

JAPAN AT A DEADLOCK

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Also included are two of my STICERD discussion paper articles: 'A Historical Transformation from Feudalism to "Capitalism"'; and 'Wage Differentials in Japan: 1958–85'.

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Preface

Japan was unified as a modern nation state in 1868 and, by 1920, was among the world's leaders in light industrial production. Following this, the country's heavy industries also grew and prospered, but production totally collapsed with Japan's defeat in 1945. I myself was still a student at that time, and was demobilized, having served as a young officer in the navy for one year and nine months. Perhaps because I was young and *enthusiastic*, however, I did not at that time think about Japan's future with pessimism.

Sure enough, 40 years later, in 1985, Japan had recovered to become the envy of the world, including the top industrial nations (the then so-called G7). Since that time, however, Japan has failed to open up its economy to the world and to contribute to the building up of the world market system. That there has been collusion between government and private enterprises, money has been invested in a slipshod and unsound fashion, and government and the top enterprises have been involved in one economic crime after another. Questions must be asked concerning whether Japan has stumbled, whether the country will stagnate if it continues along present lines or if it is impossible for her to rise again, and we must expect collapse. Having lived for so long in England, I can be no more than a bystander as far as this is question concerned, but this time, unlike at the time of defeat – and this may be due to my time of life – my observations are extremely pessimistic.

I am an economic theorist. My observations in this book relate to trends in Japan over the last 150 years and more. The economic analysis of these kinds of problems, and the prediction of the future, is undertaken by an army of economic analysts, but it is my view that if we are to try and understand these problems as a whole, we should not rely for our understanding on just one instrument. To continue with our musical analogy, at the very least I think that we need proficiency in several instruments, and we need to portray the totality of trends by using them together, and to present to others the synthesized view or vision that results from the process. In this book I have sought to take this kind of orchestrated approach. An important part of this approach is focussing on the kind of ethos subscribed to by the people who go to make up Japan. In order to understand Japan from this angle we must begin with an overview of people's ethos in the world more broadly, though this may well be regarded as a rather roundabout way of doing things. However, as a result of defeat in the Second World War the Japanese people were reborn as people who have now lost their traditional ethos. The consequent rivalry

between two generations, each with a different ethos, can be said to be a major theme of this work.

Apart from the study of ethos, there are a number of other disciplines within the social sciences, and it is my belief that it is essential for these disciplines to be orchestrated. One of the most conspicuously successful examples of this is to be found in J.A. Schumpeter's *Capitalism, Socialism and Democracy*. No doubt from a scientific perspective this is a work containing a number of errors. It is, however, a book that is extraordinarily interesting to read, and a book that makes one think. It is true that the individual instruments used in the 'orchestra' have to be all scientific disciplines. However, the synthesis of the various sciences is not necessarily itself scientific but only on art. This is because there are as yet no theories established, so that they can provide clear rules as to where and which issues to deal with, and which to ignore, and which instruments to use, and which to discard. This depends on the general abilities of the person responsible for arranging the symphony, and hence the immediate skills of that arranger. My previous book, *Why Has Japan 'Succeeded'?* (1982), was also a symphony composed with such an intention. I am now humbly offering a book written as a kind of elegy for Japan, a 'Pathetique' symphony. Please note that it is consistent methodologically with the earlier work.

Finally, this book can be said to be in one sense a collection of essays written during the years from 1986 through to 1998. This has resulted in some duplication of material in different chapters. However, since this duplication can be regarded as a convenient way of driving home to the reader my perspective on Japan, most of it has been allowed to remain.

MICHIO MORISHIMA

1

Introduction

This book is a sequel to the Marshall Lectures I delivered at Cambridge University in March 1981, under the title of *Economy and Ideology*. These lectures were published one year later, under the revised title of *Why Has Japan 'Succeeded'?*(1982) (referred to as *WHJS* hereafter). At that time Japan was literally in the midst of success, and no doubt the readers of the book took the view that the revised title was a reflection of this fact. It was, in fact, associated with my statement in the Preface of the book that 'Success in one respect is closely connected to failure in another, and success and failure are often achieved in conjunction with each other.' Though this is put in a static or timeless relationship, it may represent a dynamic one with time lags, namely that failure at one point in time will lead to success at a subsequent point in time, or vice versa. Including the word *succeeded* in the title in inverted commas was aimed at highlighting the fact that even in the period up to 1981 success was already closely associated with failure. That is to say, the main theme of the book was to attempt to clarify that those respects in which Japan has been successful, are closely related with those in which she has met with failure, and to ask why this has been the case. However, the main thrust of the present book is not the fateful interaction of cases of success and failure, but the dynamic relationship between the overall success, which was the subject of the earlier volume and the subsequent overall failure, which I aim to consider in this one. To be more exact, what I am concerned with here is why the success of Japan, which continued for a short time after the publication of my book mentioned above, came to a standstill in the 1990s, and why we should take the view that it is unlikely to recover in the twenty-first century, and will instead gradually slide down into the depths.

This is not a purely economic analysis of the development of Japan, but what I have previously called a far broader economics, making comprehensive use of history, the sociology of religion and education, as well as other disciplines, as analytical tools. To put it another way, it is like a symphonic work that uses a range of instruments. As in the previous book, I

have not taken a materialistic approach, but have concerned myself first and foremost with the ethos of the people of the country. Any discussion of the differences between West and East, and between past and present that disregards the problem of ethos is virtually powerless. As historical entities, countries are inhabited by different peoples, each with their own experiences and their own ways of thinking, and any materialistic analysis that ignores their ethos will be inadequate. Chapter 2 of this work therefore contains an overview of the ethos representative of different parts of the world, and by comparison discusses the Confucianism that I regard as the source of the Japanese ethos. This chapter is a prelude to transformation of success to failure in Japan, as the ethos there has changed greatly recently.

In my previous book I emphasized that the main current of thought in Japan both before and after the Second World War (referred to as the War hereafter) was Confucianism (Japanese-style Confucianism). However, this does not mean forgetting that after the War a thoroughgoing educational reform was carried out, which expunged the prewar value system completely from school education. There has to be a long time lag before any change in school education is reflected in a change in the ethos that drives the economy, a time lag of perhaps 40 to 50 years. Thus in my earlier book, which was concerned with Japan up until 1980, it was possible to identify a consistency in the Japanese ethos through the prewar and postwar periods. Since 1985, however, it has become impossible to disregard the all too evident gulf between the generation that has continued to espouse the prewar ethos and those educated under the new, postwar system. That is to say, the prewar generation, who have now become Japan's elderly, have lost their voice in society. They are not getting their children and grandchildren to be obedient to them, but rather they themselves are complying with the next generation. The ideas that dictate the way that society operates have thus begun to take a sharp change in direction.

Those countries that built up a modern capitalist system after the period of feudalism almost without exception started off as countries where capitalism was promoted from above. Even in the case of England, usually regarded as an exception to this rule, there was an early period of state guidance. America is often cited as the typical example of pure capitalism from below, but in America there was no feudal period, and Britain made a substantial contribution to America's construction of basic industries. For capitalism to be established, feudal landholding structures have to be dissolved and there must be a push for internal unity. This needs the formation of a powerful central government, the bringing of the whole country under a single set of laws, and guarantees of freedom of movement and of choice of occupation in all parts of the country. Moreover, if that country is not to lose out in its competition with others, or be crushed by them, it not only needs the capacity to defend itself but also its right to tariff autonomy must be recognized, and at the start, at least, it has to be able to

sustain for a suitable period a tariff wall of an appropriate level. These conditions were stipulated by Friedrich List (1841), but the Japanese example shows that they are not necessary conditions for the transformation from feudalism to capitalism. Japan was forced to open its doors as a result of pressure from foreign countries at the end of the Tokugawa period, and was not permitted to establish tariff autonomy. This inequality persisted even after the Meiji Restoration and the unification of the country, and Japan's industries were compelled to become strong enough to surmount this disadvantage. The self-reliance of Meiji Japan was forged in the need to rise to this challenge. For that reason, after tariff autonomy had been regained, the countries of the West were confronted with Japanese industries that had at a stroke become exceedingly strong.

To create this kind of a Japan, there had to be some concept of the formation of a core group of industrialists, and the structures that would enable such a group to be reproduced. In Japan it was Japanese-style Confucianism – a style of Confucianism that served as the legitimating principle for loyalty and patriotism, often to the point of jingoism – that acted as the principle upon which national unity could be constructed. The bearers of Japanese Confucianism were the samurai, but since such a caste system could not co-exist with the egalitarianism of capitalism, the samurai caste was legally, formally and, before long, in actual fact, disbanded. In order to make Japanese Confucianism the creed of the people as a whole, the Meiji government established a system of compulsory education and turned Japan into a 'Japanese Confucian' country. As we shall see in Chapter 3, the capitalist economy from above soon came to be operated by businessmen who were university graduates, but the developmental process whereby the samurai were absorbed into the intellectual class of university graduates is probably the most important characteristic of the transformation from feudalism to capitalism in Japan. Among those who led the country were the professional soldiers from the military academies, i.e. the misguided offspring of the samurai and the intelligentsia who misled the country and drove Japan to tragedy.

The capitalism from above, established after the feudal era, was initiated from the upper layer of industry that was provided with capital invested by the state (the government) or capital accumulated in the feudal period. However, once a certain stage of development had been reached, the process came to depend on the funds of individuals in the wider community who had bought shares of enterprises set up by private individuals. What was happening was that this capitalism from above had started to move downwards. When an economy reaches this state a stock exchange is established, and Japan established stock exchanges from 1878. With the subsequent outbreak of the First World War in 1914 and the involvement of the Western European powers in a lengthy defensive war, Japan was able to take advantage of their absence to achieve a monopolistic position in

the China market. Japan had by this time recovered the autonomous right to set her own tariffs. Both large and small Japanese enterprises were highly successful in the China trade, and the economy at a stroke developed further in the direction of capitalism from below.

In the case of capitalism from below, there has to be a suitable ethos that will sustain such a process. The nationalistic Japanese-style Confucianism was not only incapable of playing such a supportive role; it was also, in fact, destructive of capitalism from below, and impeded its development. Chinese-style Confucianism would have been far more appropriate in legitimating competition from below, since the cardinal virtue laid down in relationships with others is having due regard for the sincerity of one's own conscience, and the avoidance of falsehoods. Any shift of the economy from top-down towards bottom-up had to be premised on the assumption that the ethos, too, would shift from Japanese style to Chinese style. This is the probable explanation for the 'proposition of instability between ethos and capitalism' emphasized in my earlier work. The reason for this is firstly that capitalism must start as capitalism from above, and for that to happen an appropriate ethos – an ethos that will encourage and build up the power of the nation – must prevail. As Weber emphasized, Confucianism stood for a rational ethical perspective that fitted it to be called the Protestantism of the East, but it did not inculcate in people the passion that would unify the different feudal countries. For that reason it had been necessary to twist and modify the original Chinese-style Confucianism into its Japanese version. The proposition that religious reform can of itself advance the material world thus holds good even in the East.

The same logic dictates the appearance of a second proposition of instability, and hence a second religious revolution, when the shift from the 'above' to the 'below' typology is taking place. What Japan should have done at this point was to reject Japanese-type Confucianism and advocate a switch to humanistic and individualistic Chinese-type Confucianism. If this had happened, we would not have had the militarism of the early Showa period, and the country as a whole would not have shifted to the right. The so-called 'Taisho Democracy' – the democracy movement supported by the people in the period of the Taisho Emperor after the First World War – would probably have retained its vigour into the Showa period, and this would have meant that Japan might well have had the strength to ensure the establishment of capitalism from below. However, the Japanese people did not at that time think along these lines. The view in Japan was that since the country had succeeded by virtue of its Japanese Confucian spirit – called by people the Japanese spirit – then the same spirit would continue to enhance the position of Japan, making it into a country that could never be overcome by the Western powers. Japan thus became the home of fascism and militarism, and the country was unable to turn towards capitalism from below. On the contrary, the country pursued

the path towards a control economy, a planned economy, and the economy ended up being something that existed for the purpose of war, rather than being for the livelihood of the people.

