

History of Japanese Economic Thought

Lecture No. 1

Winter Semester, 2004

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1. Task Setup and Lecture Format

● Task for History of Economic Thought

While History of Economic Theory traces the transition of economic theoretic as a learning, History of Economic Thought assumes the roles to relativize concepts that constitute the foundation of the analysis of economics through uncovering **people's way of thinking embedded in their customs, behaviors and systems**, i.e., "sense of economy", and to enrich historical cognitions by providing more realistic analytical tools through historical analyses, i.e., researches on the study of economic history, and, by extension, to be capable of requesting reexaminations on fundamental perspectives regarding economics per se.

Economic History and History of Economic Thought

● Difficulties Facing Research on Economic History

● We confront unexplained situations when we, targeting at economic phenomena, pursue causal relations in view of policy realms, business activities and consumer behavior. Unexplainable difficulties related to such proactive behavior as the following cannot be resolved from the standpoint of economics positioned as a theoretical tool that presupposes human beings to be too simple:

① **Why did this company make such a strategic decision?**

② **Why did the person in charge of policy make such a choice?**

● Although maintaining theoretical consistency is indispensable to any theoretical research, if there is no response other than a common-sense repetition that historical evidences are more complicated hence hard to demonstrate theoretically, then, does social science have no option but to give up the hope of becoming capable to explain human behavior because the task takes forever to accomplish?

Understand Behavior by Analyzing Normative Consciousness

- One way to resolve:

Behavior may become understandable by way of an analysis starting with “normative consciousness” that binds behavior, and line of thought that disciplines economic behavior, or joint consciousness associated with economic deeds inherent in a certain society.

- That is simply a matter of possibility, and is not a final and conclusive means to solve the problem. It is just that, in an attempt to understand human behavior, there is a possibility of progress in the approach method of “trying to understand the meaning” in line with a certain epoch or consciousness.

Inductive Method Approach

- Appropriate approach method for this type of research:
 - To clarify “principle line of thought or conception” that can be inductively obtained from habitual practices passed down by the oral tradition and folks’ “remarks”.
- Meaning of words changes and so do phenomenon and context they represent. Thus one needs to consider these meanings in accordance with the times.

But empirical procedures are not so simple.

There can be no quantitative standard to be preliminarily indicated with respect to inductively-generated examples to qualify for an appropriate understanding of “sense of economy”.

- Level of adequateness for such conceptual understanding is relevant to whether one particular understanding can constitute an instrument with which economic situations of the times can be explained. That is, the measurement of an accomplishment level depends on whether one conceptual understanding can be utilized as a hypothesis equipped with power of explanation, and if it can survive through the empirical research on economic history.

Validity of Comparative-History Viewpoint

Point to Remember

This type of approach often leads one to falling into some individual description, where a conclusion like, That's why Japan is an atypical society, tends to be drawn.

In order not to make such a misstep, this lecture is to relativize regarding the understanding obtained from realities of Japan through comparisons with those of foreign countries as much as possible, and to clearly separate universality from particularity therein.

Textbook for Lecture

- **Haruhito Takeda, *Japanese Sense of Economy*,
Iwanami Shoten, Publishers, 1999**

Chapter 1 Company and Capital Investor

Chapter 2 Market and Competition

Chapter 3 Contract and Dispute Settlement

Chapter 4 Discipline of Labor and Security of Employment

Chapter 5 National Interests and Government

2. Transition of Concept of Corporation

- 2 -1 Japan Association of Corporate Executives, 1955
- Since the 1990s corporations' social responsibility has been questioned in the wake of corporate misconducts, but these scandals have not incurred owing to some idiosyncrasy of Japanese companies' state.
- Slackness of corporate discipline has nothing to do with Japanese-style management as the same happened in such American-style-management companies as WorldCom.
- In order to clarify what Nihon Ham, Yukijirushi and Mitsubishi Motors cases really indicate, there is a need to step into another problem area outside recent discussions on corporate ownership, which is inadequate to facilitate findings of these cases' essence.
History offers some clues to put thought into this subject.

Source Material 1:

“Management’s Awareness and Practice of Social Responsibility ”

Resolution at Convention of Japan Association of Corporate Executives, November 21, 1956

- (1) Conscious of the **nature of a corporation being a public organ**, the managements are to be prepared to take it as their social responsibility to manage own corporation not only for the sake of own profit but also for balancing out social harmony.
- (2) Inasmuch as an imbalance of Japanese economy poses an impediment at this juncture, they are to implement both the reorganization of the nature of operations and the **modernization of business operators** simultaneously.
- (3) As for the reorganization of the nature of operations of Japanese economy, they are to put effort into **the formation of social counterbalance and the establishment of rules of fair competition based on the contemporary capitalism in transfiguration as their fundamental principle**.
- (4) Regarding modernization of business operations the managements are to increase profits with their central focus on technological innovations and market developments, and to **distribute them fairly to financiers, managements and workers**.

