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ON LATENT UNEMPLOYMENT

— AN INTERPRETATION AS  
AN ECONOMIC PROBLEM —

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I. *Low Income Employees in Japan*

In Japan, it is generally supposed that there widely exists a social fact which is seemingly just an employment, but in reality a sort of unemployment, that is to say, a form of latent unemployment. There are many such examples in her agriculture or fishery just as in other underdeveloped countries. We have also in this country a large number of such examples in the growing commercial population, though in many industrialised countries the development of this industry generally indicates the increase of national income. These peasants and small traders belong to the self-employed classes. In fact there are in Japan many other examples of latent unemployment of even employed workers in manufacturing industries.

Following is an example of latent unemployment. Japan is often called a country of small business. It is true that much more workers are in employment at smaller establishments than, for example, in England. If we observe the average annual wage income per person for each size of establishments in the manufacturing industry, it is seen in general that the smaller the establishment, the less the income. But as shown in the table cited the wage difference is from 100 to 84 in England, but in Japan from 100 to only 45. The phenomenon of wage difference exists everywhere, but the enormous width of difference in Japan is apparently surpassing the simple ordinary wage difference. Moreover general wage rate in

Japan is known to be low compared with other countries. The low wage shown in lower parts of the table indicates therefore extremely low wage income.

Anglo-Japanese Comparison of the Number of Employees and the Index of Annual Wage Income per Employee according to the Size of Establishment in Manufacturing Industry

Size by Number of Employees		Number of Employees (%)		Wage (size 1000~ =100)	
Japan	U. K.	Japan	U. K.	Japan	U. K.
~ 3	} ~10	10.3	} 4.9	..	..
4~ 9		11.0		30.2	
10~19	11~24	12.6	3.1	36.3	90.0
20~49	25~49	15.8	7.2	45.4	92.2
50~ 99		9.0	10.0	58.5	93.8
100~199		7.6	12.9	70.8	95.6
200~499		10.2	19.9	94.1	96.7
500~999		6.8	13.1	103.7	98.1
1000~		16.7	28.0	100.0	100.0
Total		100.0 thousand (4,815)	100.0 thousand (7,464)		

Sources—Computed from: for Japan, Census of manufacture, 1952 and for U. K., Census of production, 1949.

Further, in Japan, where an unemployment insurance is now in practice, those recorded as unemployed are always not so numerous. According to an official statement, the rate of unemployment is in 1954 only 1.4% of the whole labour force or 5.6% of the persons insured against the unemployment. These figures give us an impression that a full employment was already achieved in Japan. Moreover, such a level of employment has always been reported to exist by official statistics ever since the World War I. But, in fact these figures show only one side of the Japanese labour market.

Therefore, under such a pseudo-full employment, there are many who receive a very little wage, or who are always in search for more favourable employment, or who want additional work. For example, according to an official estimation for 1952, there were more than 1.6 million wage earners, whose monthly income did not reach ¥3,000 being less than 20 years of age or ¥4,000 being 20 years of age and more. Such a level of income, revealed by another official research, meant a living standard which

fell short of lowest needs of subsistence. The same report further reports of 4,2 millions of the self-employed and family workers found chiefly in agriculture whose annual income per person was less than ¥20,000, which is recognized to afford barely to sustain a person in case of the self-employed. Those persons can not be but called employed. Nevertheless, their position could never be admitted as employed in the modern sense of the word. The existence of this group of persons in large number is the reason why latent unemployment has been discussed in Japan from an early period.

## II. *Disguised Unemployment, Underemployment and Overpopulation*

The concept "Latent unemployment" has been put in general use in this country since late Dr. Teijiro Uyeda and his associates took notice of the fact, availing themselves of the word "latent unemployment" for the first time, about in 1933, when they were studying Japanese population problems.<sup>1</sup> There is not however any agreement about the exact meaning of the word. As similar problems have recently come to be widely discussed in various international occasions, it seems necessary to have some general idea covering these problems which have been raised in various connections at home and abroad.