No philosopher or social scientist at the time paid particular attention to this issue. Many sociologists even at that time were Marxists, and were incapable of regarding the ideological basis of the economy from anything other than a Marxist perspective. Even the philosophers of religion failed to point out the existence of Japanese and Chinese versions of Confucianism. There was therefore no concept of discussing things such as the mutual relationship of each of these typologies with economy activity. Even the economists interested in these sorts of issues contented themselves with comparing the Nazi–Fascist type economy, the liberalism-type economy, and the economy that had developed according to the ‘Japanese spirit’, always contenting themselves with the same self-centred conclusions finishing with the phrase ‘Long live the Japanese economy under the rule of the Emperor.’

The poverty of this philosophy extended its evils into the postwar period. In the educational reforms after the War the Occupation authorities asserted the need to change the educational system along American lines. The logic of America was taught by teachers who had no knowledge of the United States, and who had been the cheerleaders of militarism during the war years. The individualistic, humanistic Chinese-style Confucianism was also at this time jettisoned by the Ministry of Education along with its nationalistic Japanese counterpart. Postwar Japan thus became a dualistic society, consisting of the prewar faction, which still adhered to Japanese-type Confucianism, and the postwar faction that had received the new American-style education. At first the latter were drawn along by the former, but eventually the position was reversed, and as mentioned above, after a long time-lag Japan underwent a sharp change of direction, to become a country of a very different character. One may well think that this time, too, was one when the postwar education might permit a Chinese-style Confucian education. Probably this kind of a new Japan would have appeared to Western eyes even more ‘different’ than does the Japan of today. However, although figures such as the Dalai Lama may appear very ‘different’ to Western eyes, they are still objects of support and respect (more so than the Emperor), and in just the same way it is surely possible for such a Chinese Confucian-style Japanese economy to be ‘different’, but for it nevertheless to be more highly regarded than is contemporary Japan, in the sense that it follows a clear logic.

Unfortunately for the Japanese economy, the time when its dominant ethos was shifting from that of the prewar faction to that of the postwar faction coincided with the transition from capitalism from above to capitalism from below. Under capitalism from above the will of the state can direct the economy, while under capitalism from below it is the rules of the

market that determine everything. It reaches the period of 'power or economic laws' of the kind discussed by Böhm-Bawerk (1914). However, if capitalism from below is to be regulated according to economic laws in their purest form, the social power of each individual in that economy must be equal, and that means establishing a democracy in which each person has a vote in the making of decisions. Without that, we may talk of a kind of power theory of economics, but there is no question of pure economics. In the transition from above to below both nepotism and competition will appear together, and economic crimes proliferate as can be seen in Japan today.

Some reform of education after the War was inevitable, and I have no objection to Japan's bidding farewell to the Japanese-style Confucianism of the prewar years. I do believe, however, that it would have been better had American-style education not had to be introduced as its replacement. First of all, the problem was that there were hardly any teachers in Japan at that time capable of implementing American-style education, so what ended up being taught was no more than a half-finished pseudo-liberalism, pseudo-individualism and pseudo-democracy. Parents who had been educated in the prewar years had no power to criticize these sham doctrines, and education in the home collapsed as parents were silenced. Conversation between parents and children was extinguished, leaving only confrontation. I have explained before how I believe that Chinese-type Confucianism would have been able to stimulate a sufficiently healthy postwar ethos, and so it would probably have been possible for Japan's Ministry of Education, or its philosophers and social scientists, to have explained the nature of Chinese Confucianism to the Occupation authorities, and for the democracy, liberalism and humanism found in the Chinese brand of Confucianism to have acted as the cornerstone of Japan's postwar education system. If this had actually happened, the kind of all too apparent gulf between the old and the young generations that Japan is now confronting could probably have been avoided. Moreover, even supposing that it had been possible for American ideals to be implanted into schools at a stroke, this would in effect have meant accepting at the same time the Americanization of adult society. Had the reform of adult society also been promoted, it is likely that when the time came by which the postwar generation had been sufficiently educated, Japan would also have been provided with an adult society into which they could enter without difficulty.

Nevertheless, after the Second World War little attempt was made to undertake major reform of adult society, and the traditional sentiments and customary practices were retained and continued. I use the word traditional, but in extreme cases such practices dated back to the feudal period. While such a society may be referred to as having a Confucian structure, it was not one clearly permeated by the precepts of the Confucian ethic. It was no more than an ethically unconscious, stylized community, in which

people were unable to trust to their own consciences, and lacked rigour in how they deported themselves; where lying was deemed to be expedient, and where those seeking to gain advantage regarded their own behaviour as a matter of course. Since the moral standards prevailing among those of a high standing in society differed from those of people of lower status, people were disturbed by the appearance of large numbers of economic crimes among those regarded as leaders of Japanese society – something that continues to be confirmed by recent events. It goes without saying that this kind of society has failed to achieve democracy, in the sense of voting for one party among the many, each having its own doctrine. Democracy in Japan has collapsed to the extent that all ideological activity has been extinguished. The society is now permeated by the poverty of people not even being able to choose their own ideology.

On the other hand, the former zaibatsu families were decisively purged from the economic world, and were unable to recover their power even after the Occupation had ended. The view that it was the former zaibatsu families, rather than the imperial family, that must take responsibility for the Second World War, and be made to pay accordingly, cannot be regarded as anything more than a joke. The gap that resulted from their withdrawal was filled by managers who were university graduates, producing the structure of the managerial class in Japan that will be described in Chapters 4 and 5.

In the former we concentrate our attention upon the history of Japanese economy since 1931 and show that the system which had established itself during the War period, 1931–1945, survived after the war and greatly contributed to the postwar economic development. In the latter we examine how the prewar zaibatsu system could survive all sorts of postwar difficulties with no zaibatsu family and by forming enterprise groups in spite of the lack of major capitalists. In order to set up the so-called ‘Japanese type banking and industrial management’ a number of new concepts were conceived and introduced such as main bank, comprehensive commercial company (sogo shosha), the parent company – subcontracts relationship (keiretsu), mutual share-ownership, safe shareholder strategy, and so on. In this way important organizational innovations were made during the postwar period of the capitalism from above. This was only possible because Japan had produced a large army of university graduates for the business world. It had already ceased to be an issue whether or not one came from a samurai family. This was one of the major achievements of the historical transformation that took place in the Meiji–Taisho period after the feudal era.

In the economy under capitalism from above there were some sectors that received strong support from the state and other sectors that received much less. As a result the price and wage levels determined in the market were not even throughout both of these sectors. The state was far from

equitable in relation to the people. Awareness in Japan of this kind of 'distortion' began to come with the problem of the dual structure of wages from immediately after the First World War. On the one hand the difference between average wages in these two sectors of the economy grew, and there was no substantial change in wage differentials even after the end of the Second World War. Then, when the labour market eventually tightened in the 1960s, Japanese economists began to hope that the dual structure might at last be broken down. However, this dissolution did not come easily. Its existence was the result not of simple demand and supply issues in the labour market, but of the unbalanced and inequitable operation of state power in different sectors of the economy. Capitalism from above was destined to result in wage differentials. For a period of a few years after 1960, the prospect of the dissolution of the dual structure dawned, only to dim again before long, as the structure of wage differentials changed, but showed no signs of disappearing over the longer term. Chapter 6, which deals with this kind of structure, can be seen as an attempt at a kind of welfare appraisal of capitalism from above.

This change in structure is associated with the fact that Japanese enterprises adhere to a lifetime employment system. The result of this system is that in Japan the market through which new workers are employed immediately after graduating from school or college is well developed, whereas the market for those who are switching jobs when they have already been employed in some company or other has remained in an almost totally undeveloped state. The only market open to an individual who has already taken up employment is that for his re-employment in subsequent years with the same company. In the former, external labour market the mutual confrontation of supply and demand between new graduates and a large number of companies results in the establishment of an equilibrium level of wages, but in the latter, internal labour market, the market is segmented on the basis of individual companies, and there is no competition on the demand side. The supply side, too, consists only of those already working for that company, so there is hardly equality between them. They differ in age, sex and educational qualifications. These workers have formed their own groups within the labour union of their company, and the power of the individual groups within the union differs widely.

Thus the wages of each group determined in the internal market are not economic-equilibrium wages, but what might be called 'power-equilibrium' wages which reflect the disparities in power of the different groups within the union. To be more specific, such wage levels can be interpreted in economic terms as at the most equivalent to the equilibrium price in a situation of mutual monopoly. Since these are equilibrium prices (wages) in a situation of zero competition, the prices will be a reflection of social power, in that they will take different values because of the differences in power on the supply and demand sides. Thus weak groups, such as women and the

elderly, those who may not have gone beyond compulsory education, and who work in small and medium enterprises, have had to put up with extremely low wages. In effect, the problem of wage differentials between large enterprises and small/very small enterprises has been nothing other than an alternative manifestation of the problem of differences in the social power of different groups. If this matter is to be brought out into the open, it is not enough just to calculate and compare average wages in large and medium/small enterprises, which is what has mostly been done up to now. What we need is research that will study the wages of each group by taking account of effects of various factors, such as scale of enterprise, and the sex, age and education of workers, which is what is done in Chapter 6.

Chapter 6 is thus really a kind of discussion of polarization. Of course such a phenomenon is bound to exist, as Marx pointed out, in a society where capitalism comes from below as well. This is because competition produces winners and losers, and leads to disparities in economic power. This kind of problem, however, tends to be dealt with as a problem internal to economics, through consideration of imperfect competition or oligopoly and monopoly. By contrast, differences in power in a capitalism promoted from above are not just differences in economic power, but a question of differences in social power, mainly government favouritism based on differences in the extent of collusion with government. (Enterprises' pursuit of power to secure such patronage gives rise to the committing of bribery and other crimes.) For that reason it is natural that, when we consider issues of power versus pure economics, Japan, which has experienced a long period of capitalism from above, should have remained far longer on the power side of the balance than Britain or the United States, which moved rapidly towards capitalism from below. However, as economic globalization has progressed, disparities in the power of different countries in international economic relations have increasingly twisted the equilibrium of the international economy, and this has become a serious problem. This is likely to mean that the question of power or pure economics will again become a significant issue. If we accept that pure economics clarifies the consequences of competition, and power causes differentials within society, then disparities in power within international society are likely to aggravate issues in international relations. Progress in this kind of issue begins in the form of international enterprise mergers.

The Japanese economy in 1980 entered the transition period from top-down to bottom-up capitalism. For such an economic transformation there had to be an appropriate change in ethos, in such a way that it would promote and support the transformation of the economy. However, this kind of change in ethos did not need to be very great; my own view is that only a very small shift would have been more suitable for the purpose. The reason for this is the instability of system change, which I called in my

previous book 'the knife-edge property'. As I have already said above, I think that we could have achieved the knife-edge phenomenon merely through a transition from the Japanese-type Confucian ethic to the Chinese-type Confucian ethic. This is because Chinese Confucianism, unlike Japanese Confucianism, does not lay emphasis on loyalty to the government, stressing instead the loyalty that an individual owes to his or her own conscience. Nevertheless, Japan underwent, after the war, major surgery to convert itself at a stroke to the American philosophy, and this excessively dramatic surgery has resulted in tragedy. In Japan itself we now have the population divided into two on the basis of age, neither of which is capable of understanding the other, and as the new age group have begun to assume power in the economic world and the political arena, confusion has begun to result. In Japan many of the small-scale enterprises of capitalism from below have in fact sprung up as part of the substructure of the large enterprises that made up capitalism from above. In a country of this kind any radical change in capitalism from above will rupture the relationship between large and small enterprises. Moreover, laxity in the relationship between the management of large enterprises and politicians and bureaucrats will bring a sharp increase in incidences of tax fraud, bribes and other scandals. With the capitalist enterprises from below also caught up in this, it is no longer possible to foster a normal competitive economy. Moving at a stroke from Japanese Confucianism to American ideas is a religious revolution of unbelievably large magnitude. Should there be major disruption in the capitalism from above, the resultant situation will be one in which small enterprises, many of which are under the control of the big enterprises, will be unable to develop normally.

