

History of Japanese Economic Thought

Lecture No. 14

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Haruhito Takeda

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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.

Inductive Method Approach

- 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.

About Concept of Corporation

- 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 investors

Versus 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.

Capital Investor

● According to Yuro Miyamoto, the Will's important points are:

- ① Equity right to Omotokata's assets was set to be limited to 6 head families and 3 related families ;
- ② Inheritance of each family was set to be an independent inheritance;

And the even more important matter is:

③ It was set out that each family would **not be allowed forever to conduct divisive requisition or disposition of assets equivalent to its equity right.**

That is, while each family has the proprietary rights in the form of equity right, its interest is limited to receiving a share of the profits generated from joint assets, but **the right to dispose own assets was precluded.** A highly important restriction was committed to the kin's right of ownership of their family business.

Hegemony of Management Professional

- The above simultaneously presents the same characteristics of corporate management with ones common to Japan after World War II in that the authority of shareholders is weak while the management's role to play is extremely large.
- The most significant point of difference between the prewar and postwar eras was that, in the former era, stable shareholders who guaranteed the management's hegemony were kin and Zaibatsu headquarters thereunder whose behavior was restricted by the principle of *Soyu* system, while, in the latter era, the stability of shareholders has been maintained by the cross-holding of shares.
- Succeeding as the principle of Zaibatsu's managerial organization even in modern times, the tradition of business management in *Soyu* style since Edo Period came to materialize the managerial stability/permanence through such measures as the elimination of investors' arbitrariness, prevention of dispersion of business assets, securement of reinvestment funds by internal reserves of profits, and recruitment of professional managements.

International Comparison on Concept of Corporation

● According to Cole, “perhaps it may owe to a institution of inheritance, but in the universe of entrepreneurial activities, more than any other sectors in recent societies, **there is a markedly significant meaning in stability of the family.**” This way of grasping stems from a presumption that in the European history “there are unknown number of cases where **business management activities were pursued, and also ‘maintained’, for the purpose to build the family foundation.**”

Shareholder's Voice – – Significance of These Two Cases

- In both cases, with their request for the establishment of management-improvement programs looking to the medium and longer term, shareholders showed their maximum resistance including judicial means to apply for annulment of a general meeting, proved to engage deeply with corporations' subsistence through such voices.
- Moreover, the context of their interventions was not just a demand for higher dividends.
- Accordingly, although shareholders matter-of-factly exercised their right to speak conforming to the joint-stock company system since it was introduced, their say was not a simple request for dividend in a short-term perspective and was not incompatible with the concept of corporation calling on everlasting development of business activities. Haruhito Takeda

From Meiji Period to Early Showa Period

- In a social background where those participating in the stock market were increasing among investors and corporations via a stock boom during the first World War, and in a short time lapse of some 20 years since these cases described in the foregoing, shareholders even turned out to be the subject of a critical discussion that claimed them to be ruinous to the State, and, rather, expectations on Zaibatsu conducting nonmarket monitoring came to be purported.
- It could be that during this lapse of time, shareholders' expectations about corporations changed.
- Chikage Hidaka's research on the decline of the English cotton trade:
 - Deficiency in the international competitiveness due to padding of assets
 - That is, to portray a corporation as a tree to grow money in short time.
 - There might have been a similar tendency in undercurrent.
- It was not that the idea of shareholders' predominance was unacceptable to Japanese vision of corporations: It was in light of the indication about negative effects of this idea that a different framework of governance came to be considered ideal..

4 – 4 Ethics of Business

- A key point in the example of *Age Ichi* is that, albeit a once-a-year chance of business, there was an implicit contract between sellers and buyers.
- This sort of relationship of mutual trust was important for coming-off of business smoothly. In fact, looking at functions of *Ichi* in historical context, it is obvious that there is a great significance in the framework of “trust” which was built over a long time period.
- Such a state of business leaves a great influence in the concept of commercial trading to Japanese people.
- In case of trades conducted repeatedly, an act of dishonesty or an “outwitting each other” that may be passable just once could be precluded in the medium and long terms. Otherwise, one’s opportunistic behavior was highly likely to strangle oneself with own hands. Under the business perspective to seek for permanence of a family business, as observed in the proceeding chapter, it was important to secure customers with a long-time relationship based on trust, not on an immediate gain.