Here the English term "latent unemployment" is used, but there are many other expressions such as "hidden", "concealed", "potential", "disguised" unemployment or chronic underemployment. These are all used as if they were different names given to one and the same fact, but it seems to the author that they are not the same in the strict sense. In this country the term, "Senzai-shitsugyo" is widely in use. This term means unemployment latent or hidden to outside recognition, which is a different phenomenon from the typical unemployment, visible and open in the modern capitalist economy. For the English translation of the Japanese word, "latent, hidden or concealed unemployment" therefore seems appropriate. In other words, it is a social fact which can not be grasped by the concept of unemployment proper.

For example, this latent unemployment is different from the so-called disguised unemployment or invisible unemployment. These chiefly concern the facts, which were recognised in British or German unemployment in 1930s. In these countries, the unemployed who lost the receiving of unemployment benefit, were forced to look after some meagre employments such as small traders or artisans. These positions must rightly be called disguised or invisible unemployment. Nevertheless such facts are nothing

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<sup>1</sup> Teijiro Uyeda (ed.), *Japanese Population Problems*, Vol. II, Tokyo, 1934 (in Japanese).

but classical unemployment, so that it is not necessary for us to newly form a different category of unemployment concerning these facts.

As to the more or less regular underemployment, it does not always mean latent unemployment. Its characteristic lies in its nature, so-called part time work. Of course, such part time working system as that suggested for the purpose of remedying the insufficient supply of manpower as seen in British industries is out of question here. As an example in the sense of lack of employment there is a shorter working hour system which may happen as a result of depression. Like unemployment it is a product of a business cycle. As another type of insufficient working time, there is the casual labour as seen in the case of dock labour. This is a case of usual underemployment, which results from the irregular organization of labour market. As the third type of underemployment, there is the agricultural labour in underdeveloped areas. In this case, labour is bound to farms of very low productivity by such a few working days as say 100 days annually. These types of underemployment may be called latent unemployment, because they are all employment concealing a situation which is duly characterized as lack of work. However, some line must be drawn between the system of shorter working time resulting from business fluctuations and those underemployments of second or third type, which exist all the time irrespective of the flow of business.

To add one other example, the case of overpopulation may be cited. It is often said that the so-called latent unemployment is nothing but the revelation of an overpopulation. But it is necessary to clarify what overpopulation means. An overpopulation may exist when the population is supposed too large in view of other factors necessary for human existence. The growth of population takes various forms such as the birth of children, or the increase of the aged or that of the population at productive ages. Evidently, the problem of employment is closely connected with the population at productive ages. When the supply to labour market becomes unbalanced with other social and economic factors concerning the growth of employment, various problems may occur with respect to employment. To say that overpopulation means latent unemployment therefore is not necessarily a statement concerning population in general, but more specially concerning the labour population. Accordingly though it may be undeniable that both population and latent unemployment are more or less in close relation to each other, the crucial point of the problem lies in the employment problem and not in the figures on population. In fact, the problem of latent unemployment can not be simply dissolved into pure population problems.

### III. *Formation of the Concept "Latent Unemployment"*

Then what is the nature of latent unemployment as a social fact?

Firstly it can be characterized as a form of "modern poverty," which is not necessarily an outcome of relatively low income. "Modern" means here that this form of poverty is recognised only in a special condition, namely the formation of capitalist production system. In other words, without the presence of modern capitalist system the phenomenon now considered latent unemployment would never be taken up as a form of poverty. The problem of latent unemployment in underdeveloped areas began to be discussed after the World War II, but such a situation does not mean that the problem was not in existence before. The facts which constitutes this problem are of age long existence. Only the development of capitalist system has made people find new problems of poverty in the age long way of life among natives of undeveloped countries. And this discovery is closely related to the second point of latent unemployment.

The second point is related to the relation between unemployment proper and latent unemployment. Unemployment proper is a representation of typical modern poverty. But it is only in recent times that unemployment has been recognised generally or officially as a social problem inherent to modern industrial organization. Even in the case of Britain, the land of classical capitalist production, the notion of unemployment is said to have been unknown in the 19th century.<sup>2</sup> The notion about unemployment has developed through three stages since the end of last century. In the first stage, unemployment was understood for the first time as an industrial problem, of which the responsibility rested chiefly upon industrial organizations and not upon personal ability or defects. As a representative one of such a trend of public mind, one may cite Beveridge's "Unemployment, a problem of industry," (1908). Thus, a social insurance system and business cycle policy came to fore as remedies for unemployment. The second stage coincides with the inter-War period, when many nations experienced unprecedented waves of unemployment. This experience further promoted the understanding on the part of the general public concerning unemployment. In this stage, they were neither allowed any more to stay within the limits of one industry or one national economy as they were in the first stage, nor to treat the problem chiefly in the aftermath of unemployment. It thus became clear that the scope of the problems extended far beyond national boundaries and that the problem ought to be understood not in the form of unemployment but in that of employment.