The Occupation authorities after the end of the war were right to demand that Japan reject the ethic of collectivism and embrace the ethic of individualism, but that individualism was an American individualism, far too far removed from the experience of the Japanese people. One wonders why it was that the Japanese did not make the case to GHQ for laying more emphasis on the Chinese-type individualism emphasizing, among others, virtues of humanity, sincerity and righteousness, to which they had up to then been far closer. In other words they should have removed all nationalistic elements from the Japanese Confucianism and could have developed a free enterprise system on the basis of the remainder.

Chapter 7 focuses on the discussion of two points. One is the question of whether it is necessary for democracy to develop in order for capitalism from above to be transformed into capitalism from below. The second is whether there are any advantages associated with the existence of capitalism from above. Let us begin with the second of these two points. The disadvantage of capitalism from above is the appearance of polarization in the economic performance of the enterprises and households that go to make up the economy, as a result of the involvement in the economy of state

power. In looking at possible advantages, therefore, we need similarly to make observations and judgements as to whether or not state intervention has any positive influence on the performance of enterprises and people's livelihoods. After the establishment of the Economic Stabilization Board with GHQ's support in 1946, vigorous efforts were made in Japan to recover from the postwar devastation, and growth continued for a period of more than twenty years, up until the early 1970s, when many countries in the world were severely damaged by what we know as the Oil Crisis. In my earlier work, *WHJS* (1982), I characterized this period as having a competitive enterprise system under state guidance, and analysed it in Section IV of the fourth chapter of that book. That period includes what Japanese economists call the 'high growth rate period'.

High rates of growth continued even after that. Of course, the period of the 1970s and early 1980s was one of growth in the face of a sharp rise in oil prices, and all countries found themselves in a difficult situation, but Japan, which had been regarded as having been hit the worst, was able to surmount the crisis with flying colours. Cooperation between government and large enterprises became increasingly successful, as they joined together to work out the possibility of technical innovation. Schumpeter's hypothesis was that innovation was something undertaken by individual enterprises in the greatest secrecy, and such a hypothesis is applicable to a situation of capitalism from below, in which enterprises pursue only their own profit. It is not appropriate, however, to the case of capitalism from above, when the state intervenes in the economy to achieve the profit of the country as a whole. Innovation does, of course, face a range of technical problems, and there are many cases where it is possible for these difficulties to be overcome by bringing different enterprises together to pool their knowledge. It was as a result of this Japanese brand of innovation, with its founding of new industries by making cooperation on a national scale, that Japan was able to survive through this very difficult period. As a result of new industries appearing, new forms of employment were also created. Japan weathered the period with a Japanese-style Schumpeterian theory, with little thought either of Keynesian employment policy or of Milton Friedman's ideas on inflation.

This success had some brighter aspects for Japan's economy and society, but it also had a darker side. Those sectors that had made profits purchased land to provide for their future development. Land prices rose. Enterprises acquired capital on the security of the land that they had purchased, and bought yet more land. Prices rose more and more. Individuals, too, invested in land. At the same time, the entrepreneurial spirit of individuals flourished, as the spirit of capitalism was emerging from below. It should hardly come as a surprise that under such circumstances various criminal activities should occur between government bureaucrats and the leaders of private enterprise. The revelation of such goings on naturally resulted in loud calls

for the state to adopt a neutral position in relation to enterprises. An additional factor was that in the 1970s enterprises had been able to issue new stocks at current prices. As stock prices rose it became far cheaper to invest by acquiring capital through new stock issues, than by obtaining advances from banks. Thus individual enterprises began to become further removed from the banks, building up their own capital by issuing new stocks. These enterprises increasingly invested in activities which they believed would yield profits entirely on their own responsibility, and with no involvement on the part of the banks. As enterprises became more and more detached from the state, they also became separated from the enterprises groups they belonged to, as well as from their main banks. The result was deadlock in the so-called Japanese way of business. After a while the Japanese economy had approached the entry point to capitalism from below.

For this kind of an economy to be established, there must be a policy that imposes no biased will of the state (or ruler) on the economy, so that it is indifferent to the needs of enterprises. Thus a government that engages in politics democratically, and hence a system whereby all decisions on major political issues are made in a parliament, is a necessary condition for capitalism from below. However, while possession of a parliament may be a necessary condition for this kind of democracy, we must certainly not forget that it is not a sufficient condition for it. This is absolutely clear if we think how Japan established the Imperial Diet in 1890, and continued to operate parliamentary politics without a break until 1947, but politics during that period was not something for the people. Instead it was something for the Emperor, and the Emperor's government continued to get the Diet to ratify its policies of 'rich country and strong army' for the sake of achieving capitalism from above. We know, too, that the rise of Hitler was achieved totally legally, through the mechanisms of parliamentary politics.

While Japanese governments in the postwar period ceased to be governments for the emperor, they continued to support economic nationalism. This was a reaction to the poverty that resulted from Japan's defeat, so that it was clear that in Japan democracy ceased to be anything else than a sham. Democracy seeks to ascertain the will of the majority of the people by means of elections, leading to the formation of a government that will carry out that will, but it also ascertains at the same time the will of those who do not make up that majority. In England, therefore, the opposition is regarded as very important. The opposition's function is to act as a check on the majority party. This function is the very core of democratic politics. That is to say, the government does not just implement the will of the majority, it implements the will of the majority subject to the checks placed upon it by the opposition. (In Japan, however, the opposition is very weak, and there has been no ethos of encouraging opposition. Democracy in the true sense has thus not developed in Japan.)

A regime that forcibly implements the will of the majority without any opposition check will surely be dragged down from power in the subsequent election, or the one after that. Thus capitalism from above, an economy in which the government continues to support specified industries and enterprises, can no longer be implemented over the long term., and the government has to adopt a neutral stance in relation to enterprises. The consequence is that the country has to cope with a low rate of economic growth for the sake of democracy, but the resultant gains lie in all enterprises receiving equal treatment at the hands of the government. Should the doors be opened in Japan to the transition from capitalism from above to capitalism from below, then all Japanese enterprises would become equal at least in the opportunities they face, and sometimes also in the results they achieve. If so, Japan would then probably be able to celebrate the establishment of an economic democracy or an industrial democracy.

Japan is now facing not only an economic transition but also a social transition. Fifty years have now passed since the educational reforms after the War, and these major reforms have now produced a polarization of ethos in Japan. Since the Japanese people do not understand the individualism and liberalism of far-off America, the result of the reforms has been to produce in Japan a situation whereby the Japanese people could be said to have little understanding of American ways of thinking, and to have lapsed into intellectual impoverishment. This being the case, what kind of future can we expect for Japan? It is this that is the subject of the eighth and final chapter.

The usual practice when it comes to prediction is normally to make a series of short-term predictions for different years, and then to draw them together in an attempt to make conclusions about the longer term. This is not, however, the method that I have adopted for Chapter 8. I have instead identified among the currently occurring phenomena some whose results will take some time to appear, and tried to clarify what the situation is likely to be when those results do come about. While I am concerned with the future situation of Japan, the method of analysis that I have used is essentially analysis of the present, and I have tried to obtain a view of the future that is not effected, as far as possible, by influences of futurological or prophetic elements. My concern has been not with prediction, but with the analysis of symptoms that have already appeared. In Chapter 8 I have pointed out many major indicators that are likely to have an influence over the longer term. These indicators lead me to believe that Japan cannot look forward to a highly flourishing situation in the future. It must therefore be acknowledged that the future image of Japan that I see is a very dark one, and, in the absence of powerful exogenous factors eradicating these symptoms, this is what will happen, and the result will be suffering for the Japanese people of the future.

2

Ideology and Economic Activity: An International Comparison

I

The Japanese already had a flourishing awareness of nation at the start of the eighth century, an astonishingly early period. However, nationalism was not the only element in the ethos of the Japanese people. The ethos contained in addition important elements which can be called Confucian. There are those who also talk about Shinto, but my own view is that it is mainly the teachings of Confucianism that establish the standards on the basis of which the Japanese act. Surprisingly, the Japanese do not know a great deal about Shinto, and there are very few who go about their daily lives in a Shinto fashion. The major problem, however, lies in analysing how these two important elements in Japanese ideology – nationalism and Confucianism – actually fit together. Assuming that there exist two countries, one a pure Confucian country, and the other a nationalist Confucian country, then their secular lives (or patterns of economic activity) are likely to be very different from each other. My intention is to discuss the role of nationalism in a Confucian country using a partial differential approach, which will identify the nature of the changes in secular life resulting from the adaptation of Confucianism to nationalism. Before that, however, I want to give an overview of the many previous analyses of the ways in which various ethoses have influenced economic development in a range of countries. I will then locate my own analysis of the role played by nationalist Confucianism in Japanese history in the context of this overview. The problem is, of course, an extremely complex one, and given the current stage of research, where we cannot rely on any established theory, such a global comparative-analytical survey may be the most that we can do.

In considering ideology and economic activity, ideology (or ethos) is defined as a system of beliefs which binds people together into a social grouping. This is synonymous with religion as defined by Durkheim (1976) and, as a definition of religion, it may be too wide; but if this definition is

adopted, both Confucianism and Marxism are 'religions' in spite of their not usually being regarded as such. In any case, there are two broad classes of approach to this problem, Marxian and Weberian. The former regards ideology which, together with such institutions as the state, family structure and so on, constitute the superstructure of the society, as being no more than a reflection of underlying basic material conditions. The latter, on the other hand, approaches from the superstructure to the base and establishes the reverse relationship. Obviously no comment is needed on the importance of the Marxian approach, while the following passage from Weber (1930: 68–9) serves to justify his approach:

The question of the motive forces in the expansion of modern capitalism is not in the first instance a question of the origin of the capital sums which were available for capitalistic uses, but, above all, of the development of the spirit of capitalism. Where it appears and is able to work itself out, it produces its own capital and monetary supplies as the means to its ends, but the reverse is not true.

As will be seen later, neither of the two approaches alone can serve for the interpretation of a total historical process. To achieve this we must use both approaches and examine the interdependence and interaction of materialistic or economic factors with ideological or religious factors. In fact, as Weber himself acknowledges, the Weberian approach is compatible with the Marxian; they would and should eventually be synthesized with each other, though the task is extremely difficult and complicated.

Economic theory, Marxist or non-Marxist, assumes the rational man of the Robinson Crusoe type, hardworking, materialistic and purposefully systematic. Crusoe was a frictional Englishman born in 1632, (based on the Scotsman Alexander Selkirk (1676–1721)). just before the English Revolution, his father being a native of Bremen who settled in Hull; he would probably have been a Protestant. Economists entirely ignore his religious background as well as the *Zeitgeist* of the seventeenth century. Economic laws deduced from a model consisting of Robinson Crusoe consumers and firms owned and operated by Robinson Crusoe families are applied not only to European and American economies but also often to non-occidental industrial societies, such as Japan, or even to less developed countries.

Guha (1981), for example, follows the Marxian method and compares Russia, Japan, India and China in economic development. He is seldom concerned with differences in the religious attitudes of the peoples of these countries, so that they are viewed as if they speak the same language, have the same degree of industriousness and are provided with the same kind of ethos. Guha refers to the industrial revolution which occurred in Manchuria during the 1930s (1981: 91) but makes no mention of the fact that it was mainly carried out by Japanese. Although Chinese, Manchurians, Mongolians and

Koreans also lived in Manchuria, it was the Japanese who established modern industries there. Of course, these Japanese were driven along by the forces of imperialism and militarism, but it must not be forgotten that of these peoples the Japanese had the most highly developed spirit of capitalism.

