

History of Japanese Economic Thought

Lecture No. 5

Winter Semester, 2004

Haruhito Takeda

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4. Market and Business

4-2. Competition and Collaboration as Means

Subjects are market discipline, and, competition and collaboration as means.

- Market discipline
- Do Japanese dislike competition? --- Theory of collaborative Japanese
- Competition over what?
- Price competition and quality competition
- Negative effect of competition
- American competition and Japanese competition
- Possibility of coexistence and collaboration
- “Coexistence and co-prosperity” as philosophy

Market Discipline

- Maintenance of discipline by intervention of power from two directions
 - Freedom of entry and restraint of entry
 - Freedom of entry did not spontaneously develop into a customary order.— – Which had rather better be regarded as a modern characteristic.
- Guarantee of freedom of operation in *Rakuichi-Rakuza* [free market and open guilds]
 - On the premise of the guarantee of equivalent and equal trades ...
 - *Washi* and *Kyoshi*
- Restraint of entry
 - *Kabunakama* [guilds]: guarantee of power on the basis of money paid to the authorities
- Guarantee of fair trade
 - Mutual scrutiny among peers and litigation system
- Monitoring on power abuse by those in authority
 - Intervention into a debts-and-credits relationship referred to as peculiarity, pressure referred to as breaking up

Restraint of Entry

- Otori shrines existing in many places were once called Otori-myojin as they were dedicated to the god of *Ichi* that guarded *Washi*. This indicates that *Ichi* in various regions conducted *Washi*, which contrasts with *Kyoshi*, both being historical terms. Namely, *Washi* means a selling and buying based on certain agreed-upon assessment between parties to a sale, or an equitable market resulting thereupon. In “*Ruijyu-myogisho*, Vo. 7” this was read with Japanese reading as “*Akinaikafu*”, which was normally pronounced as *Washi*.
- On the other hand, *Kyoshi* was to strictly prohibit the hard selling/buying, as stated in *Taiho* Code in ancient times, “Those who force trades (= *Kyoshi*) deserve 50 whippings,” and further noted, “That is, those who buy forcibly with authorities or power are punished with 50 whippings.” Subsequently, *Azumakagami* indicated references to a prohibition of the hard sell, and a strict restraint to be applied regarding those who purchases unjustly cheap, referred to as *kubo* [warlord] buy and *shugo* [military governor] buy. For, there is no permanence in *Ichi* unless even and equal sell and buy should be guaranteed.

(Masaru Nakamura, *Modern Age of Japan Narrated by Markets*, Soshiete Bunko, 1980, p.54)

Means Named Competition

- Do Japanese dislike competition, and prefer in-group collaboration, and coexistence and co-prosperity?

Report of the first U.S. Educational Group of Delegates, 1946

- **Japanese educational system is “ridden with a preparation for examinations, depraved in formality, fallen into conventionality. It merely fosters uniformity on the part of teachers and students. It suffocates mind to quest for freedom, and pressures posture to critically make judgment into death. ... Ultimately, this educational system generated competitive spirit to an extravagant degree in some instances, leading youths to illisiveness and misbehavior, and driving them to unwholesome desperation.**

(Toshihiko Saito, *School History of Examination and Competition*, Heibonsha, 1995, p.19)

- Means named competition penetrated into Japanese society along with tide of modernization.

Words of Soseki Natsume: “It seems that the more civilization progresses and the more competition intensifies, the harder life becomes.”

- Academics of educational history purport that capitalistic economic development is a principal cause that deflected the educational site with “excessive competition.”

Competitive Japanese

Long-running promotional competition under long-term employment and age-based remuneration system

- Kazuo Koike makes an assertion that, while there are some aspects common (to Japan and the U.S.) in an internal promotion system, “the difference between the two lies in a timing of the first round of officer-candidate selection after joining the company; either in the early part, or, emphasizing actual performances over 10 to 15 years. That is, an employment system in Japanese large firms puts an emphasis on competition over a long-term,” and that this constitutes an “important system.”

(Kazuo Koike, *Japanese Employment System*, Toyo Keizai Inc., 1994, p.28)

- This type of selection process of professional managements has a resemblance to that of indented apprentices in mercantile families in modern times.

- Graduated wage system in silk industry
- Competition of miners in colliery

Haruhito Takeda

Situation of “having to work at double speed so as to stay on the job”⁶

Competition over What ?