(1) Consciousness of Corporation Being Public Organ

Sequel of Source Material 1: "Management's Awareness and Practice of Social Responsibility "

- In view of contemporary world movements, countries all alike promote such technological innovations as industrial uses of nuclear power and dissemination of automation, expend effort to increase productivity, and infuse each country's national economy with immense vitality. Since our national economy faces a major turning point, it is highly necessary for Japan's economy to find its way to make a progression.
- At this juncture, what is most important **for the management is to remind himself of and put into practice his social responsibility.**

(1) Consciousness of Corporation Being Public Organ

Sequel of Source Material 1: “Management’s Awareness and Practice of Social Responsibility ”

● To begin with, a corporation nowadays forms a dominant part of various social establishments, going beyond the bounds of an unsophisticated private ownership, and **its operation is entrusted not merely by capital investors, but by the whole society**. Concurrently, long gone are times when an individual corporation’s profit corresponds with that of society, we are in an epoch that, unless the management should proactively make exertions on the coordination, any progress of corporations cannot be expected, not to speak of prosperity of the national economy.

(1)Consciousness of Corporation Being Public Organ

Sequel of Source Material 1: “Management’s Awareness and Practice of Social Responsibility ”

● Stated differently, the contemporary management is ethically and practically not allowed to pursue merely for own corporation’s profit, but, in the coordination of economy and society, is supposed to take a stance to link factors of production together in a most efficient manner, and to provide service by producing inexpensive and high-quality products.

This type of business operation truly deserves the designation of being modern, and the social responsibility of the management is nothing but an implementation of the above. Today, this social responsibility and consciousness of corporation being a public organ have become a common sense in many countries such as the U.S. and Britain. Endeavors to expand our country’s economy hereafter can be said to basically depend on whether the management fulfils these .

(2) Reorganization of Economy's Constitution

Sequel of Source Material 1: "Management's Awareness and Practice of Social Responsibility"

- Since the early period of Meiji, our country has implemented a rapid modern industrialization and demonstrated high growth rates that are rare in the world.
- But this rapid industrialization, while having brought about the establishment of modern sectors on one hand, has stranded backward agriculture and small-to-medium sized businesses. Which has induced a concomitance of modern sectors and backward ones in terms of productivity, and a gap between production advancedness and consumption backwardness. The existence of these concomitant relation and gap constitutes a cause of disparity in social life and obstacle to develop the contemporary capitalistic economy. **In order to reorganize the nature of such operations, it is necessary to consider consumer sovereignty, moderation/elimination of detriments caused by monopoly, systematization of capitalism, stable growth and guided economy.**

(3) Construction of Practical Foundations for Management to Fulfill Social Responsibility

Sequel of Source Material 1: “Management’s Awareness and Practice of Social Responsibility ”

To build practical foundations, i.e. an organized structure where consumer sovereignty really exists by overcoming characters of a semiadvanced-country inclination, first, eliminate the strong’s grip on power resulting from the concentration of power, so that various economic arms became capable to maintain fair relationships, that is, **to form social counterbalance**, and second, establish capitalistic competition rules or, fair competition rules.

(4) Modernization of Business Operation

Sequel of Source Material 1: “Management’s Awareness and Practice of Social Responsibility ”

- It is required to seek stable profits in a long term with the basic objective to gain fair profits. According to this need, the management intently conducts experiments and research, and, exhibiting creative abilities, implements a new cohesion of economic factors, i.e. technological innovations and market developments, based on a long-range perspective. Only with this sort of attitude can modern management skills improve and their fruits be obtained.

(4) Modernization of Corporate Management

Sequel of Source Material 1: "Management's Awareness and Practice of Social Responsibility "

- **Corporate earnings must be fairly distributed.** "Large and fair profits created under fair competition" are a yardstick of economic rationality, and their "fair distribution" is an effusion of humanism. The management is possessed of the function to take a leadership on producing what are needed in society by combining production factors of capital, labor and resources, and to provide them to consumers. He is also **responsible to fairly pay such offerers of production factors as financiers, workers, suppliers and subcontractors for their appropriate contributions, and to provide a grater satisfaction to consumers.**
- The contemporary management is supposed to nurture executives of next generations consciously and methodically, which is a part of social responsibilities of the management.