Dore (1976) may also be considered as tending towards the 'Marxist' approach, although he pays some attention to the Weberian approach too. Comparing education in Britain, Japan, Sri Lanka and Kenya, Dore concludes that the later the point in world history a country starts a modernization drive, the more strongly the desire for educational qualification becomes entrenched and the more qualification-oriented schooling becomes at the expense of genuine education. In deriving this general tendency Dore bases his argument on the fact that countries in the developing world are usually constructed of dual components: a rich modern sector on the one hand, and an impoverished traditional sector on the other. The later development starts, the more the tendency to dualism is exacerbated, and those organizations belonging to the modern sector – central and local government, large multinational corporations and big private firms – usually tend to recruit by certificates. Of course, this law only operates on the assumption that other things are equal, but because the concepts Dore uses are 'basic' in the sense that they can be applied to all nations, the cultural and sociological elements specific to individual nations are considered merely as 'other things'. In Dore, therefore, the examination of the effects of superstructural elements upon the basic tendencies is minimized. Since Dore has looked at cultural differences between Japan and Britain too, it would, strictly speaking, be unfair to say that he ignores the effects of the superstructure, but it seems at least to me that he has not sufficiently emphasized the significance of these effects (Dore, 1976: 72–5).

Dore mentions that the Japan of the immediate pre-industrial period was a Confucian country where learning and scholarship carried high prestige and 'the very idea of education, therefore, was given higher value than in Britain's more philistine society' (1976: 44). Confucianism, however, is firmly rooted in Japan, and goes back far beyond the immediate pre-industrial period; it has been the moral backbone of the Japanese people since the ancient time of Shotoku Taishi (573–621). While contemporary Japanese are perhaps more hideously and vulgarly philistine than the British, they are still Confucian in the sense that they classify people into two classes, illiterates (small men) and literati (gentlemen). The educational rat race in Japan is primarily a rat race to be classified as an educated gentleman, and not an economic race in pursuit of a higher income, although income is usually obtained in proportion to achievement in the educational rat race. This is evident from the case of female students, because in Japan most girls work for only a few years after college or university, yet the educational rat race among them is as severe as that among boys. It is obvious that girls take part in the entrance examination to colleges and

universities, not for better jobs after graduation but to be themselves classified as a member of the upper tier of a dual-structured society; without this, it is very difficult for them to marry a man in the upper tier. Women's colleges in Japan are institutions for deciding students' social standing. Like finishing schools in Britain, they are neither academic nor vocational-educational, except for a few. Similarly, for boys, degrees and diplomas play a role similar to that played by genealogical charts and records in the Middle Ages. Firms recruit new members from the 'gentleman' class; in Confucian Japan candidates must be able to show diplomas in order to establish their identity as a member of that class. Boys and girls can obtain a high social standing if they acquire higher education, while they can easily lose their parents' high standing if they fail to go on to a university. This has not changed yet, but women are now more career-minded.

On the other hand, Dore emphasizes the fact that there was no systematic general education in Britain at the time of the industrial revolution. This revolution was accomplished by craftsmen-inventors, mill-owners and so on, who had only a basic education and little specialized, scientific and technological knowledge. It seems to me, however, that what we need to explain is why general education remained so poor in Britain until the late eighteenth century that the industrial revolution had to be achieved mainly by dextrous fingers. A partial explanation may lie in the long tradition of primogeniture in England, which meant that that children other than the heirs of the parents' land had to become independent at a very early stage of their life. A typical child:

is early sent to school, but at fourteen leaves home to earn his living ... he goes to the nearest country town and stands in the market place [for a job]... . At sixteen or seventeen he is stalwart enough to hire as a man, and now his wages are doubled Many of the men, when about thirty years of age, are able to take small farms of their own.

(Macfarlane, 1978: 77-8)

This has been a typical life style among English lads since the fourteenth or fifteenth century. In this way, 'the younger sons of the gentry, apprenticed to London masters, rose to be City managers' (Trevelyan, 1944: 100). Even the eldest son went away for several years before returning to take over a holding. 'The Statute of Artificers (1563) enacted that every craftsman in town or country had for seven years to learn his craft under a master who was responsible for him' (Trevelyan, 1944: 206). Thus, for many centuries apprenticeship was a substitute for school in England. Behind the fact that higher education has not been of particular concern in England lies the spirit of independence of English youth, of English individualism. This has been one of the most powerful driving forces in this country, and the existence of such a factor has not been emphasized by Dore. This big difference

in spirit observable between Japan and England, that is, Confucian class consciousness vs. English individualism, offers a basis for developing a Weberian spiritualistic analysis, and such a consideration is necessary to complete Dore's materialistic analysis.¹

II

Weber's studies in ideology, religion and ethics (or the national ethos nurtured by them) and their effects upon the people's secular life and economic activity, the studies which I call 'social ethology', are contained in the three volumes of his *Gesammelte Aufsätze zur Religionssoziologie* (Weber, 1920, 1921, 1922), chapter XV of his *Wirtschaft und Gesellschaft* (Weber, 1956) and part IV of his *Wirtschaftsgeschichte* (Weber, 1927). The work on the Protestant ethic (Weber, 1930) is of course the most famous and controversial. There are many critics of this long treatise, the most significant including Brentano (1923) and Tawney (1977, first published in 1922). The controversy is surveyed by Fischhoff (1944).

Weber's critics are mainly concerned with the following points (Tawney, 1977: 311–13):

- 1 It would be untrue to say that the Protestant (or Puritan) reform was necessary for the appearance of capitalist enterprises – the woollen towns such as Ghent, Bruges and Mechelen in Flanders as well as Venetian and Florentine capitalism had already flourished in the fourteenth and fifteenth centuries (Morton, 1938: 109–10) – whereas it would be equally untrue to say that the religious reforms were produced as a result of the progress in the material lives of human beings.
- 2 Weber failed to appreciate intellectual movements, other than religious ones, which contributed to the promotion of individuals' rational economic behaviour. Brentano (1923) and Tawney (1977) point out that Machiavelli was at least as influential as Calvin. The studies made by St. Antoninus of Florence on economic activity and processes (Schumpeter, 1954: 95–107) were a second element that Weber ignored.
- 3 Weber seems to have oversimplified both 'the Protestant ethic' and 'the spirit of capitalism'. Tawney says that the Calvinists of the sixteenth century were believers in a rigorous discipline and would have been horrified by the individualism ascribed to the Puritan movement in the seventeenth. Weber left unexplained what caused this change (see Robertson, 1933).

Hirschmeier and Yui (1975: 52–6) compare the spirit of the merchant class of Tokugawa Japan with that of the city merchants in Renaissance Italy. By emphasizing the fact that capitalist activity was vigorous in Catholic Italy before the age of Luther and Calvin, these authors seem to be

making a similar criticism to that of point (1) above. Schumpeter (1954) directs his attention to a different point. According to him, Weber's problem is 'a typical instance of what may be termed Spurious Problems'. In view of the fact that Weber's concepts of feudalism, capitalism, and so on are all ideal types, his problem of transforming feudalism to capitalism is a problem of replacing the 'ideal' Feudal Man by the 'ideal' Capitalist Man, neither of which have any counterpart at all in the sphere of historical fact. Thus, 'the problem of what it was that turned the one into the other vanishes completely' (Schumpeter, 1954: 80–1). Similar criticisms to those made by Brentano and Tawney, Hirschmeier and Yui, and Schumpeter could all be made *mutatis mutandis* concerning Weber's other works, 'Ancient Judaism', 'Confucianism and Taoism', 'Hinduism and Buddhism' and 'Islam'.

It is true that in Weber's work both 'the Protestant ethic' and 'the spirit of capitalism' are concepts constructed on the basis of an ideal type. However, as was made clear by Otsuka (1955), Weber carefully distinguished between 'the spirit of capitalism' and 'the capitalist spirit', the latter being the greediness for money of, for example, merchants and usurers, military contractors and financial magnates, which is seen everywhere in the world and is as old as the history of human beings. By 'the spirit of capitalism', on the other hand, Weber meant the spirit of the modern capitalist regime (that is, 'the attitude which seeks profit rationally and systematically as the calling or job' (1930: 64)), and had no intention of applying it to 'capitalism [such as] existed in China, India, Babylon, in the classical world, and in the Middle Ages' (Otsuka, 1955). In all these cases, Weber explicitly said, this particular ethos was lacking (1930: 52). It is evident, therefore, that criticism (1) by Brentano and Tawney as well as that made by Hirschmeier and Yui are both off the point.

Weber was concerned neither with the origination of capitalism, nor with the emergence of modern capitalism, nor with the transformation of feudalism to capitalism. His theory is not a causal analysis of history at all. We must, therefore, say that Schumpeter too has missed the point. What Weber aimed to accomplish was to reveal, by use of the ideal typical analysis, that there is a deep internal relationship between Protestantism and the ethos of modern capitalism in so far as the former is suited to the promotion and enhancement of the latter, so that it could have played the role of a driving force of capitalism (see Otsuka, 1955). Similarly Fischeff (1968: 77) summarizes what Weber intended to clarify to the same effect: that is, 'it was the spirit of a 'methodical' *Lebensführung* which he [Max Weber] was deriving from Protestant asceticism and which is related to economic forms only through congruence [*Adaquanz*]'. Point (2) raised by Brentano and Tawney is not a criticism of Weber but merely an indication of another problem. He was perfectly entitled to neglect all the non-religious intellectual movements following the Renaissance for the simple reason that he

was not interested in them, although he would have had to take them into consideration if he had been concerned with a causal investigation of the emergence of capitalism.

Despite this, we must acknowledge Brentano's and Tawney's point (3). But this does not mean that Weber's analysis was wrong; it only implies that it was imperfect. We construct various ideal types on the basis of historical, sociological or economic observations and examine the logical, phenomenological or interpretive interrelationships of these ideal types. We have to begin with a simple conceptual scheme from which only an over-simplified picture can be obtained. By using a more complicated scheme of ideal types, however, we may always arrive at a better understanding of history or the society. Thus Weber is a base for further development, i.e. a first approximation.

III

Why did 'modern capitalism' not emerge at other times and in other places than modern Western Europe? It was Weber's belief that modern capitalism was not automatically produced by the development of science and technology. Behind its emergence was also the emergence of a rational, anti-traditional way of thinking among human agents. He asked why there had been an enormous historical difference in this respect between the Orient and the Occident. For the purpose of answering this question he made a magnificent comparative study covering Europe, the Middle East, India and China and concluded that the modern Occident was provided with religious elements favourable to the rise of capitalism, while such elements were absent in other civilizations. He states, in connection with China, that 'genuine prophecy creates from within a way of life systematically oriented towards a single scale of values, and in the light of such an orientation the world is regarded as raw material to be shaped in ethical terms according to the given norm' (Weber, 1920, I: 521). Confucianism is the reverse of this. Weber considers that, like Protestantism, Confucianism is a highly rational religion, but there is an important contrast between them: 'As against the accommodation to the world found in Confucianism we find in Puritanism [or Protestantism] the task of reorganising the world in a rational manner' (1920, I: 527). Thus, while 'rationalism' is contained in the spirit of both ethics, the Confucian rationality is different from that of Puritanism: 'Confucian rationalism signified rational accommodation to the world: Puritan rationalism rational control of the world' (1920, I: 534). It was only the latter which fostered modern natural science and promoted the spirit of capitalism. In China not only were natural science and technology absent but also natural law and formal logic. China, therefore, failed to achieve a shift from empirical to rational techniques: 'Everything remained at the level of sublimated empiricism' (Weber, 1920, I: 440).

Each religion has a social class which supports that religion and which therefore exerts a decisive influence on its development and propagation. In the case of Confucianism, it was the mandarins – ‘earthly, rational stipend-holders of literary qualifications’ – while in the case of Hinduism and Buddhism, it was the hereditary Brahmin caste with its knowledge of the holy books, the Vedas, and also the ascetic and meditative wandering mendicant friars. (In the case of Christianity it was itinerant craftsmen or urban citizens.) Moreover, in India the society is deeply divided into countless castes, sects, speech and blood groups. Almost without explanation, metaphysical promises given by Indian doctrines of salvation are only accessible to those of the Brahmin caste or those living monastically, though some are valid for the general populace. In India, as in China, there is a deep gulf between the educated few and the illiterate mass, and knowledge is the single absolute path to the highest holiness in this world. Indians differ from and are more faithful than Chinese in believing that this rule applies to the world beyond too.