<sup>2</sup> Clapham, J. H., *An Economic History of Modern Britain*, Vol. III, London, 1937, p. 419 is of the similar opinion.

As representative works belonging to the second development, we have "the General Theory" by Keynes on the one hand and "Unemployment, an international problem", (1935) by Royal Institute of Foreign Affairs on the other. Representing a view which anticipated Truman's point four policy, Wallace's "Sixty Million Jobs" (1945) may also be called the American version of this line. Thus, the second stage of development widened and deepened the view, which had been established in the previous stage. These two stages are however the same in the point that both treat only the typical unemployment in the modern industrialized countries. In this point the third and latest stage which constitutes the postwar period differs from the previous two. The third stage is characterized by the fact that the two factors of unemployment are for the first time recognized, one the afore said typical unemployment in the capitalist industry and other a new type of unemployment in less-industrialised countries which has hitherto been treated as employment. The latter is just the latent unemployment in the afore-mentioned sense. It is not deniable that the unemployment in the broader sense is now widely admitted in various circles both home and abroad. We find examples of such an attitude in some official statements such as ILO's report, "Action against Unemployment" (1950) and "The Economic Background of Social Policy including Problems of Industrialisation," which was issued in connection with Preparatory Asiatic Regional Conference of ILO (1947). Though this new aspect of unemployment is not yet fully analysed theoretically, it is clear that the two factors which characterized the understanding of unemployment in the second stage, its international character and full employment, are functioning to the effect of helping people to more deeply understand the problems of unemployment. Because people has come to see unemployment in the light of full employment and in its international character, they are being obliged to recognise the new aspect of unemployment in the fact which has long been passed as ordinary form of employment, though of low income and productivity. Thus, theory of unemployment has now come to deal with the most unexplored areas, where hitherto unemployment peculiar to capitalist production has scarcely been experienced because of the low level of industrialisation.

Summing up, the deeper understanding of unemployment has opened the way recognising hidden or latent unemployment at large.

#### IV. *Japan and Latent Unemployment*

In the above analysis we have observed the process of formation of the concept of latent unemployment in the world during the post-war period, but there remains another aspect to be explored concerning the relation between

unemployment and latent unemployment. With this aspect we shall be concerned next. This is the Japanese experience in the inter-War period.

As has already been noted, latent unemployment was recognised in Japan by late Dr. Uyeda and his associates for the first time in early '30s. What they observed was the gap between the growth of population at working ages and that of the unemployed, though no accurate statistic figure was available of the latter. In view of this gap they concluded that it was fairly sure that a part of the population at working ages with or without previous job experience was in a state to be called unemployment, hidden in some corner of Japanese economy without exposing themselves as unemployed, perhaps for the most part working as family members. By this way of inference, they estimated the amount of latent unemployment as about 2 millions.

Since then the notion "latent unemployment" has been more or less enlarged in Japan and it goes without saying that in Japan unemployment was the key to find latent unemployment. Indeed, many who have lost or not yet find employment conceal themselves from the group of the unemployed as if a river is lost in desert. They consist, it is thought, of two groups, one in so-called disguised unemployment and the other, in latent unemployment, the latter of which would never be treated as unemployment if Japanese economy had experienced no unemployment proper.

The co-existence of these two groups distinguishes Japan from some underdeveloped countries. This is originating from mixed or heterogeneous nature of her national economy, whose structure has various elements, from highly developed capitalist economy down to traditional agricultural economy. These elements exist in one national economy inseparably interwoven and influencing each other. Therefore, when one happens to lose his job he will sooner or later join the group in latent unemployment, as if they were again employed. This fairly big reservoir of people in latent unemployment has seemingly the effect to mitigate the pressure of unemployment. The healthy development of unemployment insurance is often disturbed by such a situation.