- Morning Glory *Ichi* at Iriya Kishibojin and Battledore *Ichi* at Sensoji Temple
- – – Competition in which almost identical products are displayed at identical prices at store fronts

**Pictures of “Morning Glory *Ichi*”, “Battledore *Ichi*”,
“Tori no *Ichi* “ removed due to copyright restrictions**

Competition over Pricing or Making It Cheaply?

- Such business in which an organized price control is approved = *Ichijō*, buyers do not necessarily feel that there is no price competition.

Competing in sales figures by catching more customers, sellers often make efforts in providing minute services that do not show on prices.

But the source of their profits more than likely lies in how to bring down costs.

- Even in a large firm with a sales amount exceeding a few hundred billion Yen, efforts at its production site continue to reduce costs even by a fraction of a Yen.

- In our time, too, companies actively engage in an endless competition on cutting down costs to enlarge profits. This trend further intensifies as a leeway for “buying cheap and selling high” grows narrower nowadays.

- It is unrealistic to consider that, as prices are inelastic, there is little competition.

Competition in Price and Competition in Quality

- Competition over various factors has been observed since a long time ago along with development of business in market.

For example;

- *Hon-ami Gyojoki* states, “At occasions of construction works of official affairs, persons who had humble origin and advanced their career to deputies of grand duke Hideyoshi, such as Daizo Natsuka and Uemon Mashita, are money-minded and put works out to tender so as to let low bidders do the jobs. Certainly some pieces turn out as cheap as half estimates, but many construction works are done with some corner-cutting to result in clumsy finishes. These are not good.”

(Yoshizo Nagao, *Narrative: History of Japanese Civil Engineering*, Kajima Publishing Association, 1985, p.226)

Wisdom for Fairness of Price and Assurance of Quality

- “Engaged in construction works of the feudal government, Nakai family traditionally undertook a lump-sum contract including measurement, layout, estimate and execution. But in a reconstruction work of a main building of Hase Temple that started in 1645, the portion of carpenter job was sent for bids.
- “In the result, a successful bidder with a price lower than that of Nakai family’s was chosen, but the actual job was provided to Nakai family due to its expertise and the contract price was forced down to that of the winning bidder. In this case, fairness of the price was examined through a bidding, and at the same time, for maintenance of quality, high skills of the warranted vendor was chosen: Through this kind of process, any rigged price by the warranted vendors was checked.”
- There is a record regarding a case that the lowest price could not win a bidding: In a bid for the renovation of Nijojo Castle in 1662, the lowest bid was denied for being too cheap, and “after the scrutiny” the second lowest bidder won the contract inasmuch as it was within the original estimate.

(Haruhito Takeda, *Economics of Bid-Rigging*, Shueisha, Inc. 1999)

Competition and Its Negative Effect

Wholesalers in Meiji Period – – Restraint of competition by guild's colleagues → To competition

- "Wholesalers' settlement prices to owners of goods were based on a certain rigged price classified by each production area until the end of Meiji. Namely, wholesalers receiving goods from the same production area formed a local guild among ones closest to the area; for example, wholesalers in Izu Region formed a group and held a council regarding the day's settlement price, which was informed to owners of goods in Izu Region, and money was remitted accordingly, thus settlement prices among wholesalers were almost identical. Needless to say, through this bid-rigging, wholesalers could arrange the lowest possible settlement prices.
- However, after the end of Meiji Period to the beginning of Taisho Period, the assembly of fish cargo became more competitive, and settlement prices applied to the same area came to vary largely among wholesalers, and it became normal that settlement prices applicable to the same product were not identical among wholesalers.

Competition and Its Negative Effect

From collaboration to competition, and then to “excessive” competition

- Further, an intense competition over the cargo assembly came to be shown in wholesalers’ terms of payment to owners of inshore fish that became shorter.
- That in itself preceded the collection of their credit accounts from commission brokers, which meant an accrual of a new function to advance fund. And due to this process, it eventually turned out that wholesalers of small scale and limited capital could not help but disappear.

In this stage, a progress in market-economic system was observed in that a shortening of the terms of payment helped develop financial function of wholesalers toward commission brokers.