As a result of this very strong and strict dualism dividing society into two strata, the wise and educated few and the uncivilized plebeian masses:

the factual, inner orders of the real world, that is, nature and art alike, ethics and economics alike, remained concealed from noble men, since these things were so barren as far as their particular interests were concerned. Their way of life was oriented, in striving for extraordinary things, to the example set by their prophets and wise men who were their absolute exemplars in every major respect. For the plebeian, however, there was no prophecy of ethical mission which would serve as rational formulation for their everyday life.

(Weber, 1921, II: 378)

As the élite was so taken up with metaphysics and the plebeians so ignorant, one could not expect modern capitalism to emerge in India indigenously and autonomously; the natural and social sciences have been of poor quality in India throughout its history, whereas magic and metaphysics have always been rich and prosperous. The imbalance between theoretical and practical statistics in India is a mere symptom of the intellectual polarization prevailing in the society.

Weber's whole comparative study of world religions may be regarded, as he himself perceived, as a massive unified work aimed at clarifying the cultural background, spiritual backbone and the materialistic consequences of occidental civilization. From a different point of view, however, it may be seen as part of the overall task of establishing the proposition that the economic performance of various peoples or nations is unstable and influenced by the slightest change in their ethos. Weber completed only that part

concerning Christianity, but he left unfinished the parts relating to other religions, for example Confucianism, Hinduism, Buddhism.

The instability (or knife-edge) thesis is based on the observation that Catholics and Protestants, who share the same Bible but interpret it differently, are significantly different in their modes of worldly behaviour. Weber sees the essential disagreement between the two as lying in the fact that Protestantism removes the barrier between layman and clergy by discarding the division of Christian ethical precepts into *praecepta* and *consilia*, while Catholicism sticks to this dualism. For all Protestant denominations 'the only way of living acceptable to God was not to outbid worldly morality by monastic asceticism, but solely through the fulfilment of the obligations imposed upon the individual by his position in the world. That was his calling' (Weber, 1920, I: 69). Thus, by interpreting the same Bible differently, Protestantism produces the concept of a job as a 'calling', that is, a task set by God, by which secular life (therefore economic activity) is connected with the will of God. Then one's job becomes one's duty, and this kind of outlook on work is, at least in some stage of history, necessary for the establishment of the capitalist regime and the take-off of its economic growth. The Protestant Reformation was a breakthrough by which asceticism, confined up to then within monasteries, was openly released into the outside secular world. People then began to act ascetically and rationally; rational utilization of capital was carried out and the rational capitalistic organization of labour was implemented. Protestantism thus contributed to (or is congruent with) the establishment of an efficient economic system.

As for China and India, no such instability argument is found in Weber's works. He only concludes that neither Confucianism, Hinduism nor Buddhism is suitable for promoting the spirit of capitalism; each contains some significant factors which work to prevent the emergence of capitalism. He is nearest to the knife-edge proposition when he says: 'The Chinese in all probability would be quite capable, probably as much as if not more capable than the Japanese, of assimilating capitalism which has technologically and economically been fully developed in the modern culture area' (Weber, 1920, I: 535). I have, however, found room for further investigation and developed, for the sake of comparison between China and Japan, an argument parallel to the one that Weber made with respect to Catholicism and Protestantism (see Morishima, 1982).

In my opinion, between China and Japan there is *prima facie* no significant difference in ideological layout. They are primarily Confucianist countries; Buddhism came to Japan not directly from India but always through China, and Shintoism, which is generally thought of as a religion truly indigenous to Japan, was, even in its ancient primitive form, deeply influenced by Chinese Taoism; indeed, it has been suggested that it might even be nothing other than a disguised Japanese version of Taoism. In spite of this, Japan succeeded in easily assimilating modern capitalism, while

China continued to be exploited by imperialists from the West and Japan. Of course, there are geographical, sociological and historical differences between these two countries, which played favourable or unfavourable roles in deciding their fates in the last century. For instance, Japan is an island and did not break into fragments; China was far more vulnerable. China's big families are compared with Japan's relatively small ones. Also, throughout her history, China was almost always in the hands of civil service bureaucrats, while Japan, at the end of her feudal era, was dominated by military officers, samurai. These differences, except for those which are beyond the control of the people, such as geographical differences, can only be explained by viewing them in the light of instability theory.

It is noticeable that whereas the Chinese interpretation of Confucius' doctrines is individualistic and humanistic, the Japanese one is nationalistic and militaristic. This contrast arguably has existed ever since Confucianism first came to Japan in about the sixth century. A little more than a century after Confucianism, together with Buddhism, had entered Japan, the situation in East Asia was one of very great instability. Japan consisted of two countries, Wa and Nihon. The kingdom of Wa was based around northern Kyushu, while the Nihon regime was centred on the Yamato (Nara near Kyoto) area. The kingdom of Nihon had been established by a branch of the Wa family which had moved up from Kyushu, but it was Wa that had the hegemony of the Japanese islands at that time. Korea around this time consisted of three kingdoms – Koguryo, Silla and Paekche. China along with Silla attacked Paekche. Wa was fighting in support of the last, but was defeated at Pékchon river in 663; consequently Paekche was destroyed. (Large numbers of people from Paekche, including the members of its royal family, fled to Wa.) Then in 668 the Chinese overthrew Koguryo, before eventually abandoning the Korean peninsula. Silla thus came to unify Korea.

The Yellow Sea, which divided the Korean peninsula from the Chinese mainland, was a calm sea, and smaller in scale than the Mediterranean. It was not difficult for the Chinese to send troops to Pyongyang and Seoul. Having overthrown Paekche, the Chinese army drove many of its people out of the peninsula to Japan. In ancient times people therefore migrated in considerable numbers. For the people of the Korean peninsula the Japanese islands played the same role as the American continent for Europeans. Just as America is culturally indebted to Europe, so, too, Japan is deeply indebted to the Koreans who crossed over.

These great migrations in the Korean peninsula also provoked upheavals within the Japanese islands. The kingdom of Wa, which had supported Paekche at the Battle of Pékchon river and suffered heavily, gradually declined after that, and eventually collapsed in 701. According to Furuta Takehiko's thesis, it was incorporated into the kingdom of Nihon (Japan) as a consequence of the war. Nihon had run off with the prize while others were fighting for it, but confronted with these upheavals the kingdom had

to take extreme defensive measures. In 712 the *Kojiki* was compiled, and in 720 the *Nihon Shoki*, in an attempt to establish a firm basis for the Japanese national polity, but the main characteristic of these annals was that they ended up expunging the destruction of the kingdom of Wa from Japan's ancient history. The history of Wa has been either ignored or rewritten, to the point where it no longer appears in the legends and history of Japan. Japan was depicted as existing from the beginning of the universe, and into eternity, and ruled over by an unbroken line of emperors. These two Japanese classics were the starting point for Japanese nationalism, and the inculcation of such a fierce nationalism at the start of the eighth century is an indicator of the strength of the feelings of crisis that existed in Japan at that time. Moreover, since Confucianism was not a mystical religion, but rather a kind of moral and political philosophy, it was able to subsume nationalist ideas.

This tone was also apparent in literature. The *Man'yōshū*, which is said to have taken shape during the middle and latter years of the eighth century, consists of poems dating from around the second half of the fifth century, but it contains countless poems in praise of the emperor and rejoicing in loyalty towards the emperor. This work, too, is an expression of the sense of crisis that existed among Japanese at that time. It is thus possible to say that nationalism has been an important element in the Japanese ethos from very early on. This injection of nationalism transformed the Confucianism that had come from China. The nature of loyalty, one of the cardinal virtues of Confucianism, was substantially altered.² The result was the formation within Confucianism of the doctrine as interpreted by the Japanese – Japanese Confucianism. This Japanese-type interpretation changed the substance of the cardinal virtues of Confucianism. The Japanese Confucian spirit enabled Japan to break through the static framework of Chinese society, and eventually became the driving force behind the formation of a Japanese-style capitalism from above. Thus was formed the basis upon which the knife-edge theory of instability would work.

The tenets of Japanese Confucianism were clearly laid down in the Imperial Rescript on Education promulgated in 1890. The rescript specified the responsibilities of the Emperor, as well as upholding the morality to be practised by the people. This morality was a 'Japanized' Confucian ethic, with the 'Japanization' based on the Emperor's responsibilities. This rescript is normally regarded as a set of moral injunctions for the people, but since the source of these injunctions is the Emperor – an Emperor discharging the responsibilities laid down in the same rescript – this 'imperial rescript' inspired people with the idea that it was this very perception of the Emperor that was the fundamental principle behind the way the Japanese should conduct themselves.

This perception of the Emperor is rooted in the ancient myths. The emperors, it was said, are the descendants of the grandson of the heavenly

ancestor Amaterasu Omikami, who was sent by her into the world to secure the cooperation and service of the people to bring ever greater prosperity to the country. Such is the duty of the Emperor, and the people must be prepared to work in helping the Emperor discharge his sacred duty, even to the extent of sacrificing their lives at times of national crisis. This way of thinking dates back a long time, and is elucidated in several sources from the seventh century onwards, but the Imperial Rescript on Education is the first of these in which the Emperor laid down his own obligations, and instructed the people to cooperate in achieving them. The details of this rescript were Confucian, but the position assigned to the Emperor was that of the divine right of kings, while the duty of the ultimate sacrifice demanded of the people in times of crisis was nationalistic. It is this moral code that I refer to as the Japanese Confucian ethic.

Japan's possession of this kind of ethical consciousness was one incentive behind the creation of modern Japan, but the beliefs espoused in the Imperial Rescript also had major failings. During the Second World War the Emperor was excessively enthusiastic in discharging his duties, and in turning his face exclusively towards his gods, or rather his imperial ancestors, hardly ever turned his face towards his people. Their obligation was to obey him, and he did not even need to see their faces. His duty was to pray to the gods and to seek their advice. It was at the time when the second atomic bomb was dropped on Japan, that the Emperor was at last freed from this national polity (*kokutai*) that had constructed modern Japan on the basis of the divine imperial right. In fact, the Emperor became aware of the fatal day when he himself would die together with his people. At first, even then the Emperor, senior statesmen, government and the military sought to accept surrender only in as far as the survival of 'the modern state founded on the basis of the divine imperial right' could be guaranteed.

This is not surprising, since the Japanese have suffered at all times from a sense of inferiority *vis-à-vis* the powerful Chinese empire, leading them to be, throughout their history, closely banded together and aggressive (Morishima, 1982: 1–19). At the end of the period of isolation, which lasted for more than two hundred years up to 1859, Japan was under pressure from the West. In this crisis the intelligentsia – samurai, who had been educated in the Japanese-Confucian manner – succeeded in unifying the country and finally established a new, powerful, modern government. It eventually established a nationalist capitalist economy based on a seniority system, lifetime employment and the loyalty of employees to their company, a system perfectly fitting to the ethos of Japanese Confucianism (Morishima, 1982: 52–87). This Confucianism adulterated with nationalism ended up being totally different in character from the Confucianism of China. It is hardly surprising, then, that during the Meiji period and afterwards Japan and China followed very different paths.

For the establishment of modern Western-style capitalism, there are two preconditions: the nation state and civil society. In order for the capitalist mode of economic behaviour to prevail, an administrative organization must be established, which secures the continuance of the regime. There must be a strong government which enforces rational law in order to enable each member of society to calculate the consequences of his or her activity objectively and quantitatively. The government must have professional bureaucrats, administrative, judicial and military (Weber, 1927: 337–43). It is very much due to the nationalistic Japanese form of Confucianism that Japan, which had been split into many class and regional segments, was easily unified into a nation in a relatively short period of about twenty years, although there were obviously other favourable factors, such as Japan's being an island country and Japan's awareness that the Philippines had fallen into the hands of Spain and that China was under constant attack from Western countries. In 1890 Japan already had a powerful modern government with officials recruited from among *ex-samurai* and new university graduates.

