewish foreign worker populations in Israel is a striking development, utterly at odds with the understanding most Israelis (Jews in particular) have of their country. Explaining this development requires, among other things, understanding why efforts to resolve labor shortages in other ways failed. Here I explore the failure of efforts to convince Israelis to work in construction as well as to modernize the construction sector to reduce demand for labor; I then connect these failures to the structural weakness of the Israeli state. Finally, I show how employers exploited that weakness to secure the government’s consent to a policy of importing labor.

Production methods in the construction sector in Israel, especially for residential construction, are quite primitive⁴⁸ – in no small measure because contractors relied on a plentiful labor supply from the occupied West Bank and Gaza Strip for labor for more than two decades. The work itself requires certain skills, but the skills involved can be likened to the skill of sewing shirts by hand. A study commissioned by the Israeli Ministry of Housing and Construction found that capitalization and productivity are low: Israeli contractors invest an average of \$8,000 per worker, compared with an average of \$30,000 per worker in 14 other advanced industrial economies.⁴⁹ Moreover, the sector is relatively undercapitalized to a greater extent than other Israeli economic sectors: in construction the ratio is 27% ($8,000 \div 30,000$), whereas the ratio for other economic sectors is closer to 35%. Worker productivity is low as well: the average yearly output per worker is about \$50,000, while the average across the other 14 countries is typically in the range of \$80,000 to \$100,000. The work itself is dirty and the wages are low relative to wages in other sectors, and so, unsurprisingly, the jobs are unattractive to Israeli citizens. Israelis make up a majority of those employed in the construction sector as a whole, but they are seldom found working in certain key occupations – particularly in jobs involving work in concrete, plaster, ironwork and flooring (often called “wet work” in Hebrew). This is the heart of the labor supply problem and the main reason typically given for importing foreign labor.

The usefulness of the Palestinians as a labor force came into question during the 1987-1993 Palestinian uprising (*intifadah*), as the Israeli security forces and Palestinians themselves frequently prevented workers from arriving to their jobs in Israel. This was the first occasion where Israeli policy makers began to raise concerns about the parameters of the construction sector. In subsequent years there were several attempts at change, directed at increasing the presence of Israeli workers in the sector and minimizing dependence on Palestinians. The

government's efforts fell under two broad headings: training Israeli workers, and offering incentives to contractors to adopt less labor-intensive building methods. Both policies failed quite miserably, a fact that had direct implications for the government's response to employer demands for foreign labor. The next section discusses the reasons for these failures.

Training and structural transformation

There have been several episodes of worker training since the late 1980s, directed in particular at unemployed Israelis and young soldiers nearing the end of their mandatory service. The premise of these programs has been that Israelis are in fact willing to work in construction but that contractors generally do not want Israeli employees because they do not know how to do the work. The government has therefore subsidized both the training courses themselves and the contractors' cost of employing the novice workers. Some informants asserted that the money budgeted – roughly \$25 million between 1993 and 1997 – was a significant amount.^{50, 51}

The success of the program is indicated by the extent to which the trainees continued to work in the construction sector. One indicator of the Israeli government's frustrations in making such programs work is that reliable data on such matters are often not available. One Labor Ministry official⁵² asserted that only 20% of those who had been trained were still working in construction two years after completion of the training program. A representative of the Contractors' Association disputed that figure but allowed that it was below 40%⁵³; this person directed a section involved in the training programs and arguably had an interest in touting their success. Typically, trainees followed two paths: the young soldiers continued to work in the sector long enough to get a contractors' bonus (the Contractors' Association's main contribution to the program) and then used that money for an extended period of travel abroad – a common experience for Israelis who have finished their mandatory military service. Older unemployed workers were more likely to remain in construction work longer, but typically they became small subcontractors themselves and then looked to hire others for the undesirable work.⁵⁴

Several informants, including some of the Labor Ministry officials responsible for implementing the training programs, asserted that their real function was to provide cheap labor to the contractors.⁵⁵ The government paid workers' wages during the first three months of on-site training, *i.e.*, at regular construction sites operated by contractors. Once the period of apprenticeship was complete and the workers began requiring actual wages from the contractors, the contractors were said to be less interested in continuing to employ the Israeli workers, who were bound to be more expensive and less malleable than the Palestinians.⁵⁶ It is especially revealing that every government official with whom I discussed the program who was involved in design or implementation said he or she had either actively opposed its creation or predicted it would fail.⁵⁷ Several claimed that the program was pushed by politicians for political reasons: in particular, the politicians wanted (so the argument went) to create the *appearance* of “doing something” about the twin problems of high unemployment among Israelis and the shortage of labor in the construction sector. The professional staff uniformly referred to this effort as a waste of time and money. The main problem, in their view, was that it was impossible to attract Israelis to construction work without first changing the basic parameters of employment in the sector: wages, working conditions, and the nature of the work

itself.⁵⁸ Training workers had no impact on these structural issues and merely offered short-term incentives for short-term changes in the actions of individual workers. The contention that the program's main function was to provide cheap labor indicates in a preliminary way the rewards of rent-seeking in the Israeli state: contractors received resources through government budgets without having to engage in the behavior the program was designed to elicit.

Along with training workers, the Israeli government has tried to induce the kinds of structural transformations in the construction sector that might in fact make it possible to attract Israeli workers to construction. These efforts were seriously undermined by the very fact of allowing employers to import foreign labor: some observers and officials noted that if employers, deprived of their Palestinian workers by government security policies (border closures), had to pay the wages Israelis would demand for construction work, contractors would quickly find it in their interest to make investments in increasing labor productivity so that they could "justify" paying those wages.⁵⁹ Indeed, during the early 1990s when there were sustained problems with access to Palestinian labor, some officials argued that these problems constituted an opportunity to escape dependence on cheap (Palestinian) labor for the construction sector, through restructuring. But there were more immediate problems with the government's activities here as well.

Soon after the outbreak of the *intifadah* in 1987, the Construction Ministry began offering subsidies to contractors who adopted "industrialized" building methods, *e.g.* for using drywall instead of wet plaster for interior walls. As with worker training, however, there was no effective mechanism for determining whether the subsidies actually had any long-term impact. In this case the ministry did not know whether its bonuses were going to contractors who were actually switching methods or to (the few) contractors who were *already* using more advanced methods.⁶⁰ Again, government resources were given without guarantee that the contractors were doing what was desired of them, indicating a weakness in the government's capacity for economic policy. More recent efforts appeared to have even less practical import, despite periodic proclamations that the government is encouraging industrialized construction. One Construction Ministry advisor described a 1993 program as merely "declarative," involving exhortations.⁶¹ Another official in the Finance Ministry stated forthrightly: "We don't really know how to do it."⁶²

A 1995 program perhaps demonstrated even more confusion. The government again offered monetary incentives to contractors, this time for completing buildings more quickly. The premise here was that contractors would try to achieve this goal by switching to industrialized methods (and would hire Israelis to do the work). But the employers, who at this point were starting to reap the benefits of employing foreign workers, instead increased their demand for workers and used the workers they had more intensively (longer hours, etc.).⁶³

The contractors themselves expressed marked ambivalence about the government's intentions to transform the construction sector. Some officials of the Contractors' Association earnestly expressed support, saying that they "really wanted" to adopt more productive methods and employ more Israelis. But when asked about an actual proposal of the Construction Ministry to alter the incentives in this direction, one official said the Association opposed the policy: "We would be profitable, but less profitable."⁶⁴ In a product market where demand consistently exceeds supply, this statement makes sense. If selling prices represented a cost of production plus a standard

markup, then an increase in production costs for all contractors would not represent much in the way of lost profit opportunities for any particular contractor; such increases would be paid by consumers. But housing prices in Israel are only weakly related to the cost of production, such that any increase in costs represents a reduction of profit.⁶⁵ The contractors' opposition to any proposal that increased their costs (*e.g.* in the form of higher wages or increased expenditures for machinery) is hardly surprising.

The question then becomes whether the contractors were in a position to block real attempts to alter their behavior. There is a widespread perception among the professional bureaucrats I interviewed that they do have such power. The Labor Party was said to be very dependent on the contractors, especially during the Labor government of 1992-1996 (when the large increase in the foreign workers population occurred); a former director-general of the Labor Ministry asserted that the Finance and Construction ministers during this period were especially close to the contractors.⁶⁶ The president of the Contractors' Association in the early 1990s was also a senior official in the Labor Party.⁶⁷ A representative of the contractors themselves hinted at such influence: "Labor, Likud: we can talk to them, to the secular parties."⁶⁸ All democratic systems involve opportunities for private actors to influence policy outcomes. What matters most here, however, are the structural characteristics of the state (internal fragmentation, shaky coalitions, decision making power held by politicians as against the professional staff) that determine that such influence is decisive for policy making, particularly when that influence runs against official policy.