Theoretically unemployment proper or latent unemployment is of common nature to a national economy, but when they co-exist, closely connected, in a national economy, we need additional and deeper understanding, at least, on the nature, type and conditions of latent unemployment. The author believes the problem of latent unemployment in Japan demands us to make such observations.

Recently the heterogeneous nature of Japanese national economy has often been pointed out by western observers. For example, a British historian<sup>3</sup> said that in the mid-19th century Britain was not yet a nation of

<sup>3</sup> Court, W.H.B., *A Concise Economic History of Britain from 1750 to Recent times*, Cambridge, 1954, pp. 177-8.

modern factory production in the strict sense of the word, just like Japan was in inter-War period. Making such a comparison, he seemingly wishes to say that the present mixed nature of Japanese economy is transitional as the Victorian economy was. But the factors which determine the formation and development of capitalist production in these two nations are not the same historically. The present day Japanese economy is an outcome of a historical development, in which the modern capitalist production system grew up only in close connection with traditional or smaller industries. These latter include not only peasant agriculture or small tradings, but even some mechanized manufacturing. As the author has written elsewhere, their existence should be ascribed to a structural origin rather than to their transitional character.<sup>4</sup> They survived the industrial revolution in Japan, working for the formation of large scale capitalist production by their side instead of being overtrodden by this growing modern capitalist production system. They are of course not wholly immune from the every day economic changes, but it is also true that Japan can not dispense with them now and may be so in the near future. They are not thought as being in a mere transitional state.

It is, further, a matter of course that these sectors of Japanese economy are not all the reservoir of latent unemployment. But, it is believed, they have a general tendency to produce and sustain latent unemployment. Then what is this tendency?

#### V. *Lack of the Mechanism of Modern Employment*

In order to answer the above questions, it is convenient again to inquire into the appearance of unemployment proper and the conditions in which it takes place.

Typical unemployment, as product of capitalist production, owes its birth to social division of labour and the homogeneous national labour market. In a capitalist society, wage earners have to be employed by some enterprise, that is to say, to be incorporated to capital goods in the process of production. Otherwise they are not productive and of course do not get any income. Though in a capitalist society competition is the rule, labour conditions are often rather inflexible under various influences. Though wage is different from place to place and jobless people are usually reemployed in a less favourable condition, there is a certain level of wage peculiar to the community at a given time. The employment there means therefore that at the prevailing wage level. Under the level, there can

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<sup>4</sup> See my articles: "Japanese Small Industries during the Industrial Revolution", and "The Nature of Small Industries. A Survey of the economic interpretation in Japan", in *the Annals of the Hitotsubashi Univ.*, Vol. II, No. 1, 1951 and Vol. IV, No. 1, 1953.



not be any employment utterly in disregard the personal desire of the unemployed. In such a state of affairs, proper conditions are lacking in principle to support those in latent unemployment, while some rather exceptional chance may be afforded for the disguise of unemployment.

In other words, the system of capitalist production depends on the social division of labour and capital. The industrial capital develops its organic structure accompanying a rapid progress in the productivity of labour. A national economy, in which has developed such a modern relation between capital and labour, also enjoys a high standard of national income. The employment which is placed in these conditions is so-called "modern employment." Typical unemployment can be seen in these conditions.

Latent unemployment is an outcome of the lack of this mechanism. However, before inquiring into the reason for the lack, it is necessary to add a few words explaining the use of the expression, "the lack of mechanism of modern employment." It does not simply mean the non-existence of modern employment mechanism. In the pre-capitalist world, though the whole world was not provided with the mechanism, latent unemployment was nowhere recognised. To say that latent unemployment comes from the lack of the modern employment mechanism means that certain society in question lacks this mechanism, while other nations have that already. In other words, the society is unable to develop the mechanism in spite of the economic progress by which other nations succeeded in doing so. Of course, the so-called underdeveloped countries provide us with examples. They are backward and poor being provided with little power to form and supply industrial capital. In these countries, unemployment proper scarcely occurs, but latent unemployment is chronic and regular.