It was, however, very difficult for Japan to fulfil the other precondition. In contrast with Christianity, according to which everyone is equal in the sight of God, Confucianism promotes a collectivist ethic and the ethics of functional role expectation (see Hirschmeier and Yui, 1975: 44), both of which maintain and strengthen the hierarchical character of the society. Therefore, the elements of a civil society were not well developed in Meiji Japan, and it is evident that this strong nation with its weak civil society was not suited to competitive capitalism of the western type. It created a different type of production system,³ though this can be included in the broad category of capitalism. In this economy the invisible hand is more visible, since the government always takes the initiative and plays the role of helmsman of the economy. Efficiency has been established by collaboration rather than competition, and the idea of class antagonism has not been widespread among trade unionists.

This kind of system continued in Japan without any major hindrance until about 1980. It was after the Second World War that it came to be noticed and appraised outside Japan, but the education received by those who sustained the system was a product of the prewar years. We must not forget, however, that as a result of Japan's defeat the country had a major revolution imposed on it from outside. It must be emphasized that the educational reforms in particular greatly changed the spirit of the Japanese people. At the time people viewed these great reforms as an unavoidable consequence of defeat, and accepted them with reluctance, but the children educated under the new system were brought up as a new type of 'Americanized' Japanese. Moreover the new education was taught by teachers who had little understanding of the concepts they were teaching. Probably those responsible for imposing this education expected Japanese

to be just the same as Americans, but the children taught by teachers who had no understanding of the Western spirit were brought up to be children who in Western terms were failures – self-centred in their interests; intellectually knowing little more than memorization, and never asking why things are as they are; and in social activity devoid of their own opinions, agreeing with the dominant faction. These children have been brought up to be Japanese who are sufficiently tainted with the evils of traditional Japanese society, who will accept anything as long as it is to their own benefit, and who have no positive ideas of their own. It is this generation that is called the ‘new Japanese’. In order to raise the morale of their employees, companies have grasped every opportunity for in-house Confucian education. British workers working for Japanese companies with plants in Britain are reported on television as saying: ‘Japanese companies are not companies. They are exactly like schools. There is far too much moralising and preaching.’ The Confucian ethos has had its life prolonged in Japanese companies through the use of in-house education.

By 1990, however, all those who were in their fifties, or younger, had been in receipt of the new postwar education, and even in the case of those who were just over sixty around half of their education (upper tier of secondary education, and higher education) had been of the new type. The effect of this kind of in-company Confucian education also appeared to lose its impact around 1990, and the ethos of Japanese society can probably be said to have changed radically. The effects of the educational reforms had begun to be apparent after a time lag of fifty years, though it is a rather different question, whether or not those effects were beneficial.

This period marks a parting of the ways, and the Japanese people have undergone a dramatic change. (If we could make a survey investigating generational differences in social consciousness and awareness, we could have probably provided empirical evidence for the 1990s being the time when the character of the Japanese people underwent a sharp change.) In debates concerning Japan it is essential to distinguish between the period before 1990, and the years after that.

IV

We may now say that by virtue of the emergence of Japan, capitalism can no longer be monochromatic. Moreover, as the capitalism of the West, which may be called Protestant capitalism, declines as Schumpeter (1943: 61) has pointed out, because of its very achievements, its very success, so the Confucian capitalism looming in the East becomes more alarming. We will return to this later. The attainment of an economic optimum via individualistic economic competition, which is said to be the most important *raison d'être* of the free enterprise system, is neither the main purpose nor the prime function of the Japanese economy. Not competition among

workers *vis-à-vis* the firm, but collaboration between workers for the benefit of the firm becomes the more important subject for analysis. In fact, in Japanese society competition prevails, not so much among adults but among children, who are selected and allocated to various firms according to the qualities of the diplomas they have received in the educational rat race; once they have been allocated to a firm, it is very difficult for them to move, especially from a small firm to a big one. In addition, Japanese society is a dual society; there is a big gulf, in wages, fringe benefits, productivity, risks and the rate of profit, between the big business sector and the small business/subcontractor sector. Compared with western firms, Japanese big business operates in a very bureaucratic way, often adopting, instead of the western planning and decision-making by top management, the *ringi* system (the system of 'proposal submission from below and approval by the seniors', Dore, 1973: 227–98) according to which responsibility is diffused throughout the organization and it is difficult to identify where the real responsibility lies. Moreover, the newly industrialized countries such as Korea, Taiwan, Hong Kong and Singapore are all dominated by Confucianism. For the analysis of these new capitalist societies, especially Korea, Taiwan and Japan, a new economic model emphasizing collaboration, group consciousness and nationalism should be formulated.

In order to analyse non-occidental economies Marx conceived the idea of the Asiatic mode of production (Melotti, 1977). In its typical form this mode of production develops in the vast areas of the world where the climate is intensely hot, so that such areas are likely to embrace huge tracts of desert. Land in such areas is virtually a free good, and for that reason private ownership of land does not exist. Irrigation and fertilization are the most important tasks of the state, and in these places it is the state which is the supreme landlord. In economic terms the people possess no power whatsoever *vis-à-vis* the ruler, and autocracy therefore prevails (oriental despotism). There is no question of the people in countries of this kind, for example the Arab countries, being 'civil' in the Western sense of the word.

One thing that needs to be considered as far as countries with the Asiatic mode of production are concerned, is whether or not the Islamic faith, as the superstructure of an Arab-type, patrimonial autocratic system, fits the economy. In fact, with the exception of the capitalistic economic activities brought back by Arab intellectuals educated in Western Europe, it is very difficult to argue that there has been the opportunity for the spontaneous emergence of capitalism from among the adherents of Islam themselves. Japan and the other new industrial countries of Asia are certainly not typical of the Asiatic mode of production. In the first place, they are countries whose land areas are small, and where irrigation is not a matter of life and death except for the areas along the Yellow River. They are all seagoing nations with long coastlines in proportion to their total land areas; all have developed by means of foreign trade by sea. Yet the population of these

countries is largely made up either of Chinese or of people who have been conspicuously influenced by the culture of China, so their manners and customs are distinctively Chinese in a broad sense. In these countries, which have developed by acquiring the greatest possible demand for their goods from abroad, home demand is not very important to their economic growth. An exception to this is Japan, which has fairly large home demand, but even in Japan domestic demand is not the main motive force behind development.

So in these countries the fact that a civil society fails to develop is not a serious matter; despite poor home demand from their poor civil societies they could still expand their economies. In this way, they embarked on a forced march of rapid growth to catch up with the West. In particular, the growth programmes of Japan and Korea were formulated in such a way that the completely modernized industrial core produced within Japan or Korea was steadily expanded at all costs. The small business/subcontractor sector was a loser at all times; it was exploited and eroded by the big business sector, which was supported by the state. For the forced march loyalty and service in the form of devotion to the state and the work place are required of the people, and throughout the period of modernization there has been little recognition that each individual has an innate right to freedom and self-enlightenment.

A strong nation-state is a precondition for both capitalism and socialism. It might be said that the nationalistic Japanese Confucianism, which is not suited to the establishment of a civil society, would probably accord more with socialism than capitalism.⁴ At the time when the modern state was formed in Japan, however, socialism was only a theory; no country actually had a socialist economy. If the modernization of Japan had been carried out later than immediately after 1868, she might have taken a more socialistic approach, instead of taking the option of state capitalism as she actually did. The course of historical development of society is not unilinear, not only within the capitalist camp but also over the broad spectrum of regimes from capitalism to socialism. Furthermore, the instability thesis implies that by shifting the ideological base of society a wide variety of new courses of economic development will be opened up, and these may significantly differ from the course that would have been followed in the absence of such a shift.

From the point of view of instability theory, it is entirely reasonable that philosophers, political leaders and revolutionaries in the Third World recognize the importance of modification or replacement of existing ideology. In the case of China Sun Yat-sen advocated the western concepts of nationalism, democracy and people's welfare. Chiang Kai-shek emphasized Confucianism and Protestantism, and Mao Tse-tung accepted Marxism. Of these three only Mao was successful in giving rise to a remarkable change in the people's attitude, which resulted, in turn, in an enormous improvement

in their economic life. In India, the influence of the idea of human spiritual and social equality in missionary Christianity led Mahatma Jotirao Phule to devote himself to abolishing the Hindu caste hierarchy and forming a new religious identity (O'Hanlon, 1985), while Mahatma Gandhi, also influenced by Christian ideas, tried to improve the lot of the weak and oppressed, especially the untouchables. As a Hindu himself, Gandhi did not wish to abolish the caste system but fought its evils. He condemned modern western civilization, and wanted to preserve the Indian cultural traditions, by opposing the spirit inherent in both socialist and capitalist industrialism at the time (Buss, 1985: 17–22). He laid himself open to cross-fire from conflicting forces and was shot dead by a Hindu fanatic.

Gandhi held heredity in high regard because he believed that to disregard the law of heredity would create great confusion. This belief caused his reluctance to abolish the caste system, which is the mainstay of traditionalism in India. This attitude, despite his great desire to improve the position of the untouchables, made him very much a gradualist. He could minimize bloodshed in the Indian independence movement by his advocacy of passive resistance. In the same spirit he insisted on the importance of villages as against cities, because he believed that truth and non-violence were only possible in the context of the simplicity of the villages. He also considered that labour was more important than machines in the industrial development of India. This emphasis was shared by Mao. For Gandhi, independence by passive resistance was independence achieved through the indigenous Indian spirit; the important thing was to stand by themselves without the help of Western civilization. Gandhi considered that the ancient Indian ethics, which knew nothing of rights but only duties, should be the basis of Indian development in the future. He emphasized that all rights derived from duties well performed (Buss, 1985: 17).

It is clear that this philosophy of Gandhi denounces civil society, one of the main pillars of western capitalism, and promotes nationalism. The situation is in strong contrast to that of Japan after 1868. It is true that in Japan, too, there were many fanatical nationalists who rejected everything western and strictly upheld Japanese traditions, but Okubo Toshimichi, the central figure of the Meiji Revolution, was brave enough to abolish the caste system, which had prevailed more or less rigorously throughout the Tokugawa era (1603–1867). In China Confucianism was a philosophy for feudalism and had always supported the feudal hierarchy of status, but its caste system had no metaphysical justification, unlike its Indian counterpart, which has had such a justification continuously since Aryans first came to India. So the caste system is more separable from Confucianism in China than it is from Hinduism in India. Furthermore, in Japan the system was predominant only during the Tokugawa period. By comparison with Gandhi, therefore, Okubo could more easily terminate a system which had been a major source of economic inefficiency. By abolishing the caste

system Okubo could bring to an end the feudal division of society into fixed classes; this not only contributed to an upsurge of nationalism, but also released individuals from the feudalistic fetters that hindered modern individualistic competition. In this way, the Japanese gradually began to recognize the importance of civil society in modern life, though this was not openly acknowledged until the end of the Second World War.

V

From this we may conclude that the line of moderate passivity which was taken by Gandhi was not revolutionary enough to make the Indian economy move in the direction of modern capitalism or socialism. However, unlike the Chinese and the Japanese, Indians are more sincere and serious in their search for truth and salvation. In Hinduism they have developed a magnificent metaphysical theory, but unfortunately it is a religion of caste and renunciation of life. As a Hindu, Gandhi was no exception; he was possessed by the devil of caste. This is the tragedy of Gandhi, the tragedy of India. Unlike Japan but like China, the introduction of elements of western ideologies, for example Protestantism, socialism or even Marxism, into the indigenous religion is necessary, or indispensable, for India's economy to develop in a rational and secularly ascetic manner.