The Israeli government, then, lacked the institutional capacity for crafting and implementing a program that would have significantly changed the incentives for construction firms to invest in a different type of production (and to employ fewer but more productive workers). The desire for such a policy was apparent in the numerous interviews I conducted. Moreover, a number of informants expressed their views in ways that made it clear such an approach was the "official" policy of the government (industrialize the construction industry, and hire foreigners only as a "last resort"). It is precisely this gap – between policy as officially stated and policy as a coherent set of actions having an impact in the world – that indicates a lack of state capacity, at least in this particular area.

The Decision to Import Construction Labor

The Israeli government was under intense pressure in the early 1990s to increase the housing supply, especially to accommodate new immigrants. Palestinian terrorist attacks, which interfered with labor flows from the territories, were, from the government's point of view, very poorly timed in this regard. Some observers hold that these essentially contingent developments – a housing shortage and a construction labor shortage (as determined by geopolitics) – are sufficient to explain the government's decision to import foreign labor. I contend they are not (and that we must pay close attention to the structure of the Israeli state in constructing a satisfactory explanation). First, the rhetoric surrounding the policy debates on foreign labor was dominated by the notion that Israel had no choice but to import labor.⁶⁹ This notion was simply not coherent (which is not to say that its assertion did not have an impact). What policy makers really mean when they say there is no (alternative) choice is that the costs associated with the alternatives are too high. More precisely, they are too high for some particular interests that can avoid being forced to bear those costs. Labor markets in capitalist societies are markets where a commodity is traded. Social factors influence, to a greater degree than for other commodities, the determination of prices for the commodity

called labor power – but that commodity nonetheless has a price at which it can be traded. Israeli construction employers were indeed unable to attract Israeli labor – but only because they were unwilling to pay the wages Israelis would have demanded to accept such work. Understood in this context, the problem of housing immigrants and the closure of Israel's borders with the territories did not determine that the country would “have to” import labor. These factors merely changed the market conditions affecting the price of labor, by increasing its demand (*i.e.*, as production needs increased) and restricting its supply (as Palestinian workers were locked out by the government).

The second factor that vitiates the “contingency” explanation concerns the decision making process and thus brings us to a discussion of the state itself. In Israel, formal authority for issuing labor permits to noncitizens lies clearly and unequivocally with the Ministry of Labor (upon whose recommendation the Interior Ministry issues the corresponding entry visa). The Minister of Labor in the Rabin government, Ora Namir, first confronted the foreign labor question by refusing to grant such permits.⁷⁰ In a different type of state, had she persisted in this refusal there would have been no significant growth of legal foreign workers in Israel. As it turned out, Namir was overruled and the Labor Ministry's authority in this matter was usurped.

In this context it matters deeply that the decision making process in Israel was highly politicized; this is the key component of the institutional foundations of clientelism that bear exploration here. The series of decisions that constituted the Israeli policy of importing labor was made entirely at the highest political level of the government, by cabinet ministers. There was a lack of clear ministerial jurisdiction over specified policy areas. The bureaucracy was fragmented and the professional staff had no real influence on the outcome. As such, the policy process itself was marked by a very short-term time perspective. It was – most importantly – open to influence of private interests to a significant degree. The rest of this section explores these contentions in greater detail.

Other observers of Israel have discerned a substantial dimension of clientelism in a general sense: Roniger, for example, writes that “access to ... many public goods and publicly distributed private goods is mediated to a large degree by representatives of the major segments, be they religious groups, political parties, linguistic communities, local units, or some other entity.”⁷¹ Our particular interest here, however, is the institutional characteristics of the state that facilitate such arrangements for policy-making.

The lack of clear jurisdiction enabled certain politicians to take initiatives that in other settings would likely have been blocked by other types of actors more confident of their authority and power. Again, the formal authority in this matter belonged to the Labor Ministry. Labor Minister Namir steadfastly refused to issue permits for foreign workers when contractors began requesting large numbers of permits in April 1993. The Minister of Construction (Ben Eliezer), under pressure from the contractors, therefore approached Prime Minister Yitzhak Rabin, in whom he found a sympathetic ear.⁷² In negotiations with Rabin and Ben-Eliezer, Namir “agreed” to cede her authority in this matter (knowing that she was out-gunned), and decisions were henceforth taken either by a committee of these three ministers or by the cabinet as a whole. The venue of the decisions did not follow any discernible logic from that point on: it simply happened on occasion that the Construction or Agriculture ministers would raise the issue at the weekly cabinet meeting, and the cabinet would proceed to vote on increasing the quota of permits, despite the fact that the issue had not been on

the agenda.⁷³ In addition, while the Labor Ministry *issued* the work permits for foreigners, the permits were *distributed* by the Contractors' Association itself.⁷⁴

A core claim of developmental state theory is that states can play a constructive role in economic development when the power of politicians to make policy is limited, relative to that of professional bureaucrats. The Israeli case does not conform to that model. The decision making process concerning foreign labor was almost entirely divorced from the professional staff of the relevant ministries. One minister who might have been expected to vote against these proposals was Avraham Shochat, the Finance Minister. The top-level professional staff of the Finance Ministry opposed foreign labor from the outset.⁷⁵ In particular, David Brodet (Budget Director until the end of 1994 and then Director-General) asserted that he and his associates looked at the issue from a broad perspective and concluded that the cost to the society and the economy as a whole was much higher than it appeared to advocates of the idea.⁷⁶ Brodet and the previous Director-General claimed to have attempted reasoning with Minister Shochat, but Shochat voted in favor of granting additional permits until the middle of 1995.⁷⁷

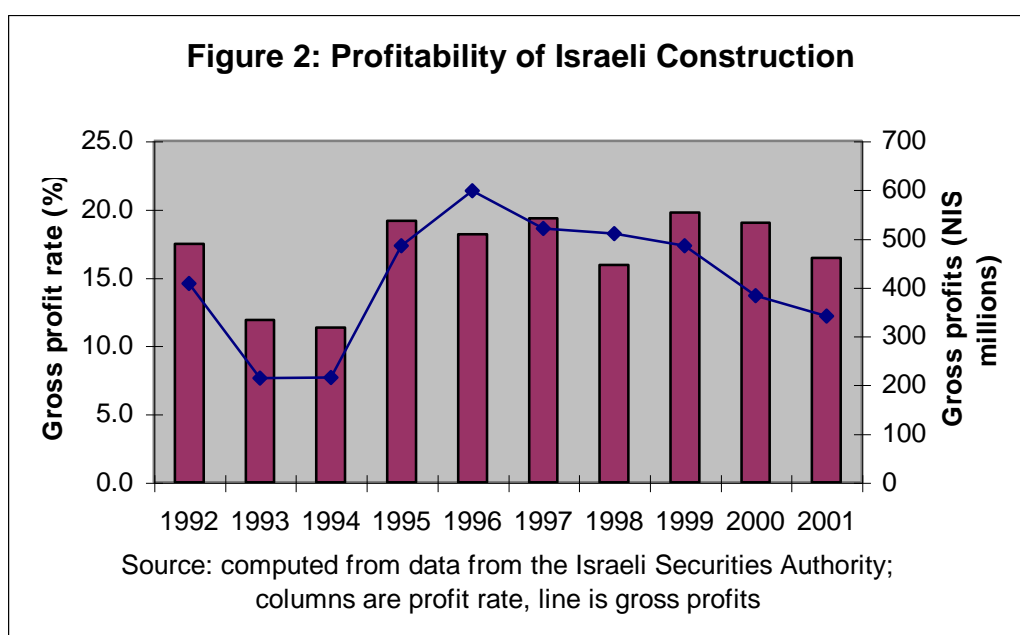
Some officials argued that this experience was typical of economic policy making in Israel. Brodet and Fogel affirmed that Finance Ministers frequently (though not always) disregard the opinions of their professional staff in favor of political considerations.⁷⁸ This has been true most notably of decisions on wage policy, government pensions, and the budget process. In most cases, of course, the results are decisions that involve higher levels of spending, a phenomenon manifested in very high budget deficits (though in recent years those deficits have declined considerably)⁷⁹. The staff were aware of the political pressures that could lead to such decisions and accepted such pressures as the "rules of the game." The case of the Finance Ministry is important in this context because it is widely perceived as having the most professional staff – the fewest political appointments, the highest standards for recruitment, etc.