Significance of “Management’s Awareness and Practice of Social Responsibility” by Japan Association of Corporate Executives

- This is a resolution which prompts the consciousness of social responsibility of corporations, and which limits shareholders' right as its specific measure.
- Viewpoint to position a corporation as an “organic concomitance”
- These are antithetical to “shareholders’ sovereignty” in the current corporate-governance theory.

“Portrait of Takeshi Sakurada”
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Takeshi Sakurada

Ten-Year History of Japan Federation of Economic Organizations, Japan Federation of Economic Organizations, 1962, p.113

Source Material 2: Statement of Takeshi Sakurada at Convention of Japan Association of Corporate Executives, October 1955

- (1) Today is not an epoch of might and number, but that of knowledge and technology.
- (2) Time is moving to an **epoch of the management** from that of the financier.
- (3) The management is no longer a capital owner or his spokesman, but comes from working people to be chosen from thence.
- (4) Therefore a **corporation does not belong to a capital possessor himself**, but is a public property; the management is a bailee keeping it in trust.
- (5) While shareholders' rights ought to be valued, equally or, more importantly, the **management should respect benefits of working people, and further think highly of public benefits, and render his service to the public.**

Source Material 3: Statement of Convention Organizer Takeshi Sakurada

The 8th National Convention, November 10, 1955

● Effusion of his conviction:

“As long as these managements lay hold of business operations, I am convinced that, even with the advent of a political transformation in the worst situation possibly anticipated establishing whatever political power in our country, so long as the maintenance and expansion of production power—the premise of the distribution issue—are necessary, the preservation of people’s life is impossible without relying upon the intellectual power and conscience of this management team.”

“Ten-Year History of Japan Association of Corporate Executives”

● “This statement provided Association’s search for new management philosophies with one powerful clue, and at the same time, was regarded as having inbreathed a sort of new wind into the managements in time of the political turmoil.”

● Japan Association of Corporate Executives even adopted “the resolution on the championship of the parliamentary politics”, and it is noteworthy that one section stated, “the Association shall corporate to expand policies regarding social security.” Determined together with this resolution was “the course of action for the nationwide body of Japan Association of Corporate Executives in order to champion the parliamentary politics”. Its key points:

● **First, the management s’ measures for operations:**

- a) Establishment of right operational philosophies and ethics
- b) Measures for modernization of operations and productivity enhancement

● **Second, the management s’ measures for politics:**

- a) Measures to adjust parliamentary politics to conditions of the country and its people’s cultural level
- b) Investigations on causes of destructive influences and measures for them
- c) Specific measures to champion the parliamentary politics

Background of Resolution by Japan Association of Corporate Executives

- As for its genealogical origin, refer to;
- Source Material 5: Draft Proposal on Corporate Democratization



Banjo Otsuka

Ten-Year History of Japan Federation of Economic Organizations, Japan Federation of Economic Organizations, 1962, p.493

Economic Democratization and Equalization of Labor and Management Rights

Picture showing “Transport of stock certificates of Mitsui Zaibatsu on account of the dissolution of Zaibatsu” removed due to copyright restrictions

Tetsuji Okazaki, *Trajectory of Industrialization*, Yomiuri Shimbun, 1997, p.259

Picture of “Yomiuri Dispute” removed due to copyright restrictions

Takayoshi Matsuo, : *Setoff to International Nation; Shuei sha-version of Japanese History (vol. 21)*, Shueisha, Inc., 1993, p.35

Picture of “Convention for Formation of By-Industry Conference” removed due to copyright restrictions

Takayoshi Matsuo, : *Setoff to International Nation; Shuei sha-version of Japanese History (vol. 21)*, Shueisha, Inc., 1993, p.72

Source Material 5: “Draft Proposal on Corporate Democratization” (Concept of Modified Capitalism)

Announced in November 1947

- Subject was announced under the name of Banjo Otsuka, chairman of the study group on the corporate democratization in Japan Association of Corporate Executives. He was the president of then Nippon Special Steel Pipes and a central figure of Association.
- At that time, he was among the first to advocate “modified capitalism”.
- His fundamental way of thinking was, “Rushing to an extreme standardization, socialism results in dehumanization. Capitalism, if left alone to extreme laissez faire, causes disruption too. I am convinced that a new position should evolve at the midpoint of those two.”
- ... First organized in 1947, “the economic democratization study group” chaired by Otsuka convened often for discussion, ... and it was the “draft proposal on corporate democratization” that came to be finalized on July 1.