Myrdal (1972) is also very critical of the caste system. Given the sanction of religion (that is, of Hinduism) which is even today very powerful among Indians, the caste system is still strongly influential there, particularly in Indian villages. It divides the society and is therefore an obvious obstacle to development:

It fortifies the contempt and disgust for manual work prevalent in all social strata. Since an orthodox Hindu regards not only those who perform this work but everyone outside his own caste as beyond the pale, it also warps and stultifies ordinary human feelings of brotherhood and compassion.

(Myrdal, 1972: 147)

Naturally, this caste system creates divisions of culture and economic interests which work against national consolidation. Moreover, according to Myrdal, 'we cannot claim that this ideal of a more disciplined nation is shared by a large number of people even among the intellectual élite of South Asia' (1972: 52). Thus he concludes that under present conditions in India development cannot be achieved unless the people observe social discipline much more strictly than the prevailing interpretation of democracy in the region permits. 'Too much individual interest, too little public spirit' is the diagnosis for India; this is the total reverse of Japan before the war, during the war and afterwards during the time of recovery. At all

events, as long as a caste system continues in existence, there cannot be true democracy.

In this situation, Gandhi still believed non-violent social change to be possible by persuading the privileged to abandon their privileges and enter into truly democratic co-operation with the underprivileged. Quoting from D.R. Gadgil, who criticizes such optimism by Gandhi as 'little more than revivalism', Myrdal joins with him in saying that 'the failure of Gandhi's approach "lay essentially in not recognizing the need for thoroughly demolishing the older institutional and class forms before a new synthesis could be attempted"' (Myrdal, 1972: 178). On the other hand, Myrdal appreciates other aspects of Gandhism. Gandhi rejected not only European products but also the European mode of industrialization. He resembled Mao in rejecting the use of machinery in the large-scale factory mode of production in cities. As pointed out earlier, he emphasized villages and labour instead. Myrdal finds an essential element of rationality in this gospel of Gandhi: 'the programs for promoting cottage industry as they have evolved in the post-war era have come more and more to represent purposeful and realistic planning for development under the very difficult conditions that prevail' (1972: 325).

It is evident, nevertheless, that however brave, ambitious and respectable such a thing might be, it is extremely difficult and expensive to achieve such a growth programme without the help of European civilization. Gandhi's philosophy of making India Indian again by dint of the Indian spirit alone is an obvious antithesis to the Japanese slogan after the Meiji Revolution, 'Japanese spirit with Western technology'. It is not surprising to see that the instability theory has not worked in India; for that theory to work, it requires that a new shift in ideology should create secular asceticism and rationalism among the people.

Despite the existence of many articles in search of a Protestant ethic analogy in Asia, my book (*WHJS*, 1982) might claim to be unique in clearly referring to the instability of secular life in response to a change in ideology or a religious reform. In the case of Japan, it has been suggested that such religious sects as Jodo Shinshu and Zen-shu and such ethical movements as Hotoku-kyo and Shingaku are associated with Japan's successful economic achievements (Bellah, 1957: ch.5; McClelland, 1961: 369-70). It is true that Jodo Shinshu can be considered Buddhism's version of Protestantism and that it has played an important role in the secularization of Buddhism in Japan. It is also true, as Bellah has pointed out, that the priests of the Jodo Shunshu sects gave sermons emphasizing the importance of 'inner-worldly asceticism'. As a matter of fact, however, after the defeat of the Ikko uprising (1571-80) by Nobunaga, Jodo Shinshu (sometimes called Ikko-shu) had little desire for social reform, fierce indignation against evil, nor any concept of popular salvation. Throughout the Tokugawa era, and even since then, its leaders indulged themselves in an aristocratic life style.

Moreover, it is certainly true that Hotoku-kyo and Shingaku were popular among Tokugawa merchants, but Bellah's (1963) criticism of McClelland – that he is mistaken in concluding that samurai in the Meiji period were devotees of Zen Buddhism – holds just as well for his own discussion of the Hotoku-kyo and Shingaku movements. In fact, political leaders and industrialists in the Meiji period were not much influenced by these movements. Meiji Japan was still a samurai society and it was Confucian thought which played the role of the driving force behind modernization in that period (Morishima, 1982; Golzio, 1985: 98–9).

Articles concerned with the relationship between religion and inner-worldly asceticism in the non-occidental areas seem mainly to have tried to identify those religions which have most contributed to enhancing the motivation necessary for entrepreneurial activity, but they have neglected the problem of motivation for asceticism on the workers' side (for example Eisenstadt, 1968; Buss, 1985). In Weber, as was seen in an earlier part of this chapter, both are constituent elements of the spirit of the capitalist regime. We may say, therefore, that these articles are not genuinely Weberian because they discuss only 'the capitalist spirit' but not 'the spirit of capitalism'. They are also far from realizing that Weber's Protestantism thesis is essentially an instability or knife-edged theorem. Only Bellah (1963) is near to finding the theorem (but has missed it) when he says: 'As every reader of the famous (Protestant ethic) essay knows, the material is derived from England primarily, and not from Germany, where the Reformation remained abortive in important respects and its structural consequences stunted.' Without the instability theorem it is rather difficult to understand why Japan and the two countries of Korea and Taiwan, both of which have been greatly influenced by Japan in terms of education and worldly behaviour, have been successful in breaking through the barriers to modernization, while China, though having once accomplished a brilliant breakthrough under the communist party since the war, was later greatly disrupted by the Cultural Revolution launched by the whimsies of Mao. 'The cultural revolution' and 'brainwashing' look *prima facie* like Marxist concepts, but in spite of their concern with violent activities, they may be examined from the viewpoint of Weber.

VI

A dynamic congruence theory may be obtained by combining what I have called the Marxian and Weberian approaches. Let E_t and S_t represent the state of the economy in period t and the state of the superstructure in t , respectively. According to the Marxian theory, for each E_t there is an adequate state of the superstructure S^* , while the Weberian theory says that there is also a reverse relationship of adequacy between E and S , that is, for each given S_t there is an adequate state of the Economy E^* . Let us express

these two kinds of congruency as $S^* = M(E_t)$ and $E^* = W(S_t)$, respectively, and assume that there is no time lag in the realization of the Marxian congruence, so that $S^* = S_t = M(E_t)$, while there is one period of lag in the Weberian one: $E^* = E_{t+1} = W(S_t)$. (This is the assumption for the sake of simplicity. We may alternatively assume that there is some time lag in the Marxian congruence too and can *mutatis mutandis* apply the following argument to this bilaterally lagged system.) Combining these, we have $S_{t+1} = M(W(S_t))$ and find that where W is not the inverse of M , there is a dynamic movement of S and, hence of E . With a given S_0 we obtain E_1 by the Weberian theory. Then the Marxian theory tells us that S_1 is congruent to E_1 . Similarly, we obtain E_2 as corresponding to S_1 and S_2 to E_2 ; and so forth. Thus a movement of superstructure, S_1, S_2, S_3, \dots , and a movement of economy, E_1, E_2, E_3, \dots , are generated from the original state S_0 . In the sequence of the states of economy, $E_t, t = 1, 2, 3, \dots$, those E_t 's for all $t = \geq$ some t' would belong to the same regime, say the capitalist, while E_t 's for $t > t'$ might belong to another, say the socialist. In this case, we have a transformation of the economy from capitalism to socialism.

This is a scheme of historical transformation which is established by using both Marxian and Weberian components. One example of this is Schumpeter's theory of the evolution of society. Contrary to the Marxist theory of revolution which maintains that the capitalist regime will finally collapse and be replaced by socialism or communism because economic polarization becomes unacceptable and repeated crises become more and more stormy and explosive, Schumpeter develops the following argument:

The actual and prospective performance of the capitalist system is such as to negative [*sic*] the idea of its breaking down under the weight of economic failure, but ... its very success undermines the social institutions which protect it, and 'inevitably' creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent. (1943: 61)

In more detail:

Capitalism creates a critical frame of mind which, after having destroyed the moral authority of so many other institutions, in the end turns against its own; the bourgeois finds to his amazement that the rationalist attitude does not stop at the credentials of kings and popes but goes on to attack private property and the whole scheme of bourgeois values. (1943: 143)

In addition, there is the fact that in Europe, where nation-states competed for internationally mobile capital, they were in collusion with capital and treated the bourgeois exceedingly favourably.⁵ Naturally, such a collusion could also

be a target of severe criticism. Monarchs strove for the provision of infra-structural services for industry and commerce in order to gain revenue for themselves. Furthermore, 'In a purely bourgeois regime', Schumpeter says:

troops may fire on strikers, but the police cannot round up intellectuals or must release them forthwith; otherwise ... the freedom it [the bourgeois stratum] disapproves cannot be crushed without also crushing the freedom it approves... In defending the intellectuals as a group...the bourgeoisie defends itself and its scheme of life. Only a government of non-bourgeois nature and non-bourgeois creed... is strong enough to discipline them.

(1943: 150)

Freedom of public discussion involving freedom to nibble at the foundations of capitalist society is inevitable in the long run... The intellectual group cannot help nibbling, because it lives on criticism... and criticism of persons and of current events will... fatally issue in criticism of classes and institutions.

(1943: 151)

Once the superstructure of western capitalism reaches this stage, it is obvious that the economy cannot work in the way it worked when 'the Protestant ethic' and, therefore 'the spirit of capitalism' prevailed in the society. At this stage, innovation will also have been reduced to routine. Entrepreneurship tends to be depersonalized and automated: 'Bureau and committee work tends to replace individual action' (Schumpeter, 1943: 133). As in the *ringi* system of Japanese firms, a very bureaucratic form of decision-making will be adopted. Not only will the entrepreneurial function become obsolete but other strata supporting the regime, such as aristocrats and *rentiers*, will also tend to become powerless, and will finally disappear. It will become an age of professionals and intellectuals and, as in Japan and other western countries, the educational rat race will become hectic and severe.

Such a situation is very remote from that of seventeenth-century England, with which Weber is mainly concerned in his famous Protestantism essay. Let S_0 be the superstructure in the seventeenth century which has the Protestant ethic as its dominant element and E_1 the modern capitalist economy which was emerging and growing at that time. Furthermore, let S_t be the superstructure with the kind of ethos which, as has just been described, Schumpeter considers to prevail in a mature capitalist economy in its closing years, and E_{t+1} the new economy, which would be in accordance with the superstructure S_t . Schumpeter speculates that this new economy will be a socialist one. As has already been seen, however, the capitalist camp is no longer homogeneous now because Japan has established

herself as a Confucian capitalist state. An alternative option is now available. The 'diseased' western capitalist economy in its final stage might be metamorphosed into a more socialistic variety of capitalism of the Japanese type, rather than switching immediately to socialism. Schumpeter also neglected the possibility of the appearance of someone like Mrs Thatcher, whose aim is to intervene in the process of metamorphosis in the hope of reviving the Victorian ethic and spirit in the late twentieth century. In any case, Schumpeter's scheme of transformation of a society from capitalism to socialism is too simple to be accepted without modification, because the rich menu of future economic systems now available to each modern society is likely to contain several options, from among which a society can choose without undue friction. It is not entirely inconceivable that competitive capitalism, having started with the Protestant ethic, will end in the managerial capitalism of the Confucianist or Japanese type.

Since the time t at which some kind of Schumpeterian transformation is made has not yet come and, hence, t takes on a large value belonging to the future, it is necessary for us to make an empirical analysis for the past and a deductive analysis for the future in order to fill in the intermediate stages (S_i, E_{i+1}), $i = 1, 2, \dots, t-1$, between the Weberian age (S_0, E_1) and the Schumpeterian age (S_t, E_{t+1}). In this way we might be able to obtain a complete course of dynamic congruence of S and E from 0 to t . Moreover, in view of the fact that the superstructure S is not a single entity but a multi-dimensional complex consisting of religion, culture, international environment and many others, it is extremely difficult to determine the dual relationships $S_i = M(E_i)$ and $E_{i+1} = W(S_i)$ which generate sequences S_i, E_{i+1} , $i = 1, 2, \dots, t-1$. This is a classic point raised by Brentano and Tawney. However, despite the fact that controlled experiments are almost impossible in the social sciences, it is still possible to imagine *ceteris paribus* situations from which deductive analytical conclusions can be derived by skilfully applying the method of thought experiment based on the idea of *verstehen*. In this way we may minimize the ambiguity and arbitrariness unavoidable in this sort of research and may at least obtain a model which is useful for interpreting (or understanding) history from the viewpoint of congruence between superstructures and infrastructures.