In the case of Japan, she has been able to develop a power to supply industrial capital. In fact she has developed a modern employment mechanism. Nevertheless, the supply of industrial capital has not been sufficient for transforming the whole mechanism of employment from traditional to modern, keeping the national economic structure in action. Hence, smaller industries, generally equipped with machines but much conserving their pre-capitalist nature are always in operation closely interwoven with big capitalist industries. Unemployment proper and latent unemployment come into existence here closely interwoven. This is also the reason why unemployment proper may be easily turned into latent unemployment. As was formerly said, unemployment proper functions to the effect of pressing down the unemployed from higher to lower wage jobs or from skilled to unskilled works. Ordinarily agricultural labour or casual day labour is the bottom of this downward movement. In spite of this movement, the unemployed in industrialised countries take the form of unemployment in the open light being unable to get reemployed. The society with

latent unemployment is further characterized by the fact that against this downward pressure, latent unemployment which exists there always and widely serves as a reservoir for those who otherwise would be incomeless as the unemployed proper.

## VI. *Family-Labour-Like Employment*

Then, why does the lack of the mechanism of modern employment affect the formation of latent unemployment? The state in which exists this lack may be called "family-labour-like" employment.

Of course, family labour is of a different category of labour not being identical with common wage labour. They work with and under the direction of the family head. They are not regularly payed and as an older type of labour, in general, in low working conditions. What sharply distinguishes modern wage labour from traditional family labour lies in the fact that labour service is provided in accordance with a rational economic calculation in its modern meaning. It is taken for granted that labour in capitalist society freely moves driven by a reasonable economic calculation, though the movement is often put under restriction. What governs the action of family labour is not so much a free and rational economic consideration as irrational and social ties. They constitute in Japan 34.7% of the total working population in 1952. The figure is very high compared with that in U. K. or U. S. A. They are seen mostly engaged in agriculture, but some in commerce or manufacturing industries. They often work side by side with ordinary wage employees in the same establishment. They do not have any common interests with the head of the family as employer, but their low labour conditions have the adverse effect to the labour conditions of the wage employees in the same establishment, though they may receive in turn some impetus from the competition with the latter.

Wage labourers who are thus under the influence of family workers become "family-labour-like." Namely, they do not or can not pursue their interests from the view-point of their genuine economic calculation and allow themselves the lower and more restrictive conditions similar to those from which family workers are suffering. This is caused partially by their social unconsciousness and economic weakness.

As is known, the economic activities of older type is lacking the decision based upon a rational economic calculation. Such activities are by no means confined to employees, but seen also among employers. Therefore, from the view point of economic calculation, there are the following four forms of employment relations between employers and employees.

	(employer)			...	(employee)		
a)	Lacking	economic	calculation	...	Lacking	economic	calculation
b)	With	"	"	...	Lacking	"	"
c)	Lacking	"	"	...	With	"	"
d)	With	"	"	...	With	"	"

Combination c) is perhaps practically impossible, as "lacking" is here for not mis-calculation, but without-calculation. Latent unemployment may possibly appear in the combination a) or b), because, put in the same national market, those who lack economic calculation are naturally weak or obliged to forbear worse condition as either employee or employer.

Those who are connected together in the family-labour-like employment contribute to form latent unemployment and they are lacking the rational economic calculation. Among them, there are not only the self-employed and family workers but also wage-earners, though this last being sometimes excluded from latent unemployment by Western standards.<sup>5</sup> What characterizes them as those in latent unemployment is perhaps found in their personal quality. But their existence in large number indicates that it is not a personal problem but a social and structural problem as Beveridge said about half a century ago as to unemployment proper.

In other words, latent unemployment is one of the modern labour problems originating from a modern economic structure. It is a problem of labour, whose income is very low though kept in employment. In this sense, it may be against the reality to treat them as the unemployed. Notwithstanding, it is impossible to classify them as a form of regular employment. Otherwise in Japan nearly all practical remedies against unemployment would become useless. It is therefore evident that we have to fight at the same time both against unemployment proper and latent one. But if we consider the function of latent unemployment to unemployment proper in a national economy as above, the disposal of the former by introducing the modern mechanism of employment will be of more primary necessity for a country such as Japan than ordinary steps against unemployment.

<sup>5</sup> For example, Nurkse, Ragnar, *Problems of Capital Formation in Underdeveloped Countries*, Oxford, 1953.