“Draft Proposal on Corporate Democratization”

- **Introductory pages**

- **Section 1: Preface**
 - i) Definition of economic democratization
 - ii) Economic democratization and socialization
 - iii) Way economic democratization should be in our country
 - iv) Current status of Japanese economic democratization
 - v) Development of equity-based corporations in the U.S.
 - vi) Human resources management as one configuration of economic democratization in the U.S.

- **Section 2: Democratization of corporations**
 - i) Establishment of corporate joint-ownership system
 - ii) Separation of capital and management
 - iii) New creation of the corporate general assembly
 - iv) Reorganization of the general shareholders meeting, and new creation of the general assembly for workpeople and one for the managements
 - v) Establishment of a minimum guarantee system
 - vi) Distribution of corporate earnings
 - vii) Liability of corporate risks
 - viii) Joint management council
 - ix) Labor union

“Portrait of Banjo Otsuka” removed due to copyright restrictions

Ten-Year History of Japan Federation of Economic Organizations, Japan Federation of Economic Organizations, 1962, p.493

Key Points of “Draft Proposal on Corporate Democratization”

Preface

● “The purpose of economic democratization, simply put, is **to let everyone—linked to the operation of an industry either directly or indirectly—participate in it without omission, and reflect one’s intention to it.** That is to say, the aim resides in the operation of the country’s industry based on the intention—consensus as a total intention and originality as an individual’s intention—of all the people concerned, which simultaneously means nothing but an operation conducted under responsibility and cooperation of those participating. With that, economic democratization in this meaning is eventually to lead to enhancing status of working mass and employed workers/farmers who account for the absolute majority of persons involved,” thus a clear stipulation of economic democratization.

Key Points of “ Draft Proposal on Corporate Democratization”

- **(1) Democratization of corporate-ownership relationship**
 - “Corporate assets are owned by a legal body that is a business entity operated jointly by the three parties of management, workers and financiers,” and by way of “admitting the management and workers to the sovereignty equivalent to that of shareholders with respect to an incremental portion of corporate assets,” the draft intended to create “a virtual joint ownership”, i.e. a **“cooperative ownership”**.
- **(2) Call for installation of “corporate general assembly”**
 - To **install a “corporate general assembly”, as the supreme decision-making body, comprised of management, workers and financiers**, under which a “joint management council” is maintained as an executive subsidiary organ.

Key Points of “ Draft Proposal on Corporate Democratization”

● (3) New creation of “general assembly for workers” and “one for managements”

● A general shareholders meeting should not be considered as the supreme decision-making body, but merely “an organ to elect invariable representative shareholders and auditors who are to comprise a corporate general assembly, and if necessary, the one to express opinions as shareholders”. By the similar theme, a “general assembly for workers” and “one for managements” ought to be newly created. Each assembly is none other than the parent body for electing its representatives to the corporate general assembly.

● (4) Establishment of “minimum guarantee system” and profit distribution

● A shareholder is no longer a protagonist in a corporation as in the traditional meaning. He “as a member of constituent element furnishes his capital in the same meaning as a management furnishes his management and a worker his labor.” Hence in case profit increases it must be distributed to these three parties in accordance with an equality principle. For this reason, a “price equivalent to the interest rate” is to be paid to the capital as a sort of “basic dividend”, and in the same sense, for a management and a worker, merit salary is guaranteed to protect their living.

Key Points of “ Draft Proposal on Corporate Democratization”

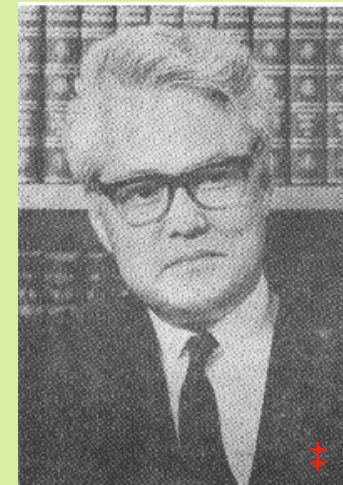
● (5) Position of labor union

● “If labor comes to occupy a leading character position in a corporation-operator business alongside of capital and management, the labor union’s nature itself becomes different. Under this new framework, labor on one hand holds a major position of a corporation, and on the other continues to be in an employment relationship with a corporation at the same time.”