Ad Hoc Trade

● Of course, it is not true to say that Japanese merchants never behaved opportunistically. Many of merchants that grew in modern times were from Omi and Ise, who were purported contemptuously as “Omi thieves, Ise beggars” behind their back, and merchants of Osaka who managed kitchens of the whole country got laughed at as being called “squirts of the Kyoto-Osaka area.” Nominal designations as such were not only based on people’s views on merchants or commerce (an idea that commerce is a shameless business) nurtured by the social standing order of *Shi-no-ko-sho* [the four social ranks: warriors, farmers, craftsmen, and merchants], but were also indicative of their suspicion about ways those merchants conducted their business.

Buy Cheap and Sell High

- Merchants could stock up cheap and sell high because prices were not the same everywhere. But even if a higher profit could be earned by selling higher, this occurrence itself has nothing to do with enhancing productivity of that society, or increasing social wealth.
- Needless to say, in case commercial trading expands in a format to correct a regional bias in demand and supply, the production of specialty goods of each region gets stimulated, and the production quantity in that society increases as a whole. Accordingly, produces that could be marketed in other regions were quite important to each individual society.
- However, in the process a modern society was being formed, outstanding as its economic mechanism were that, amid developments of division and collaboration of labor, the utilization of machines progressed, productivity expanded, and uniform products came to be produced in large quantities.

Haruhito Takeda

Behavioral Principle Concerning Business

- What classical economics focused attention on was this kind of characteristic of a new economic system. They took notice of emerging industrial capitalists who, in great industry by machinery, actualized an upswing on labor productivity to the extent that could not have been realized in the prior history of mankind.
- Business method of “Buy Cheap and Sell High” = **Merchant-capitalistic activity**
- Business method pursuing source of wealth in the improvement of production methodology that actualizes upswing on productivity = **Industrial-capitalistic activity**
- To distinguish these two, the latter modus constitutes the source of economic growth. Competition is a means to promote such activities.

Why is Collaboration Approved?

As one way to answer this:

- With respect to efficiency, unlike assumptions by scholars of economics, even if controlled prices or inelastic prices are observed in market, and even if they are the result of collaborative business activities restricting competition, there were fierce competitions involved, as explained in the context on competition over cost;
- Is it not a case that these may not necessarily interfere with the enhancement of economic efficiency?
- Concurrently, wasn't there a situation which could be judged that social cost incurred by negative effect of competition was smaller than that caused by concerted actions of corporations?

Philosophy of “Coexistence and Co-prosperity”

- “Coexistence and co-prosperity” for people in the same industry in the wake of a retail commercial problem – – Logic to oppose against a department store’s foray
Add up to a logic of antimonopoly
- It is indicative of the importance of a role the watch dog plays to guarantee consensus building and its compliance that, in the post-war Japan, there were strong aspects for the rationalization cartel and recession cartel to have functioned effectively under the administrative guidance by the Ministry of International Trade and Industry with the background of its authorities in foreign currency control and such.
- The reason bid-rigging problems develop into serious affairs is that there are political influences in and out of the shadow behind bid-rigging arrangements, and such facts signify the difficulty of collaboration. If politics moves in to maintain collaboration, and which constitutes a breeding ground of corruption, this kind of measure cannot be accepted.
- Therefore, a condition is required in the foundation for these collaborative market behaviors to be accepted, namely, a condition to actualize the **assurance of consensus building and its compliance** among the parties concerned. → **Problem of contract**

Summary of Inquiry Into Contract

- Ambiguity of a concept of contract
- Changeover of a contractual text vis-à-vis the preexisting contract in keeping with eventuality = Smallness of restriction of an initial contract
- Rules of dispute resolution constituting that foundation, and sharing of a viewpoint on market price of dispute resolution
- Difference in significance of discussion, i.e., whether it is a place for ingenerating “wisdom” to find out measures for resolution, or one for insisting on individual interests.
- Consensus building that requires a referee role, whose fairness serves as the backbone of validity of solution strategy for discussions.