Other officials echoed this overall view. One department head in the Labor Ministry stated that the professional staff frequently conduct studies concluding that various reforms should be made to various operations of a particular ministry. But the recommendations are rarely carried out; even when real changes are made, they typically do not reflect the conclusions of the study.⁸⁰ One example concerns the effort to train Israelis for construction work: Finance Ministry officials argued for its cancellation, on the basis of a National Insurance Institute study showing that the program was not working. But the recommendations were ignored because, some argued, politicians wanted to present the *image* of doing something about the problem.⁸¹ A Finance Ministry staffperson concluded: "More research is always needed, but the real issue is teaching government offices how to use it. The conclusions are not implemented."⁸²

Here it is noteworthy that nothing that could be called serious research was conducted to inform the decision to import labor.⁸³ At the beginning (in 1993), this was perhaps explained by the perception that decisions had to be reached very quickly. But this mode of policy making persisted through subsequent periods that produced recurring decisions to increase the number of permits. Generally, this episode of Israeli policy making, where consequential decisions were made with no systematic consideration of long-term impacts on the economy or society, presents a considerable contrast with the mode of policy making typically found in developmentalist states such as Japan, as we will see below.

The entry of large numbers of foreign workers into the construction labor force has contributed to a pronounced stagnation of wages – and even to a significant decline in real terms.⁸⁴ It has also coincided with a very

significant increase in profits for construction companies, both in terms of gross amounts and profit rates. Data from publicly traded construction companies,⁸⁵ obtained from financial reports filed with the Israel Securities Authority, show that gross profits almost trebled from 1993 to 1996 and remained above 1992 levels until the severe economic recession that began in late 1999 (Figure 2). The increase in the profit rate is even more important: gross profit rates rose from 12% in 1993 to almost 20% in 1997. The increase in gross amounts is of course in part a consequence of increased levels of construction activity (which were facilitated by the availability of extra labor at the “right” price). The increase in rates, however, also feeds the increased gross amounts. While profit rates are affected by a range of factors, the notion that the increase in foreign workers played no role is thoroughly implausible.



There is of course a direct link between these two phenomena (declining wages and increasing profits), a link illuminated by the concept of a quota profit. The size of the quota profit is estimated at approximately one US dollar per hour, which is the average wage increase a worker can get by abandoning his permit employer and finding “illegal” work.⁸⁶ With foreigners in construction working an average of 280 hours a month, even a medium-size contractor employing 100 foreign workers can “earn” something like an additional \$28,000 a month by ensuring continued access to permits allowing him to employ foreigners. Small wonder, then, that many large firms have replaced most or all of their Palestinians engaged in “wet” work with foreigners in the last five years. Other employers have benefited too, given that the increased presence of foreign workers has depressed wages in the competitive labor market as well; wages for Palestinians in the relevant occupations have not changed in nominal (shekel) terms since 1994, which means there has been a significant decline in real (dollar) terms.

Contractors thus have clear and compelling incentives to use whatever political pressure can be mustered to ensure that government policy decisions on foreign labor continue to favor their interests. For our purposes, however, what really matters is the fact that the structural weakness of the state helps guarantee that their interests dominate the policy making process.

JAPAN: SUFFICIENT CONDITIONS FOR AN ALTERNATIVE RESPONSE

Many Japanese employers have long pressured for government permission to import low-level workers. The Japanese Chamber of Commerce and Industry (representing small and medium-sized businesses) adopted a resolution in 1970 urging the government to explore the option of importing labor. Many businesses and business associations, concerned about the shortage of unskilled and semi-skilled labor, submitted reports to the government urging that the trainee program be expanded.⁸⁷ The Tokyo Chamber of Commerce and Industry called in July 1970 for an expansion of the trainee program in a document entitled “The Demand on Next Year’s Labor Policy”; it also insisted that employers be able to import workers from other Asian countries independently of the nascent trainee system.⁸⁸ The government’s response has not been altogether negative. Japan began importing workers under the guise of “trainees” in the late 1960s, but the numbers were miniscule, totaling something like 5000 workers.⁸⁹ The recession that began in the mid-1970s removed the issue from the agenda, until resumed economic growth in the mid-1980s led employers to renew their demands. In this more recent period the numbers of foreign workers have increased: the “trainee” program has been expanded significantly, and South Americans of Japanese descent (*nikkei*) have received official sanction to work in Japan.⁹⁰ In addition, there has been a substantial increase in the size of the undocumented worker population in Japan.⁹¹ Again, however, what is truly noteworthy about Japan is the fact that the presence of foreign workers has remained so small (relative to the size of the labor force). This section explores the reasons for Japan’s success in implementing alternative solutions for labor shortages at the bottom of the labor market.

The goal here is to demonstrate that, in part because of the Japanese mode of economic governance, the economy developed in a particular direction, one that comprised the conditions under which Japanese employers could continue to employ Japanese workers in sectors and jobs that are frequently staffed by foreigners in other countries. We continue with the assumption that the fundamental requirement for attracting citizen workers to jobs that are often considered undesirable is high and/or rising wages. Other considerations are important as well, such as status, job security, and whether the work is experienced as unpleasant. But these factors can be considered to influence the value at which the commodity of labor power will be traded; the low status of a job affects (raises) the market clearing wage for that job, rather than preventing the operation of the labor market altogether. Whether employers will be able to pay that wage depends on the type and not just the magnitude of economic growth. We will see a strong contrast between Japan and Israel on both counts, a contrast that had significant implications for their different approaches to the question of foreign labor.

There is little need to rehearse in detail the notion that Japanese employers, particularly during the economic boom of the late 1960s/early 1970s, responded to labor shortages by turning to domestic labor “reserves” such as women and workers from rural areas. This point is discussed in virtually every analysis of foreign workers in Japan. There has also been much discussion in policy making circles about the need to increase labor mobility among firms, in part by de-emphasizing traditions of “lifetime employment” and seniority-based wage formulas.⁹² Another popular topic was the need to facilitate the continued employment of older workers, *i.e.*, those who had been forced to “retire” at age 55.

But given the consensus around the notion that domestic labor reserves provided labor when employers experienced shortages, there is a remarkable near-silence (at least in English) concerning the *conditions that made possible* the mobilization of those reserves. In existing discussions of the reserves thesis, there seems to be an assumption that the transfer of labor to labor-hungry sectors is a phenomenon that requires no explanation itself. Here is where we will pin down the real factors accounting for the difference between Israeli and Japanese responses to labor shortages. The basic point begins with differences in wages: Japanese workers in the labor-hungry sectors – construction in particular – have enjoyed real wage increases mostly unmatched by their counterparts in other advanced capitalist countries (with the apparent exception of Finland – another country where foreign labor has been a relatively insignificant part of the labor force).⁹³ The goal here will be to connect observations concerning wages to the way state structure and policy influences the structural development of the sector.

The contrasting experiences of construction workers in the two countries are especially significant, because construction is usually a key sector for employment of foreign workers. Official figures on wages (including employers’ social insurance payments on behalf of workers) show that workers in Japanese construction firms from 1970–1994 enjoyed annual real wage increases averaging 3.2%, versus 1.6% for Israeli construction workers.⁹⁴ Official data on wages in Israel do not cover undocumented workers (including Palestinians) – a population that grew rapidly in this period – and thus probably overstate the true increase significantly.

The important point here is not limited to the pace of the increase but to the structure of sectoral wages relative to the overall wage. The contrast between Israel and Japan is stark: construction wages as a percentage of the overall wage in Japan rose throughout this period (1970-1994), while in Israel they fell. Again, employers will find it easier to continue employing citizens in problematic sectors when they can offer high and/or rising wages, relative to average prevailing wages. Increases in Japanese construction wages have been very impressive, rising faster than average wages (uniquely among other advanced countries), to the point where construction wages in 1994 were 103% of the average Japanese wage, up from 90% in 1970.⁹⁵ In Israel in 1994, construction wages were 88% of the average wage, down from 94% in 1970.⁹⁶

There are foreigners employed in construction in Japan, many of them illegally, as the Construction Ministry opposes importing construction workers. But one of the salient features of the Japanese labor force (*i.e.*, citizens) is the very high percentage employed in construction. Construction employment as a share of total employment has remained steady at close to 10%, during a period (1970-1994) when other advanced countries (with the exception of Norway) experienced very significant declines.⁹⁷ The Japanese construction industry is the world’s largest, with an output of about \$500 billion a year.⁹⁸ Big wage increases and high levels of employment in construction again raise

the issue of what we “see” when we consider the foreign worker question in Japan. While many other countries have experienced declining native employment in construction, tepid wage increases (especially relative to other sectors), and a strong presence of foreigners, what stands out for Japan is the minimal role for foreigners and the strong tendency for Japanese workers to accept construction jobs in spite of the “dirty, dangerous, and demanding” work.