● Situated outside the business operation, a conventional labor union was in a position to defend workers’ interests: In this draft proposal the **same union is situated inside the business operation to increase workers’ interests by enhancing its operational efficiency.**”

Background of Resolution by Japan Association of Corporate Executives

- As for its genealogical origin, refer to;
- Source Material 5: Draft Proposal on Corporate Democratization
- Economic New Structure in Source Material 7 and subsequent sections



Original Chairman of Bertrand Russell Society

[Portal Site for Russellian]
<http://www005.upp.so-net.ne.jp/russell/>

Source Material 6: Shintaro Ryu, *Reorganization of Japanese Economy*

- With an objective to resolve Japanese economy's status that is in a crisis of reproduction on a regressive scale, it is necessary to **fundamentally transform the state of corporations standing on profit principle and to eliminate every single bit that blocks development of productivity**. To that end, leaders of corporations are responsible to release their accounting to the public, to control it, and on another front, to increase production.
- By way of taking control over corporate accountings and profits, it is **necessary to preclude free economy's aspects of capitalism, and to transform corporations into organizations that aim at production but not profit**.
- If corporations having been reorganized in such ways establish a cartel, and which takes charge of economic control, it will genuinely produce fruits of exercising control since this cartel does not have to consider profits of member corporations. Control traditionally from "outside and above" ought to be switched to the one from "inside and below".

Source Material 8: Original Scheme of “Outline of Establishing Economic New Structure”

- “To reform corporations by letting them break away from the dominance by capital putting pursuit of profit first, so that they are managed in such manners as taking the position of members of the national productive community, following objectives of the body politic with the central focus on the securement/augmentation of production quality and quantity, under the initiative of individual ingenuity, capability and responsibility.”
- That is: Denial of profit seeking, subordination to national objectives as productive unit → protest from business community → “organic unification”

Source Material 7: “Measures for Coordination of Labor-Management Relations” by Collaboration Association’s Committee on Measures for Current Affairs

March 1938

- “Industry is an organic organization tied with each individual’s job responsibility of employers and employees.”
- → Criticism to this (from business community): “Measures refer to labor and employers, and take no account of capital.”

Background of Resolution by Japan Association of Corporate Executives

- As for its genealogical origin, refer to;
 - Source Material 5: Draft Proposal on Corporate Democratization
 - Economic New Structure in Source Material 7 and subsequent sectionsAll of these take the position of managerial capitalism, denying all-powerful governance by capital.
- Theoretically the above is identical to Barle/Means' theory of managerial behavior.
 - This thesis started influencing Japan since the mid-1930s.
 - Examples: Kaichiro Nishino, *Theory on Modern Equity-Based Company*, Moriyama Shoten, 1935
 - Yojiro Masuchi, *Equity-Based Corporation*, Ganshodo, 1937
 - They verify that the dispersion of corporate stocks already began.

Source Material 4: “Conscience of Industrialists”

by Secretary of Commerce L.H. Hodges, member of the Japan-US Joint Committee, on his visit to Japan in January 1964

“In times when free enterprises were breaking away from the yoke of feudalism, their ethics was considered based on a concept of competition. Competition in this case was the one among many independent producers for each product and giving others no trouble. Thus, it was thought that for enterprises to pursue maximum profits under laws and morals of the society would also benefit public interests.

However, today’s competition among huge enterprises has nothing to do with such a classic competition. The management of every large enterprise has power big enough to influence welfare of others. While this power is necessary for mass production, it also involves danger to be abused. So it requires the backing of responsibility. The management has to consider, for one, the harmony of profits among shareholders, workers, consumers and suppliers who are directly affected by business activities, and for another, the interests of the country; to strive for realization of this social harmony is the management’s responsibility even against shareholders’ interests sometimes. The management should create an ethical platform of its own accord adapted to contemporary enterprises and take a leadership: Otherwise, freedom of enterprises will be lost because of the pressure from outside.”

(Source: Takao Tsuchiya, *History of Japanese Management Philosophy*, Nihon Keizai Shimbun, 1964)

Significance of Researches by These Business Scholars

- During the interwar period, “concept of corporation” transformed under the U.S. leadership resulting in a superiority of “managerial capitalism”.
- Variance in forms of business organization depends on how to treat investment risk:
 - ① A concept on corporation that defines the function of a corporation as keeping and increasing money of capital investorsVersus countervailing:
 - ② A concept on corporation that stresses the importance of a producer of goods and services as the function of a corporation
- In the style of Marxist economics, ① in the above matches capital concept in terms of self-propagating value. This can be explained in relation to the principal agent where “moneymaking” becomes autotelic.
- Negation of this concept of corporation leads to that of Japan Association of Corporate Executives.

Unresolved Issue

- Why was this type of thought that might lead to a denial of ownership accepted?
- This perspective on corporations in Japan cannot be a temporary confusion on the ground of the war; rather it means this vision was positively advocated as a reform plan in the postwar times.
- It is most likely to be wrong to attribute the reason for accepting this thought to the war footing.