Concept of Work – – Master of Labor

- In traditional societies, regardless of landowning farmers or craftspeople, the configuration of their labor was of no master.
- Dependent on natural conditions and constantly looking out for disaster strikes, a farmer had to handle crops' growing situations and farm works suiting to the weather in and out of season: But the judgment regarding in what order and when these work operations were to get done was up to his decision.
- **The master of labor was he himself.**
- Spending most of life's time of for living, farmers had to keep on working fraying their bodies, but those who made the decision on that were they themselves.

Discipline of Given Time

To “do the designated job for the designated length of time”

Which constitutes diligence in the modern age, viewed from the employer’s standpoint.

- In factory labor, in accordance with a system of specialization and cooperation, workers are called on to do a set job for a set length of time. There is little room for wage-workers’ discretion in their jobs, and the masters of labor are managements, financiers .
- Like this, in losing self-initiative this way lies a characteristic of labor in modern times: Is this not the reason labor turned into a matter that should be evaded?

Origin of Lifetime Employment

Significance of multiple goals

- Proactive screening in the long-term selection process: Goals on the way for that purpose ← Method to ingenerate only a small number of winners
- To have apprentices keep their motivations high, and to make their life planning possible, a path for supporting themselves was provided, and depending on fruits of their efforts up to then, differences were set in conditions for becoming autonomous.
- In many cases of their independence, their operations were more or less founded on the same *noren and* store name, the sense of unity generated there came to be condensed in the management entity of Mitsui family. For, making an effort during office in order to strengthen Mitsui's credibility not only directly increased own position and remuneration, but also led to the enhancement of confidence in own business in the future.
- ← Origin of lifetime employment in the present day: Guarantee of a long-term employment including temporary transfer to subsidiary and employment transfer

- A series of data indicate that, regarding a way of thinking about “working” that aspires a long-term continuous service, there is a common ground indifferent to borders, and that such is not particularly exceptional to “working in someone’s employment,” a configuration of labor being characteristic to modern times.
- And there, it may be highlighted that labor market, getting involved in labor disbursement of subject named human beings, has attributes different from goods which are traded in market for other products and services.
- Based on an anthropological research, the following impressive text has been marked down in *Poverty and Progress: An Ecological Model of Economic Development* by Richard G. Wilkinson: “Working hours of cultivators on slash-and-burn agriculture are ... 500 to 650 per annum in average.”; The changeover to an intensive farming for the sake of economic growth has enhanced land productivity but brought forth a substantial compensation in labor disbursement.

- And in *LE TRAVAIL: Une valeur en voie de disparition* by Dominique M'eda, it is pointed out that, among a traditional line of thought in European societies since ancient times, there has been an idea that, looking down on work tasks for life-sustaining, freedom as a citizen could be obtained by being relieved from such work tasks, which ingenerated a concept that “true life is a life of leisure.”
- And reportedly it was in the age of Adam Smith that for the first time labor was accepted to be favorable because it produced wealth. This ideology, typically observed in the labor theory of value, turned out admitting labor as the most advanced expression of personal freedom. With that, “exploited” labor in capitalistic management was given a negative image of “being alienated.”
- In Japanese societies of pre-modern days, there cannot be found a clear-cut assertion to make slight of labor and deny it for being not intrinsically human. Rather, in recent times amid the term “*Rodo* 労働” getting established as a translation word, Japanese have come to find “*Rodo* 労働” having a negative image in double meanings, haven't they? Namely, in one sense, it is not a free activity, and the one in recent times “is alienated.”

What Were National Interests?

- Conforming to the Saito theory, to make a contribution to trade expansion is a way to actualize *Kokueki*;
- While following the Fujita theory, to make a contribution to national wealth by production expansion leads to an increase in *Kokueki*.

- At any rate, it turns out that, under this kind of economic viewpoint to emphasize and endorse the expansion orientation on the economic front, industrialists could possess a consciousness that they contributed themselves to the country through their proactive pursuit of self-profit.
- Provided that they could become friendly with a sovereignty-oriented ideology, it is possible to consider that this economic perspective lay in the background.