The question then becomes: how do we account for the fact that Japanese construction contractors have been able to pay relatively good wages, while Israeli contractors have sought out foreign labor at quite low wages? The answer begins with the observation that the production processes for construction in the two countries are quite different. This fact itself is part of what needs to be explained: I will argue that differences in state structure help account for the different development trajectories of the construction sectors in Israel and Japan, which then influence the different labor needs – as well as government responses to those needs – of the sector in each country.

The government’s effort to industrialize the construction sector goes back at least to the early 1960s and received added impetus as a labor shortage intensified in the late 1960s, in a context where demand for housing has consistently been very strong. The Housing Bureau of the Ministry of Construction in 1969 adopted a long-term policy for the industrialization of the housing industry, continuing a policy of offering low-cost public financing for pre-cast concrete panel methods of construction.⁹⁹ A Government Housing Loan Corporation program offered low-interest long-term loans with significantly extended repayment periods (*i.e.*, lower overall costs) for buyers choosing houses made with higher amounts of prefabrication processes, thus affecting the methods of contractors by manipulating the incentives of consumers.¹⁰⁰ The Ministry of International Trade and Industry was also involved and advocated in the 1960s that some of the sector be industrialized along the lines of the automobile and electronics industries. Some well-known manufacturers such as Toyota and Panasonic have diversified by developing subsidiaries that make houses with processes similar to those used for their core products.¹⁰¹

Incentives for research and development are built into tax and spending policies and government contracting procedures as well.¹⁰² As a very large client, the government manipulated public works spending to achieve certain goals, including the provision of sufficient resources for contractors’ investments in technological progress: the Construction Ministry refrained from exerting significant downward pressure on procurement costs, so that contractors’ profits would be sufficient to allow such investment.¹⁰³ In addition, construction companies wanting to bid on government-funded projects must enter the Ministry of Construction’s classification system; if a contractor wants to bid on a Class A project, that company must hold a Class A rating. The rating system takes into account the capabilities of the contractor, and investment in technological development is an important component of capability.¹⁰⁴

Construction research in the 1960s was focused on prefabrication and techniques for work mechanization. Here too contractors’ activities were driven to a significant extent by government policy: government contracts for construction of public housing in the 1960s specified use of pre-cast concrete formations.¹⁰⁵ Prefabrication in general had a poor reputation in Japan (as it still does in Israel), a problem the government addressed through the creation of the Building Center of Japan: the Center developed an approval process concerning the quality and performance of prefabricated components, to increase the willingness of consumers to buy such houses.¹⁰⁶ Prefabricated housing construction grew to the point where it accounted for 25% of all new unit sales in 1995,¹⁰⁷ and prefabrication processes

are also used in a significant portion of traditional timber-framed houses.¹⁰⁸ More recently factory processes have advanced to the point that even some construction firms – often considered one of the most inefficient sectors of the Japanese economy – use CAD and CAM systems.¹⁰⁹ We will discuss shortly the conditions that made these developments possible.

During the late 1980s and early 1990s as well, the economic press was full of reports on construction labor saving techniques and products as well as efforts to increase the manufactured component of buildings. To a certain extent, contractors have turned to robotics to “relieve workers from the execution of many dangerous and demanding tasks and to cut costs and improve productivity.”¹¹⁰ New products included robots for painting walls, robots for hanging exterior walls on tall buildings, and robots for leveling cement floors.¹¹¹ The Ministry of Construction in 1990 began offering tax incentives to encourage contractors to expand their use of robots¹¹² and extended the program in 1992. “The Japanese have a strong central government policy to drive robotic research into construction, playing a positive role in coordinating the work.”¹¹³ The research and development efforts of large construction contractors in Japan are probably unparalleled elsewhere¹¹⁴ – though company-provided information on the issue contains a certain amount of public relations bluster as well,¹¹⁵ and some of the more ambitious components of the robotics agenda have been abandoned in more recent years.¹¹⁶

Japanese contractors’ adoption of industrialized techniques is far from total. Some contractors have limited their use of advanced methods because they are reluctant to upset long-term relationships with subcontractors.¹¹⁷ In addition, the impact of increased wages on productivity has been mixed: workers are said to be less willing to work long hours because they can meet their income objectives in a shorter time, such that per-day productivity has suffered. Construction costs have therefore been rising faster than inflation.¹¹⁸ In addition, because public works spending in Japan is used in part as a substitute for welfare programs (for both workers and corporations), there is a tendency for construction employment to increase during recessions, a fact that contributed to a decline in labor productivity during the 1990s.¹¹⁹ Prior to 1973, however, labor productivity was rising rapidly.¹²⁰ The recent exacerbation of the problem should only *increase* the pressure for contractors to adopt less labor-intensive methods.

What seems clear, then, is that Japan followed a different path from Israel, in terms of solutions to the problem of finding labor at a wage level acceptable to employers. Japan’s refusal to open the doors to cheap foreign labor both reinforced the process of restructuring (indicated by the developments discussed above) and was made possible by it. The relationship between the two was synergistic. If Japanese companies had been able to compete on the basis of lower labor costs, they would have had fewer incentives to make investments in higher value added and technologically sophisticated processes. Conversely, if they had not found it profitable to invest in higher value added and technologically sophisticated processes, then cheap foreign labor would have appeared even more imperative as a means of competing on the basis of cost. As indicated above, this relationship evolves into a strong dimension of path-dependence, as the different solutions become embedded in a domestic regime. Of course, some employers in Japan have long believed, and many continue to believe, that admitting foreign labor *is* imperative as a means for restraining production costs while securing the necessary labor. So the point here is relative: although there have been some bankruptcies as a result of labor supply pressures, on the whole Japanese employers have fared reasonably well by pursuing competitive solutions that do not rely heavily on production cost savings deriving from use of inexpensive

(foreign) labor. What bears emphasizing is the distinctive relationship between these two elements in Japan: without tight restrictions on foreign labor, efforts to restructure towards more high-end production processes would have been undermined, and without such restructuring, employers would have had more reason to try to subvert the government's efforts to restrict the inflow of foreign labor. In other words, the point is not simply that Japan performed well economically (though of course not recently). The point is that Japan performed well *without significant foreign labor*.

Economic Policy and State Governance

The changes described above helped alleviate the labor shortage and diminish the “need” for foreign labor, even if it would grant far too much coherence to government policy-making to argue that there was a grand design here, that the government developed a comprehensive approach to labor supply problems comprising the above elements. In the context of an investigation of labor migration, what is significant about the discussion above is the fact that the economic developments described were precisely the changes that the Japanese government was committed to achieving as part of its overall economic and industrial policy. Of course, these are precisely the changes *any* government would want to achieve as part of its economic policy – what government would oppose higher productivity and increasing investment in higher value-added activities? As we saw earlier, the Israeli government was interested in bringing about similar changes, particularly for the construction industry, but the results stand in strong contrast to Japan's experience. So the conditions supporting Japan's success in this area are what really matter. Here we explore the relevance of the “mode of economic governance” – relevance, that is, to the two Japanese experiences with labor shortages.

It would be naïve to imagine that economic growth in capitalist societies could be determined entirely or even mostly by policies of the state. But it is also unwise to ignore the fact that there are distinct modes of economic policy making and governance¹²¹ and that those modes have different implications for the rate and direction of economic development.¹²² Early arguments about the importance of the developmentalist state in Japan were clearly overly ambitious. But if the scholarly pendulum has swung back, it has also become clear that the fulcrum has shifted: many of the earlier insights remain, even after the inevitable “complexifying” response.

The central insight of the developmentalist state argument is that economic growth and structural transformation can be – in the Japanese instance, were – enhanced by existence of a relatively cohesive bureaucratic policy-making apparatus largely insulated from the pressures of politicians and private interest groups.¹²³ Economic policy makers in Japan, particularly in the Ministry of International Trade and Industry (supported in most instances by the Ministry of Finance), set goals that were in many cases beyond the reach of individual private investors concerned with maximizing their own interests. Any particular investor is concerned primarily with his or her own survival and profitability; to the extent that individual investors seek government assistance, they will generally try to maximize the extent to which such assistance benefits themselves, regardless of the impact on others. When policy formation is driven by such interests, the possibilities for overall coordination geared to more comprehensive national interests are diminished. A certain degree of bureaucratic autonomy from such interests increases the possibility that broader goals will prevail.