- The same process also frequently brought forth numerous wrongdoings affecting business, and gave rise to those who made excessive profits from owners of goods by reporting undue market rates. “

(Masaru Nakamura, *Modern Age of Japan Narrated by Markets*, Soshiete Bunko, 1980, p.148)

Nonetheless, because of the competitive situation, concurrently, “cheating each other” and unfair trades were rampant, leveraging skew symmetry of information.

Wrongdoing

- Infestation of fraud in business individually conducted
- Trade of coal in Ajigawa, Osaka of those days in 35th yr. of Meiji [1902]:

“ The strangest spectacle is that each consumer talks the price down trying to buy coal at unit price that is practically too low to be real, and merchants reconcile themselves to such impossible prices,” says a report. And a “commercial know-how” that makes it possible lies in “blending coal” (mixing retarded coal), where “one has no choice but to say that, despite denominations of good coal, merchants kind of bluntly hand out blended coal of the price levels affordable to purchasers,” so goes an explanation. ... Such measures to some degree or another were conducted all along, getting “top-ranking large merchants” involved, and did not cease to exist even crossing into Taisho Period.

(Kazuo Yamaguchi & Kanji Ishi, ed., *Commercial Distribution in Modern Japan*, University of Tokyo Press, 1986, p.53)

Establishment of Public Market

- Public markets established after the World War I were “almost revolutionary to wage-worker households, especially to the urban lower layer.”
- With those public markets, people for the first time could shop comparing the same kind of products among many, and became knowledgeable about them.
- As its result, “people stopped traditional purchases by credit, were freed from buying from certain retailers getting swayed by favoritism or custom to date, and got accustomed to autonomous selective purchases and economic buying; it became possible for them to reduce purchasing prices by the margin saved by cutting down retail expenses incurred by order-takers and house-to-house deliveries. Only with a rigid enforcement of trades by cash and ticket price did commercial events between retail operations and consumers became equivalent first time ever and turned out more rationale.”
- But, coming into Showa Period, they grew into bargain markets for inferior stuff of “cheap-and-nasty” orientation.

(Masaru Nakamura, *Modern Age of Japan Narrated by Markets*, Soshiete Bunko, 1980, pp.186-187)

American Competition and Japanese Competition

American competition

● Referring to a steel-dumping issue that was trying to find a breakthrough in a benchmark-price setting in 1978, Mikio Sumiya pointed out that, based on the background that a benchmark price “should calculate on 8% profit” of the industry standard, a profit of a little less than \$30 was included in the benchmark price of \$360, and that “when they say a full cost, this profit is inclusive, and selling at a price less than the one that includes this profit is called dumping.”

(“Organized Free Trade” included in *Industrial Policies and Economic Development*, International Trade and Industry Investigation Committees 1998, p.196)

● In other words, competition is considered to be done by price setting on **the premise to secure appropriate profits.**

Retrospect of Civil Engineering Association

Japanese competition

- President of Shimafuji-gumi To Shimada, “In America ... they sure compete, but not to the extent of poignantly cutting yourself like Japanese. In that point, they are quite different from us.”
- President of Nissan Civil Engineering Heisaku Miyanaga made remarks, “Westerners always laugh at Japanese contractors—the same applies to those who are not contractors—who win a competitive bid at ¥9,500 or ¥9,000 for a business that costs ¥10,000. They are surprised why Japanese do such a thing, so I have heard. ... Over there they do compete but offer their bids securing certain minimum profits.”

(Seichi Iiyoshi, *Talk About Old Days of Construction Industry*, Gihosha, 1967, pp.64-65)

What Is Different?

- America where a price on the premise of certain profit is considered to be an assumption of a fair competition, versus Japan where selling below cost can't be helped in order to win a competition.
- **Japan's realities of "red-ink order entry", "excessive competition"**
- Selling below cost price or selling below cost per se cannot be judged irrational:
 - Price that depreciates with time
 - distribution of perishable goods, discount of airline tickets, bargain of apparel products
 - Price cutting as a catalyst for long-term business
 - order-intake at low price on account of construction industry's bid-rigging, price by supplier...

What is Different?

- Why do Japanese, on one hand, maintain a long-term business relationship in an effort to live up to someone's expectation, while on the other end, unfold a cutthroat competition?
- From a historical viewpoint, there is no legitimacy in regarding this as the difference in national character.
- Sales staff of Siemens AG from Germany in Meiji Period made an offer to customers that they would not hesitate to receive orders in deficit in some instances, and commented on competitive situations, “American makers sometimes offer at prices that cannot cover pure production cost if applied to my company.”