Masana Maeda's Economic Thought

● His thought did not assert the formation of domestic market that was essential to autogenous modernization, but laid stress on the exportation of traditional industries. So it was not flatly opposed to the governmental measures that aimed at drawing foreign cash, militarizing economy, and nurturing capitalism. What's more, such exportation of indigenous industries gave birth to the bloated development of the silk reeling industry only to engrave the structural infirmity of Japanese capitalism. Yuji Suzuki, *Industrial Promotion Measures of Masana Maeda*

Government-Business Relationship after WW II

- First, the government clarified “the discipline of the market,” and positioned it as one of its key roles to become the “last anchorage” in reinforcing this discipline.
- Second, as industrial circles started feeling that, along with the formulation of the Antimonopoly Law, “the discipline of the market” was an excessive “restriction,” they came to request a “shelter” by such competent authorities as MITI in an effort to get away from such excessive restrictions. That is, “the authority” came to have a role of “hide-out” for the circles to run away from the application of market rules named the Antimonopoly Law.
- Third, it became a role expected of the government to protect and nurture the development of industries. In such situations, the government came to play the part of the referee for discussions as a watchdog of the agreement which might not be expected to be perfectly practiced if left to a voluntary coordination within the private sector, such as putting in order competitive relations that tended to tumble into an “overcompetition,” price arrangements and disposals of facilities during difficult economic times, and sequencing the proliferation of equipments during boom period.

Turnaround in Consciousness

- These roles
 - ① under a common consciousness of a “poor country Japan,”
 - ② came into effect and functioned in the management of the economy that aspired for the development in the export-dependent format.
- As Japan began to deem itself as a “big economic power,” and each company grew into having confidence in the international competitiveness, this relation between the government and industrial circles turned into a strained one seeking for “freedom from the government,” opposite of the dependent relation up to then.
- Thus, it was a natural consequence that a trend to relax regulations became definite after the 1980s, targeting at correcting an excessive dependence upon interventions of the governmental restriction.

Idea of Deregulation

- A direct catalyst for bringing a trend to ease regulations into shape was foreign pressure calling for expanding domestic demand,
- And simultaneously, another was domestic pressure insisting on the requirement to pull together the government finance that had run into a bankrupt situation.
- To the business world, the government that cost too much money was changing into a tricky stuff that demanded a high corporate tax rate, i.e., passed a bill of the fiscal collapse on to economic circles.
- In this period, the government stepped down from the position of the patron of economic circles, and instead changed into an entity that was fastidious almost too much meddlesomely, and yet begging them for money all the time. Tables were being turned.

- To restructure the government costing too much money, one way was to reform the tax system in pursuit of new fiscal resources, like consumption tax, without resting on corporations, and another to cut back on fiscal expenditures by relaxing regulations.
- But, of all things, citizens reacted sensitively to this tax increase. Japanese relatively uninterested as to how tax is spent displayed their clear intention against an increase in their tax. As the result, the foundation of the ruling party got flustered amid voices against a higher tax, and political stability became impaired. Inasmuch as political instability was not desirable to economic circles, a “small government” through deregulations came to be called for.

Ukichi Taguchi's Economic Thought

● To this advocacy, Taguchi asserts in “To discuss financial difficulties” (*Tokyo Economic Magazine*, Vol. 83, Oct. 3, 1881) as follows:

● Current difficulties in the government finances are owing to the pressure of the official affairs since the Restoration, but “the fact that the government is busied with many affairs is not intrinsic to its substance, but rather is linked to its sickness.” Taguchi’s criticism continues that the governmental proper function lies in “protecting the people’s rights,” and that if it acts on its own authority, revenues ought to be adequate and that it would never run into financial difficulties. Further, he points out that the people are responsible for the government’s finances only in regard to what the government does for the protection of the people’s rights, and that, when the government forgets its proper function by “wasting” its revenues “in all kinds of businesses,” “why can the people have a courage to offer their fortune?”

Haruhito Takeda

Intention of Ishiguro's Agricultural Administration

● “I believe that, by protecting agriculture even at great sacrifice, though I may be censured as a stolid man—as a national trait of our country, stolid elements should preferably be respected as much as possible—to take measure so as to have the young men and women, sound in mind and body, stay in our country's farmlands to certain extent is what the res publica is expected to do without minding expenditures. In the light of the position of our nation's agriculture today, based on the fact that it **supplies the greater portion of main foodstuffs**, and that **majority of our citizens rely on agriculture for clothes and food**, and that the settlement of the international trade balance in foreign trade of export and import depends on a piece of silk thread pulled by a young daughter of a small farm family, and that it constitutes the source of sound labor of men and women for commerce, industries and all other areas, I think that the res publica must shoulder the need to significantly protect farm villages which are the fountainhead of these. From this perspective, it is correct to state that to decide on means that cannot be avoided to adopt for the future progress of agriculture is not just an industrial issue, but **rather the problem of politics and societies.**”