In Japan, this autonomy has been enhanced by the fact that the bureaucracy is staffed by highly competent individuals socialized into the sense that they are an elite that is superior to, and therefore separate from, the world of

private business people. As is well known, admission to the civil service is achieved via performance on a highly competitive examination. Political appointments to the bureaucracies are limited both in number and in impact.¹²⁴ Numerous observers have claimed that the policy making elite in Japan (at least in MITI and the Finance Ministry, but to a certain extent in other ministries as well) therefore acts primarily according to a sense of national purpose; actions designed to benefit particular private interests at the expense of the general welfare are said to be less prevalent (though by no means absent) than in other types of governance systems.

Another main condition facilitating the implementation of developmentalist policies in Japan was the long-term dominance of the Liberal Democratic Party, which held power continuously from 1955 until 1993.¹²⁵ The LDP was dominant not only in the sense of holding almost continuous majorities in the Diet, but also in the sense that the other parties essentially failed to constitute an effective and viable opposition that could realistically form an alternative government. The hegemony of the LDP helped create a stable business environment where business leaders could expect basic continuity of policy direction. The continuity played an important role in the ability of the bureaucracies to pursue long-term goals and in the willingness of investors to accept “guidance” from the government. Moreover, while the LDP held majority power continuously for almost 40 years, it would be a mistake to conclude that the Japanese state as a whole is therefore monolithic: the LDP itself is factionalized, so that there is a great deal of competition and bargaining *within* the party. Okimoto argues that such internal strife weakened the party enough so that it was less successful in dominating the bureaucracy than it would otherwise have been; bureaucratic autonomy is enhanced rather than inhibited by intra-party competition.¹²⁶

This characterization of Japan’s “developmentalist state” has been subjected to vigorous critique. One line of critique asserts that government policies were not essential to the undeniably impressive economic performance, that the economy flourished for other reasons and would have done so even in the absence of the government policies analyzed by the developmental state theorists.¹²⁷ Another critique looks at the failures of the government to achieve certain stated goals.¹²⁸ Other writers have raised questions about the structure and capacity of the state itself: Richardson, for example, argues that the government’s control of the capital market has been overstated.¹²⁹

But if the responses to the earlier arguments about the developmentalist state have created a more nuanced and sophisticated understanding of Japanese economic development and the role of the state, it remains true that the Japanese political economy has in some important ways been quite different from the dominant Anglo-American neo-liberal model, not to mention the Israeli model.¹³⁰ This point is especially relevant as a response to those who raise questions concerning the cohesion and capacity of the Japanese state. The arguments here are most compelling when made in a comparative way: the Japanese economy grew *faster* and *more dynamically* than some other late industrializers because its mode of economic governance was *different* from that of other countries. If the critical literature has succeeded in showing greater complexity as well as shortcomings in some aspects of the argument, then it should help *sharpen* our understanding of how Japan is (and is not) different from many other countries.

The crux of the argument in the current context, then, is that Japan’s policy of not importing workers in large numbers was both (1) consistent with and (2) supported by the Japanese government’s broader approach to economic policy. The initial assumption is that citizen workers will accept undesirable work if the price is right (and if the price is right, employers might have an incentive to increase labor productivity, perhaps making the work less undesirable as

well). That the price was right in Japan is demonstrated by the fact that Japanese and not foreigners continue to hold most of the jobs, even in sectors (such as construction) that are often staffed by foreigners in other countries. The wage increases discussed above are crucial. One of the main conditions supporting rising real wages is increasing labor productivity, which in turn is facilitated by productive investments in labor saving technologies. All three elements were precisely the goals of Japanese economic policy as embodied in the developmentalist state. These elements came together especially well during the early 1970s, when complaints of labor shortages and demands for foreign labor were met with a negative response much firmer than that embodied in the government's more recent actions.

Conversely, the government's strong preference for *not* importing labor from abroad prevented a "short circuit" solution to the problem of labor shortages and contributed to the strong increase in real wages, particularly in the early 1970s. Rising wages provided another key incentive for employers to turn to advancing technology as a competition/survival strategy consistent with the government's overall emphasis on moving up the ladder of value-added production.

CONCLUSION

Most importantly, there is a strong contrast here between the Japanese and Israeli responses to labor shortages, a contrast driven in substantial measure by the different institutional structures of state economic governance. In Israel, employers (particularly in the construction industry) were able to translate their natural desire for ever larger profits into a government policy of importing labor. Their ability to capture rents in this way derived in large part from the fact that politicians, not the professional staff of the bureaucracies, are the main decision makers for economic policy: politicians were much more responsive to the demands of employers (read: donors and supporters) than the bureaucrats likely would have been. Moreover, the fragmentation and weakness of the Israeli bureaucracy significantly reduced the possibilities for creating viable alternatives to the cheap labor upon which some parts of the economy had been built. The massive entry of foreign workers has further reduced the likelihood that such alternatives will be achievable in the foreseeable future.

In Japan, cheap foreign labor was incompatible with a major premise of the government's intentions regarding economic growth. Employers might have found it easier and more profitable to employ foreign labor, as opposed to paying the steadily increasing wages demanded by Japanese workers, and employers did make demands on the government to allow workers to enter. But these demands were not very effective in a context where employers' political power was not convertible into overwhelming influence over policy formation, given the relative insulation and cohesion of at least some parts of the Japanese bureaucracy, in particular during the pre-1974 period. The government did not simply frustrate employers' demands for foreign labor, however; in addition, the government helped maintain the conditions under which Japanese construction employers could pay the wages demanded by Japanese workers. These conditions included the development of construction processes that reduced drudgery and enhanced labor productivity.

The government's ability to play this role was rooted in a state structure that fostered the autonomy and policy making authority of professional bureaucrats as against politicians.

More recently the coherence of the Japanese developmentalist state has declined, such that the government's economic policies probably exacerbate inefficiencies and distortions rather than helping to resolve them.¹³¹ A developmentalist state might be an inherently unstable phenomenon: it arguably creates the conditions that lead to its own obsolescence.¹³² This contention is at least consistent with (even if it by no means explains) the more recent increase in the foreign worker population: the ability of the government to resist employers' demands for foreign workers has perhaps diminished as political competition has increased and the power of the bureaucracies relative to that of politicians has declined.¹³³ In addition, the nature of the argument here, emphasizing deep structures of the state, suggests that a country such as Israel would find it extremely difficult to follow a path different from its current one: by definition, structures are not easily changed according to the will of individuals. Difficulties with practical application, however, do not damage the theoretical point: the extent to which a wealthy country uses low-level foreign labor depends in part on whether the mode of economic governance supports alternative responses to labor shortages.

Notes

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¹ Ayse Oncu, "International labour migration and class relations," *Current Sociology* 38:2-3 (1990): 175-201; Stephen Castles and Godula Kosack, *Immigrant workers and class structure in Western Europe*, 2nd ed. (Oxford: Oxford University Press, 1985). A number of studies address the relationship between migration and development in *sending* countries, e.g., Demetrios Papademetriou and Philip L. Martin, eds., *The unsettled relationship: labor migration and economic development* (New York: Greenwood Press, 1991); Peter Fischer, Reiner Martin and Thomas Straubhaar, "Interdependencies between development and migration," in Tomas Hammar, Grete Brochmann, Kristof Tamas and Thomas Faist, eds., *International migration, immobility, and development: multidisciplinary perspectives* (New York: Berg, 1997); Sergio Díaz-Briquets and Sidney Weintraub, *The effects of receiving country policies on migration flows* (Boulder: Westview Press, 1991); Kenneth Hermele, "The discourse on migration and development," in Tomas Hammar, Grete Brochmann, Kristof Tamas and Thomas Faist, eds., *International migration, immobility, and development: multidisciplinary perspectives* (New York: Berg, 1997); Sergio Díaz-Briquets, "The International Migration and Development Commission in the 1990s," in Max Castro, ed., *Free markets, open societies, closed borders? Trends in international migration and immigration policy in the Americas* (Miami: North-South Center Press, 1999). My focus here is on labor migration as a component of development in receiving countries.

² Alexander Gerschenkron, *Economic backwardness in historical perspective* (Cambridge, MA: Belknap Press of Harvard University Press, 1962).