(Toru Takenaka, *Siemens and Japan in Meiji*, Tokai University Press, 1991, pp.105 & 146)

Treatment of Loser and Competitive Order

- A notion that competition engenders injustice involving negative effects leads to a movement to establish an accommodating relationship so as to equally admit business opportunities by eliminating competition.

Conceptual foundation of market competition in America

- "Yeoman democracy"— "The nation is responsible for creating provisions favorable to a commonwealth of small possessors. In laissez-faire liberalism, the nation does not intervene the market unless rules of business are violated.
- In yeoman democracy, the nation has to make consideration so that a particular group does not permanently enjoys an advantage through market transactions, and that a balance between wealth and power— that capacitates a community of producers—does not get dug away."

(Charles F. Sabel & Michael J. Piore, *The Second Industrial Divide: Possibilities for Prosperity*, Chikuma Shobo, 1993, p.384)

- Recognition that inequality that arises as a result of competition must always be compensated

Americans' Way of Perception

- – Appraisal by Adolf A. Berle who paid notice to progress of managerial capitalism
- ”Not many people of major fields in societies want an unbridled domination by an order of unlimited competition in contemporary societies. None of big corporations, their workers, or their raw material suppliers wants it. Basically all of them want stable jobs, not tireless fights. Jobs they want are ones that make it possible to keep goods under almost predictable conditions, produce at almost predictable costs, thus, sell these products at almost predictable prices.”

(A.H. Cole, *Business Enterprise in its Social Setting* (translation by Keichiro Nakagawa), Diamond, Inc, pp.70-71)

Appraisal by Adolf A. Berle 2

● These assumptions (of theories asserting effectiveness of competition) were not justified by facts. Markedly competitive industries conducted by a multitude of small-scale producers often showed large fluctuations in production and pricing, and caused almost unbearable terms of employment. On another front, freedom to enter and leave industries often turned out to be nearly synonymous with sprouting a large number of bankruptcies year by year. Survival of the fittest may be an appropriate scheme for nature vis-à-vis lives of animals and plants. But, it is understood that, as a way pertaining to economic organization, this proves to be often unbearable to many human beings who are influenced thereby.

(Adolf A. Berle, *Power without Property: A New Development in American Political Economy*, translation by Hiroshi Kato, et al, Ronsosha, 1960, pp. 121-122)

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?

Possibility of Collaboration and Coexistence

- It is not a Japanese characteristic to play collaborative.

For example, in France:

- According to J.E.**Sawyer**'s research, it is said that "as seen in commercial distribution organs, the tendency to place more importance on personal human relationships than materialistic profits, or the tendency to consider 'live and let live' among competitive firms" support patterns of activities, thoughts and actions of persons who start up new businesses.

- With his introduction of this study, an American managerial historian Cole emphasizes, "Between entrepreneur managers' activities of France and those of America lie significant differences in factors of ingenerating creativity, vitality, long-term plan; in other words, there is a considerable degree of variances between the two nations in terms of institutionalized objective, value structure, social-ranking order and behavior."

(A.H. Cole, *Business Enterprise in its Social Setting* (translation by Keichiro Nakagawa), Diamond, Inc, p.142)

Coercive Power to Form Collaboration

- Bid-rigging scheme in Meiji Period – – “After attending a bid-rigging meeting and agreeing to it, for some member to secretly tender a bid below an agreed amount and be awarded a contract is called ‘to dive’, which is severely criticized by others in the same industry. When some people, such as Oki and Maeda, who were dropped out of a bid-rigging, make a successful bid, it’s called “to pass”. This case is not considered as serious as treacherous, but rather, ones who get passed over are laughed at for their inattention/oversight.”

(Chugoro Sugano, *Historical Sources of Kajima-gumi*, Kajima Co., 1963, pp.66-67)

- *Kabunakama*, bid-rigging, Important Industries Control Act

In *kabunakma* and bid-rigging, mutual surveillance constituted power to form collaboration; even in such situations, what secured the continuation of collaboration was lawsuits by the governmental authority in case of *kabunakama* and violent threats privately conducted by police in case of bid-rigging.

And with Important Industries Control Act, the government supported concerted actions.

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**