Grounds for Tenant Farmers' Assertion – Statement of Revenues and Expenses

Attached to this statement of reasons are two statements of the tenant farmers' revenues and expenses that are shown in Tables 3-8 and 3-9. Table 3-8 is based on the rice price of 1924 and Table 3-9 on the average price of rice during 1914 through '23. On the basis of these two tables, the "statement of reasons" calculates the labor charge per tenant farmer to indicate that it merely amounts to ¥0.899 in Table 3-8 and ¥0.64.6 in Table 3-9. In contrast to these figures, a per diem of the agricultural labor charge is ¥2.50 in Uzura Village and no less than ¥1.50 in the national average since 1919, thus appealing how little the tenant farmers' labor charge was. With that, the "statement of reasons" insisted on the need to reduce tenant rents as follows:

“From the nature of things, we believe that we tenant farmers by the cultivation of rice **should at minimum have an income equivalent to a labor charge an average agrarian laborer earns, and which must be realized for all intents and purposes** (ellipsis). What we can never tolerate nowadays is just one matter: The rent of this village, i.e., the one we pay, is the highest in Japan, unparalleled anywhere else.”

- As for the problem of farming villages, Maeda considered its solution to be the systematization of the agricultural sector under the governmental assistance.
- Taguchi thought that the sector was capable to grow by itself if the government lightened the tax burden and stay away from unnecessary interventions.
- As opposed to these two, Fukuzawa was critical of Maeda's idea of an intervention close to an industrial policy measure, and was against Taguchi's theory of the small government based on Fukuzawa's stance that was oriented to an ideology of "the sovereignty".
- Later in Taisho Period:
- Ishiguro's perspective to grasp this as a social problem comes close to a concept of the contemporary welfare society in terms of aiding the weak;
- In the face of these, tenant farmers, positioning this as an economic problem, treated it to be the issue concerning profits on the ground of their precise calculations.

- Such response by farmers indicated that they were situated differently from what advocates of Meiji Period had anticipated, namely, a state where farmers were independent and growing as the producers of merchandise; and actually they were strongly conscious of being agricultural laborers.
- Needless to say, the behavior of those tenant farmers itself meant a breakaway from a conventional economic concept.
- Formerly, labor was not something that demanded outlay of toil to its limit.
- “A human modus vivendi is a product of a specific culture system and grows therein.” Pomeranz, *Bionomics of Economic Development* [literal English translation of the title in Japanese]
- “In many of preindustrial societies, people worked only for the maintenance of their subsistence and preferred the maximization of their leisure. But people in industrial societies keep working happily for securing more than the lowest possible. In preindustrial societies, they show the tendency which economists call leisure preference.” (same as the above)

- Sonbart: “In the period capitalism comes into being, entrepreneurs shape capitalism, and as it grows into a more developed stage, capitalism shapes entrepreneurs.”
- Bourdieu: “Farmers consume according to their income obtained from farms in the previous year, not counting on one in the future. And at the time of an excessive harvest, farmers treat extra wheat and barley as direct property and try to save them for their consumption. That is, they do not expect to increase their yield in the future by sowing these as seeds, and sacrifice the future production to the future consumption.

● Bourdieu: “Homo economics is the consequence of certain a priori deductive reasoning, and subsequently it is aimed that such is confirmed through experiences, statistically at least. ...An economist firstly asks himself, either tacitly or explicitly, how an economic man should be in order to make the capitalistic system possible, and then attempts to regard numerous categories of economic consciousness peculiar to a capitalistic man as universal categories independent from economic, social conditions. At the same time, an economist runs a risk to overlook the fact that the structure of economic consciousness is formed personally and collectively.”

About the examination:

- ① Textbooks/notes are “not permitted” into the examination room.
- ② The examination will basically be in a form to answer the questions posed in essay style.

● **I thank you, all.**

Haruhito Takeda

● Lastly, please cooperate on the lecture evaluation.