³ See also David Bartram, "Japan and labor migration: theoretical and methodological implications of negative cases," *International Migration Review* 34:1 (2000): 5-32.

⁴ Gary King, Robert Keohane and Sidney Verba, *Designing social inquiry: scientific inference in qualitative research* (Princeton: Princeton University Press, 1994).

⁵ James Frank Hollifield, *Immigrants, markets, and states: the political economy of postwar Europe* (Cambridge, Mass.: Harvard University Press, 1992).

⁶ See e.g. Philip Martin and Mark J. Miller, "Guestworkers: lessons from Western Europe," *Industrial and Labor Relations Review*, 33 (1980): 315-30.

⁷ This consensus is not universal. Papademetriou and Hamilton, for example, refer to "the other, less easily measured benefits of immigration, especially those associated with openness toward the outside world." Demetrios Papademetriou and Kimberley A. Hamilton, *Reinventing Japan: Immigration's role in shaping Japan's future* (Washington DC: Carnegie Endowment for International Peace, 2000), 49. Significantly, however, they do not say any more about what those benefits are.

⁸ Martin and. Miller, "Guestworkers: lessons from Western Europe," 327.

⁹ Mark J. Miller, *Foreign workers in Western Europe: an emerging political force* (New York: Praeger, 1981).

¹⁰ Martin and. Miller, "Guestworkers: lessons from Western Europe," 328.

¹¹ It is common to assume that illegal workers are more poorly paid than workers with employment permits. When foreign workers have permits that allow them to change employers, workers without permits are indeed more vulnerable. But the relation of indenture works against legal workers, especially when enforcement actions against employers of illegal workers are not pursued vigorously. See also Robert Miles, *Capitalism and unfree labour: anomaly or necessity?* (London: Tavistock Publications, 1987).

¹² Shmuel Amir, "Effects of the entry of foreign workers to the building sector," in Roby Natanson and Leah Achdut, eds., *The new laborers: workers from foreign countries in Israel* (Tel Aviv: HaKibbutz HaMeuchad, 1999, in Hebrew).

¹³ Foreign labor and domestic labor are often said to be complementary, not competitive: citizens refuse to take jobs typically held by foreigners. This statement assumes, however, that the conditions of such employment are held constant: low wages, bad conditions, unpleasant work. But it is precisely the point here that these conditions are subject to variation, partly in response to government policy. Denied access to foreign labor, employers might suddenly see possibilities for improving wages and conditions. See Philip L. Martin and Edward Taylor, "Managing migration: the role of economic policies," in Aristide Zolberg and Peter Benda, eds., *Global migrants, global refugees: problems and solutions* (New York, Berghahn Books, 2001).

¹⁴ Conceptualizing profits based on migrant labor as rents is similar to Philip Martin's discussion of an immigrant labor subsidy (Philip L. Martin, "Good intentions gone awry: IRCA and U.S. agriculture," *Annals of the American Academy of Political and Social Scientists* 534 (1994): 44-57). Compare also Zolberg: "In good times the benefits of migrant labor flowed into the pockets

of the manufacturers, but in bad times the costs were passed on to local authorities – and beyond them to the taxpayers” (Aristide Zolberg, “Wanted but not welcome: alien labor in Western development,” in William Alonso, ed., *Population in an interacting world* (Cambridge, MA: Harvard University Press, 1987), 63).

¹⁵ See Aage Sorensen, “The structural basis of social inequality,” *American Journal of Sociology* 101 (1996): 1333-65.

¹⁶ If governments address the social and economic problems associated with imported labor **without** increasing taxes, then budget allocations to other programs and services must decrease. When governments fail to address the social and economic problems associated with imported labor, many individuals (e.g. those living near foreign worker slums) suffer a welfare decline. In all of these scenarios, some individuals lose while others – especially employers – win.

¹⁷ Peter B. Evans, *Embedded autonomy: states and industrial transformation* (Princeton, N.J.: Princeton University Press, 1995).

¹⁸ Erik Olin Wright, “Review of Peter Evans' *Embedded Autonomy* (1995),” *Contemporary Sociology* 25:2 (1996): 176-79.

¹⁹ Brian Woodall, *Japan under construction: corruption, politics, and public works* (Berkeley: University of California Press, 1996).

²⁰ Alice H. Amsden, *Asia's next giant: South Korea and late industrialization* (NY: Oxford University Press, 1989).

²¹ Aoki *et al.* speak of “contingent rents,” where capture of the rent depends on good performance according to selected criteria (Masahiko Aoki, Kevin Murdock and Masahiro Okuno-Fujiwara, “Beyond the East Asian Miracle: introducing the market-enhancing view,” in Masahiko Aoki, Hyung-Ki Kim and Masahiro Okuno-Fujiwara, eds., *The role of government in East Asian economic development* (Oxford: Clarendon Press, 1997)).

²² Evans, *Embedded autonomy: states and industrial transformation*; Chalmers A. Johnson, *MITI and the Japanese miracle: the growth of industrial policy, 1925-1975* (Stanford, Calif.: Stanford University Press, 1982).

²³ Evans, *Embedded autonomy: states and industrial transformation*.

²⁴ Ayse Günes-Ayata, “Clientelism: premodern, modern, postmodern,” in Luis Roniger and Ayse Günes-Ayata, eds., *Democracy, clientelism, and civil society* (Boulder: L. Rienner Publishers, 1994).

²⁵ Gary Freeman, “Modes of immigration politics in liberal democratic states,” *International Migration Review* 29:4 (1995): 881-902.

²⁶ T.J. Pempel and Keiichi Tsunekawa, “Corporatism without labor? The Japanese anomaly” in Philippe C. Schmitter and Gerhard Lembruch, eds., *Trends towards corporatist intermediation* (London: Sage, 1979).

²⁷ Computed from data from the Israeli Central Bureau of Statistics, <http://www.cbs.gov.il/engindex.htm>, accessed 13 June 2003.

²⁸ See e.g. Japan Labor Ministry White Papers 1970-71, 1972-73; *Far Eastern Economic Review* 3 October 1970; *Japan Economic Journal* 8 December 1970.

²⁹ Japan Immigration Bureau, *Japan and the development of international migration (Wagakuni wo meguru kokusai jinryu no hensen)* (Tokyo: Immigration Bureau, Study Group on Immigration Statistics, 1990).

³⁰ Sources for Figure 1: regarding Japan, labor force figures (the denominator) come from the International Labor Office (laborsta.ilo.org, accessed 16 June 2003). Stocks of foreign workers (the numerator) previous to 1992 comes from Hiromi Mori, *Immigration policy and foreign workers in Japan* (New York: St. Martin's Press, 1997) and subsequently from OECD *SOPEMI: Trends in International Migration* (Paris: OECD, 2001). Stocks of foreign workers includes long-term permanent residents of Korean origin who have not taken Japanese citizenship; these are not typical guestworkers. Figures from Mori for foreign workers who are not permanent residents were available for 1986, 1988, 1990, and 1992; I have filled in the blanks (e.g. 1987) by averaging the figures for the years on either side. Regarding Israel, labor force figures come from the *Statistical Abstract of Israel*, which also provided data on foreign workers from 1996 onwards and on Palestinian workers from 1987 onwards. Prior to 1996, data on foreign workers come from materials provided by the Manpower Planning Authority of the Israeli Ministry for Labor and Welfare. Prior to 1987, figures on Palestinian workers come from Moshe Semyonov and Noah Lewin-Epstein, *Hewers of wood and drawers of water: noncitizen Arabs in the Israeli labor market* (Ithaca: ILR Press, 1987). More recent figures for Palestinian workers probably underestimate the presence of undocumented workers significantly; however, frequent Israeli border closures have meant that such people work intermittently at best, and so I have chosen not to engage estimates of undocumented workers for this period.

³¹ e.g. Everett Lee, “A theory of migration,” *Demography* 3:1 (1966): 47-57.

³² World Bank, *World Development Report (CD-ROM version)* (Geneva: World Bank, 1999) The *World Development Report* figures for China go back only to 1980; if I had been able to use information for China regarding 1970, the multiple would no doubt have been even larger. In other words, the figure reported here for China is very conservative.

³³ World Bank, *World Development Report (CD-ROM version)*.

³⁴ Michael J. Piore, *Birds of passage: migrant labor and industrial societies* (Cambridge: Cambridge University Press, 1979).

³⁵ Saskia Sassen, *The mobility of labor and capital: a study in international investment and labor flow* (Cambridge: Cambridge University Press, 1988).

³⁶ Takashi Oka, *Prying open the door: foreign workers in Japan*, Contemporary Issues Paper (Washington, DC: Carnegie Endowment for International Peace, 1994), Aristide Zolberg, “International migrations in political perspective,” in Mary M. Kritz, Charles B. Keely and Silvano M. Tomasi, eds., *Global trends in migration: theory and research on international population movements* (Staten Island, N.Y.: Center for Migration Studies, 1981).

³⁷ Statements about labor productivity with reference to construction might raise the concern that measurements in this regard are contaminated by the inclusion of land values. This is not a problem for the data used to support statements about productivity in

this paper: data from the *OECD International Sectoral Database* are derived from value-added figures and do not include the value of land.

³⁸ But consider Harry Braverman, *Labor and monopoly capital: the degradation of work in the twentieth century* (New York: Monthly Review Press, 1974) for an alternative view.

³⁹ Both figures include reasonable estimates of undocumented (“illegal”) workers. In addition, the Israeli figure includes non-citizen Palestinians workers, just as the Japanese figure includes non-citizen permanent residents of Korean origin. Again, the figures for Japan in the early 1970s were significantly lower, despite a marked labor shortage.

⁴⁰ Bartram, “Japan and labor migration.”

⁴¹ Lev Luis Grinberg, *The Histadrut above all* (Jerusalem: Navo, 1993, in Hebrew).

⁴² Interview with senior official in the Finance Ministry who requested anonymity.

⁴³ Thomas U. Berger, “The perils and promise of pluralism: lessons from the German case for Japan,” in Myron Weiner and Tadashi Hanami, eds., *Temporary workers or foreign citizens? Japanese and U.S. migration policies* (New York: New York University Press, 1998), 319.

⁴⁴ Martin and Miller, “Guestworkers: lessons from Western Europe”.

⁴⁵ Susumu Awanohara, “Open the door some more?,” *Far Eastern Economic Review*, 4 September 1986: 23-25; Yoko Sellek, *Migrant Workers in Japan* (New York: Palgrave, 2001).

⁴⁶ Teddy Pruess, “When Rodriguez and Popovitch come,” *Davar* (14 January 1988, in Hebrew).

⁴⁷ A member of the Israeli Knesset (Parliament), Anat Maor, wrote her Master’s thesis at Tel Aviv University on foreign workers in Europe in 1981. She subsequently served on the Knesset’s Labor and Social Affairs Committee, which frequently discusses foreign worker issues.

⁴⁸ Moshe Bar-Natan, “Productivity and factors of production in the construction sector, 1960-1981,” *Bank of Israel Survey* 58 (1984): 63-74 (in Hebrew); more recent observation of a small selection of building sites suggests things have not changed much in more recent years.

⁴⁹ Israel Ministry of Housing and Construction, *The production function of the construction sector and the industrialization of construction* (Jerusalem: Ministry of Housing and Construction, 1998, in Hebrew).

⁵⁰ Interviews: Dani Artum, Budget Director, Labor Ministry, Jerusalem, 9 March 1998; Avie Geffen, formerly Finance Ministry liaison with the Labor Ministry, Jerusalem, 24 March 1998.

⁵¹ One reader asks whether I have considered the possibility of respondent bias. The question would seem to be especially relevant to statements made by the professional ministry staff; their claims that decision-makers do not follow recommendations might derive from unwarranted and disappointed expectations of respect. I suggest that attention to this concern is unlikely to change the overall picture of Israeli policy-making, wherein politicians make decisions that satisfy political needs, without significant consideration of professional opinions from the bureaucrats. In addition, it will become clear that many key claims in this section are supported by reference to at least two respondents. If there is bias, then the bias transcends individuals in many cases; thus one might ask whether the “bias” is not a function of a reality rather than an instance of warped perceptions).

⁵² Interview, Dani Artum.

⁵³ Interview, David Shtern, Director General of the Fund for Encouragement and Development in the Construction Industry, Tel Aviv, 17 March 1998.

⁵⁴ Interviews: Yossi Shabbat, Economist, Information Analysis Department, Construction Ministry, Jerusalem, 25 February 1998; Yaakov Hecht, formerly in charge of Occupational Training in Construction, Labor Ministry, Jerusalem, 26 March 1998; Dani Artum.

⁵⁵ Interviews: Yaakov Hecht; Natasha Michaelov, Finance Ministry Liaison to Labor Ministry, Jerusalem, 4 March 1998.

⁵⁶ Interview, Yaakov Hecht.

⁵⁷ Interviews: Avie Geffen, Yaakov Hecht, Dani Artum.

⁵⁸ Interviews: Avie Geffen; Haim Pialkov, Advisor to the Minister, Construction Ministry, Jerusalem, 25 March 1998.

⁵⁹ Interviews: Haim Pialkov; anonymous Finance Ministry official.

⁶⁰ Interview, Haim Pialkov.

⁶¹ Ibid.

⁶² Interview, Itai Eiges, Finance Ministry liaison to Construction Ministry, Jerusalem, 1 July 1998.

⁶³ Ibid.

⁶⁴ Interview, Micky Himmelfarb, Director of Contractors’ Division, Contractors Association, Tel Aviv, 29 June 1998.

⁶⁵ Interviews: Vered Dar, Deputy Director General, Finance Ministry, Jerusalem, 2 April 1998; Arie Mizrahi, formerly Director General of the Construction Ministry, Rosh Ayin, 17 June 1998.

⁶⁶ Interview, Avraham Ben-Shalom, formerly Director General of the Labor Ministry, Tel Aviv, 21 April 1998.

⁶⁷ Interview, Yaakov Hecht.

⁶⁸ Interview, Yossi Arbel, Vice Director-General, Contractors Association, Tel Aviv, 4 May 1998.

⁶⁹ Smadar Peled, “Only 40% activity at building sites,” *Davar* (1 April 1993, in Hebrew);

- ⁷⁰ Haggai Porshner and Yossi Lubovitch, "Namir: I will not give permits for Thais to work in Gush Katif; around 680 requests to replace Arab with Jews," *Davar* (31 March 1993, in Hebrew); Tsvi Zachariah, "Labor and Welfare Ministry will subsidize the employment of another 3,000 Israeli workers in agriculture," *HaAretz* (1 April 1993, in Hebrew).
- ⁷¹ Luis Roniger, "Images of clientelism and realities of patronage in Israel," in Luis Roniger and Ayse Günes-Ayata, eds., *Democracy, clientelism, and civil society* (Boulder: Lynne Rienner Publishers, 1994).
- ⁷² Interviews: Arie Mizrahi; Yossi Arbel; Binyamin Ben-Eliezer, Member of Knesset (Parliament) and former Minister of Housing and Construction, Jerusalem, 4 November 1996.
- ⁷³ Interview, David Brodet, formerly Director General of the Finance Ministry, Jerusalem, 2 June 1998.
- ⁷⁴ Shmuel Amir, "Overseas foreign workers in Israel: policy aims and labor market outcomes," *International Migration Review* 36:1 (2002): 41-57.
- ⁷⁵ Interviews: Vered Dar; David Brodet; anonymous Finance Ministry official.
- ⁷⁶ Interview, David Brodet. While Brodet and other opponents of foreign labor may have had an interest in claiming more insight than they had actually had several years previously, it is unlikely that their opposition to the idea itself was not real.
- ⁷⁷ Interviews: David Brodet; Aharon Fogel, formerly Director General of the Finance Ministry, Tel Aviv, 29 June 1998.
- ⁷⁸ Ibid.
- ⁷⁹ Michael Shalev, "Liberalization and the transformation of the political economy," in Gershon Shafir and Yoav Peled, eds., *The new Israel: peacemaking and liberalization* (Boulder: Westview Press, 2000).
- ⁸⁰ Interview, Benny Fefferman, Head of the Manpower Planning Authority, Ministry of Labor, Jerusalem, 14 July 1996, 5 July 1998. See also Salomon J. Flink, *Israel, chaos and challenge: politics vs. economics* (Ramat Gan: Turtledove Publishing, 1979).
- ⁸¹ Interviews: Natasha Michaelov; Avie Geffen.
- ⁸² Interview, Avie Geffen.
- ⁸³ Interviews: Vered Dar; Amir Barkan, Finance Ministry liaison with the Agriculture Ministry, Jerusalem, 23 February 1998; anonymous Finance Ministry official.
- ⁸⁴ Israel Ministry of Housing and Construction, *Construction in Israel* (Jerusalem: Ministry of Construction, 1996, in Hebrew).
- ⁸⁵ I can think of no reason privately owned companies would be different in this respect. Data, however, were not available. In addition: the display of gross profits relates only to those companies for which I could get data; with more companies the absolute figures would be higher, though again there is no reason to think that the overall trend would look different.
- ⁸⁶ Amir, "Effects of the entry of foreign workers to the building sector."
- ⁸⁷ Christine Kuptsch and Nana Oishi, *German and Japanese schemes for workers from transition economies or developing countries*, International Migration Papers (Geneva: International Labour Office, 1995).
- ⁸⁸ Eishu Ochiai, *Ajiajin rodoryoko yunyu (The importation of Asian labor power)* (Tokyo: Gendai Hyoronsha, 1974).
- ⁸⁹ *Far Eastern Economic Review*, 3 October 1970.
- ⁹⁰ Mike Douglass and Glenda S. Roberts, eds., *Japan and global migration: foreign workers and the advent of a multicultural society* (New York: Routledge, 2000).
- ⁹¹ Mori, *Immigration policy and foreign workers in Japan*; Steven A. Spencer, "Illegal migrant laborers in Japan," *International Migration Review* 26:3 (1992): 754-86; Helmut Loiskandl, "Illegal migrant workers in Japan," in Robin Cohen, ed., *The Cambridge Survey of World Migration* (Cambridge: Cambridge University Press, 1995).
- ⁹² See various Labor Ministry White Papers from the period.
- ⁹³ *OECD International Sectoral Database*.
- ⁹⁴ For Japan, *OECD International Sectoral Database*; for Israel, *Statistical Abstract of Israel*.
- ⁹⁵ *OECD International Sectoral Database*.
- ⁹⁶ Statistical Abstract of Israel. Again, because official data do not cover undocumented workers, the true figure for 1994 is probably lower.
- ⁹⁷ *OECD International Sectoral Database*.
- ⁹⁸ Woodall, *Japan under construction*.
- ⁹⁹ Kazunobu Minami, "Structural and organizational changes in the housebuilding industry in the United States and Japan," Master's Thesis, Massachusetts Institute of Technology, 1986; see also Michael F. Ross, "Modern technology changes the built environment," *Japan Interpreter* 8:3 (1973): 334-52.
- ¹⁰⁰ Interview, Tomo Yashiro, Professor of Construction Management and Economics, Institute for Industrial Science, University of Tokyo, 7 January 2002.
- ¹⁰¹ David Gann, "Construction as a manufacturing process? Similarities and differences between industrialised housing and car production in Japan," *Construction Management and Economics* 14:5 (1996): 437-50.
- ¹⁰² A.C. Sidwell, W. A. Van Metzinger and Richard L. Tucker, *Japan, Korean, and U.S. Construction Industries* (Austin: The Construction Industry Institute, University of Texas at Austin, 1988).
- ¹⁰³ Interview, Nobuichi Nomoto, Chief Managing Advisor, Toko Engineering Consultants Co., Ltd., Tokyo, 9 January 2002.
- ¹⁰⁴ Ibid.
- ¹⁰⁵ Interview, Tomo Yashiro.
- ¹⁰⁶ Ibid.

- ¹⁰⁷ Gann, "Construction as a Manufacturing Process?"
- ¹⁰⁸ Interview, Hiroaki Maruya, Director, Office for Construction Market Access, Policy Bureau, Ministry of Land, Infrastructure, and Transport (successor to the Ministry of Construction), Tokyo, 9 January 2002.
- ¹⁰⁹ Fumio Hasegawa, *Built by Japan: competitive strategies of the Japanese construction industry* (New York: John Wiley & Sons, 1988). A certain number of prefabricated homes in Japan originate in Sweden, another prefab leader (Renee Mathieu, "The prefabricated housing industries in the United States, Sweden, and Japan," *Construction Review* 33:4 (1987): 2-21). This fact illustrates that there are possibilities for international trade in construction "products": local labor is needed to erect and finish the house on site, but a substantial portion of the total value is added abroad.
- ¹¹⁰ Sidwell, Van Metzinger and Tucker, *Japan, Korean, and U.S. Construction Industries*, 34.
- ¹¹¹ *Business Review Weekly*, 2 November 1990; *Comline Daily News*, 28 November 1988; *Japan Economic Journal*, 9 December 1989.
- ¹¹² *Comline Daily News*, 20 September 1991.
- ¹¹³ Sidwell, Van Metzinger and Tucker, *Japan, Korean, and U.S. Construction Industries*, 36.
- ¹¹⁴ John Bennett, Roger Flanagan and George Norman, *Capital & Counties Report: Japanese Construction Industry* (Reading: Centre for Strategic Studies in Construction (University of Reading), 1987).
- ¹¹⁵ John Bennett, "Japan's building industry: the new model," *Construction Management and Economics* 11 (1993): 3-17.
- ¹¹⁶ Interview, Shigeru Hikone, Principal, Arup Japan, Tokyo, 7 January 2002.
- ¹¹⁷ Bennett, "Japan's building industry."
- ¹¹⁸ Ibid.
- ¹¹⁹ Interviews: Hajime Suzuki, Executive Director of the Research Institution on Construction and Economy, Tokyo, 11 January 2002; Hiroaki Maruya.
- ¹²⁰ Hasegawa, *Built by Japan*.
- ¹²¹ David Knoke, *Comparing policy networks: labor politics in U.S., Germany, and Japan* (Cambridge: Cambridge University Press, 1996).
- ¹²² J. Rogers Hollingsworth, Philippe C. Schmitter and Wolfgang Streeck, *Governing capitalist economies: performance and control of economic sectors* (Oxford: Oxford University Press, 1994).
- ¹²³ Evans, *Embedded autonomy*; Johnson, *MITI and the Japanese miracle: the growth of industrial policy*; Chalmers A. Johnson, Laura D. Andrea Tyson and John Zysman, *Politics and productivity: the real story of why Japan works* (Cambridge, Mass.: Ballinger, 1989); Stephan Haggard, *Pathways from the periphery: the politics of growth in the newly industrializing countries* (Ithaca, NY: Cornell University Press, 1990).
- ¹²⁴ Johnson, *MITI and the Japanese miracle*.
- ¹²⁵ T. J. Pempel, ed., *Uncommon democracies: the one-party dominant regimes* (Ithaca: Cornell University Press, 1990).
- ¹²⁶ Daniel I. Okimoto, *Between MITI and the market: Japanese industrial policy for high technology* (Stanford: Stanford University Press, 1989).
- ¹²⁷ David Friedman, *The misunderstood miracle: industrial development and political change in Japan* (Ithaca: Cornell University Press, 1988).
- ¹²⁸ J. Mark Ramseyer and Frances McCall Rosenbluth, *Japan's political marketplace* (Cambridge MA: Harvard University Press, 1993).
- ¹²⁹ Bradley M. Richardson, *Japanese democracy: power, coordination, and performance* (New Haven, Conn: Yale University Press, 1997). For other critiques, see Jeffrey A. Hart, *Rival capitalists: international competitiveness in the United States, Japan, and Western Europe* (Ithaca: Cornell University Press, 1992); Chung-in Moon and Rashemi Prasad, "Networks, politics, and institutions," in Steve Chan, Cal Clark and Danny Lam, eds., *Beyond the developmental state: East Asia's political economies reconsidered* (New York: St. Martin's Press, 1998); Michael L. Gerlach, *Alliance capitalism: the social organization of Japanese business* (Berkeley: University of California Press, 1992).
- ¹³⁰ T.J. Pempel, *Regime shift: comparative dynamics of the Japanese political economy* (Ithaca: Cornell University Press, 1998). Of course, not even American or British capitalism embodies all the elements of neo-liberal economic philosophy. But the clear implication of the developmentalist state thesis is that Japan differs not only from the neo-liberal model but also from American and British practice.
- ¹³¹ Richard Katz, *Japan, the system that soured: the rise and fall of the Japanese economic miracle* (Armonk NY: M.E. Sharpe, 1998).
- ¹³² Evans, *Embedded autonomy*.
- ¹³³ M. Murumatsu and E. S. Krauss, "The conservative policy line and the development of patterned pluralism," in Kozo Yamamura and Yasukichi Yasuba, eds., *The political economy of Japan, vol. 1: the domestic transformation* (Stanford, Calif.: Stanford University Press, 1987); Johnson, Tyson and Zysman, *Politics and productivity*.