For the purpose of comparing Japan and China, let us now suppose that the superstructure of China (Chinese Confucianism) at the outset is S_0 , while Japanese Confucianism (that is, Confucianism with a nationalistic interpretation) is S_0' . E_1, E_2, \dots are generated from S_0 , and E_1', E_2', \dots will be generated from S_0' at time $t = 1, 2, \dots$. If there is instability between these two series of E , then as t becomes greater, E_t' will be further apart from E_t . Where there may be very little perceptible development in E from its starting point of S_0 , there may well appear dynamic movements in E' . Where relationships M or W above are non-linear, as shown by the theory of chaos in relation to difference equation systems, there may be a case of the

movements in E' not converging whatever the situation over the long term, but being liable to endless unforeseeable movements that cannot be put in a formula of regularity. That is to say, a very small change in S causes a major irregular disturbance of E' from E . This kind of theoretical conjecture may well indicate the direction that the Weber controversy is likely to take in the future. In any case, dynamic analysis of the effects of a change in ethos upon the economy is a direction into which the study *à La* Max Weber may be developed.

VII

Thus, providing we are satisfied with a rough first approximation in the form of a partial theory, the task of dynamizing the Weberian thesis may not be entirely impossible. In fact, there have been attempts to tackle this problem. For example, Wiener (1981) does deal with the cultural background of the decline of the industrial spirit in Britain in the period 1850–1980, though his work has to be carefully re-examined in conjunction with economic history analyses, such as those by Deane and Cole (1967), Church (1980), and others. Wiener develops a view which is an alternative to Schumpeter's but does not entirely contradict it. He emphasizes the ambivalent character of the English ethos and writes that this ambivalence placed lasting social and psychological limits on the industrial revolution in England, and, in spite of Britain's being a pioneer of modernization, a hostility to industrialism persisted there; the prosperity of industry was short-lived and the age of post-industrialization came soon. This view is not unconnected to that of Weber, who also noticed the ambivalence of the English character: in his words:

Through the whole of English society since the seventeenth century we see the conflict between the squirearchy, the representatives of 'merrie' old England, and Puritan circles widely fluctuating in their social influence. Both elements, on the one hand an unspoiled naïve joy of life, and on the other a strictly regulated, reserved self-control combined with conventional ethical conduct, are even to-day combined to form the English national character.

(Weber, 1930: 173)

Similarly, Wiener points out that while England gave birth to the industrial revolution and exported it throughout the world, the English themselves were not comfortable with materialistic growth. They have always had the view that England is essentially the countryside, a green and pleasant land. The English way of life stresses 'non-industrial, non-innovative and non-material qualities' (Wiener, 1981: 6). 'The English genius', he writes, 'was (despite appearances) not economic or technical, but social and spiritual; it

did not lie in inventing, producing, or selling, but in persevering, harmonizing and moralizing' (1981: 6).

As the superstructure S is multidimensional, it may contain, as it does in the case of Britain, contradictory elements, the spirit of anti-individualism as well as the spirit of capitalism, and this ambivalence creates a dynamism in the economy. Throughout the nineteenth and twentieth centuries Britain has more and more been inclined, in the choice between workshop and garden, in favour of the latter. In Wiener's words: 'the dominant collective self-image in English culture became less and less that of the world workshop. Instead, this image was challenged by the counter image of an ancient, little-disturbed "green and pleasant land"'. Britain all too soon lost the position of workshop of the world in the competition for economic hegemony.

In this dynamic process, Wiener says, the 'period of recognised economic crisis in Britain was preceded by a century of psychological and intellectual de-industrialisation' (1981: 157). This view fits perfectly to our formula incorporating time lag, $E_{t+1} = W(S_t)$. Wiener resembles Schumpeter in so far as they both emphasize cultural elements as one of the major causes of the decline of industrialism in Britain: 'The politicians, civil servants, churchmen, professional men, and publicists who did so much to shape modern British political opinion and policy moved in a climate of opinion uncongenial to the world of industry' (Wiener, 1981: 159). Their images of a very attractive way of life were 'geared to maintenance of a status quo rather than innovation, comfort rather than attainment, the civilized enjoyment rather than the creation, of wealth' (1981: 159). This would obviously give rise to a decline in both Schumpeter's entrepreneurship and Weber's spirit of capitalism. By developing and improving this sort of theory we may eventually obtain a theory of history, or a dynamic theory of social economy which is better than either the Marxist doctrine of historical materialism or the Weberian social theory of the 'Protestant ethic' thesis type.

Despite its brilliance I do not entirely subscribe to Wiener's analysis; we may conceive of another plausible conjecture concerning the 'British disease'. It is true that his attempts to relate Britain's economic decline to the ambivalence which is found in the English ethos is novel and ambitious. There is no doubt about this. My own conjecture, however, is that the British two-party system is greatly responsible for the decline, though this system may of course be considered as a political reflection, or symbolization, of the ambivalence in the national ethos. Economic decay may be considered as the cost paid by the British people for keeping the two-party system for the sake of democracy, individualism and liberalism.

Finally it must be stressed that both Marxian and Weberian approaches are indispensable elements in the far broader economics that I propose. Where no individual is moved by the spirit of maximizing utility and no

entrepreneur is strong enough to be loyal to the spirit of maximizing profits, classical or neoclassical economics is nothing more than a castle in the air. Even Marx, the most important thinker to advocate an objective theory of economic determinism, assumes that a spirit of capitalism prevails in the economy when he says: 'Accumulate, accumulate! That is Moses and the prophets' (Marx, 1965: 595). Social ethology, as a comparative analysis of national ethos, though as yet very undeveloped, is an appropriate member of extended economics. In this magnificent subject, which is inevitably multidisciplinary, it is of course desirable that the component disciplines, economics proper and social ethological analysis, should be methodologically of the same kind.

Fortunately Weber's sociology is constructed along much the same lines as Ricardo's economics, the prototype of contemporary economic theory. In regarding Ricardo as the originator of theoretical economics there is no disagreement among economists. Marxian economists and Walrasian or mathematical economists, as well as those belonging to the British classical school (including Keynes), are all Ricardian in methodology. They begin by clearly defining the concepts used in their economic analysis. These may also be called ideal types (in Weber's terminology); they are pure or abstract rather than actual or concrete. By using them an economic model is constructed. Of course the model thus constructed is an ideal type too. Such a model, though it would emphasize certain aspects of the actual economy, neglecting other aspects, could provide devices to help our understanding of the essential mechanisms of the economy. Relations between the various ideal types, or economic laws, are found by deductive logic, or often by using mathematics, without giving much consideration to historical or empirical observation. A substantial part of Weber's sociology is constructed in a more or less similar way; it would not appear to be very difficult to build a construction which incorporates deductive sociology and deductive economics.⁶

This rather lengthy survey provides a philosophical base for my theory on the turning of Japan's success into its failure. It is occurring not because of the Japanese failure on materialistic achievements, but from their loss of spirit. As has been seen above and will be stated in more detail in Chapter 8, the seeding for the ideological turning was carried out, just after the War, when the philosophy of school education was switched from the traditional Confucian education to the quasi-democratic and half-boiled 'liberal' one. The products of the educational revolution are men and women with an ethos which is halfway between quasi-Confucian and an individualistic one. Although we adopt a more materialistic-statistical-economic approach throughout Chapters 3-7, we return in Chapter 8 to a more synthetic philosophical one. Thus this volume as a whole is an analysis of Japan from the viewpoint of Max Weber.

3

Transformation from Feudalism to Capitalism in Japan

I

There are various routes and modes of transformation from feudalism to capitalism. This chapter will consider the transformations in England and Japan, one of which can be said to exemplify capitalism from below, the other over a long period capitalism from above. England, too, initially started off with capitalism from above. However, the country had a long tradition of democracy, and this, combined with the numerous epoch-making discoveries in production technology by men who not only possessed intellectual ability and knowledge of production technology but were also full of the spirit of enterprise, led to an easy transformation from capitalism from above to capitalism from below. In the case of Japan, however, there have been at least two occasions on which the shift from above to below might have been made, namely after the end of the First World War and now, at the end of the twentieth century. On the first of these the opportunity was lost as a result of Japan's being thrust into preparation for war, and the consequent strengthening of government intervention in the economy, and even on this second opportunity the shift to capitalism from below is being delayed. Despite this, there are in the histories of the two countries both dissimilarities and remarkable similarities. I am going to start by trying to point these out.

First, after the Norman Conquest was completed, a strong form of feudalism was imported from France and established in England. It was a firmly centralized system at the beginning, but as time progressed it became very decentralized. As the central power weakened, the feudal nobles began to act as a class against the Crown, aiming at collective control of the state. In addition the power of the merchants of the towns was growing; their complaints against the King often had common ground with the baronial opposition to the regime. The two were blended and united; and finally, in the 'Model Parliament' which King Edward I summoned at the end of the thirteenth century, not only feudal nobles and bishops, but also such

democratic elements as the representatives of knights from the countries and the citizens of towns were included.

The early emergence of Parliament cannot be independent of the fact that Magna Carta was granted as early as 1215. When the barons were strong enough to obtain the merchants' support, they dominated the Crown and the feudal system became more decentralized. On the other hand, while the feudal nobility was weak and the merchants supported the Crown, the latter revived its power and the king could behave, as he did especially after the Wars of the Roses, as an absolute monarch. The epoch of absolutism and mercantilism thus initiated began to collapse when, after the defeat of the Armada, the merchants who were financing the war became aware of their strength and started to challenge the power of the Crown.¹ In this way they finally succeeded in establishing a democratic political regime, i.e. the system of parliamentary monarchy. The shifting of the society from the feudal economic stage to the capitalist stage took place in England in parallel with this political transformation; capitalism flourished under the parliamentary monarchy, which in England was the political superstructure most appropriate to the free enterprise system.

In contrast to this democratic trend in England, however, history developed differently in Japan.² A system similar to the English manor system started in Japan in the eleventh century. In 1192 Minamoto Yoritomo established a military government (known as the Bakufu) at Kamakura on the basis of the principle that the Shogun (the head of the Bakufu) could grant rights over land to his followers in return for their military and other services. The Kamakura Bakufu lasted until 1333³ and was replaced by the Muromachi Bakufu of the Ashikaga family, which was in turn replaced by the Nobunaga–Hideyoshi government in the second half of the sixteenth century. Finally, the Hideyoshi government was overthrown by the Tokugawa family, which formed a Bakufu in 1603 and survived until the Meiji revolution (1867–68). Apart from the Nobunaga–Hideyoshi government, which was short-lived and whose character is therefore difficult to assess, the remaining three regimes were essentially the same in their fundamental characteristics. No tendency towards democracy was observed throughout the 675 years from the establishment of the Kamakura Bakufu to the final collapse of the Tokugawa family, but a system similar to European feudalism – that is, a system whereby land grant rights were agreed in return for the promise of military service – prevailed throughout. Each Bakufu established, at its commencement, a system of control from the centre, but the system degenerated into a decentralized, anarchic state of disorder in the last decades of each Bakufu.

II

Among these Bakufus, the Tokugawa regime was the strongest and the shogun virtually behaved as an absolutist. In fact, there was no limitation

on what the bakufu could legally do. Moreover, it kept important cities such as Osaka and Kyoto, as well as ports for international trade such as Nagasaki and Sakai under its direct control. In addition it monopolized almost all important mines and international trade. As, in England, the breakaway from the Papacy was a necessary step in the development of an absolute monarchy, the bakufu suppressed Christianity and finally prohibited the entry of all Westerners (excluding Dutch merchants). Of course, the feudal lords were strictly controlled by the central government. Although it improved the administration of justice and developed a permanent bureaucracy which carried out the work of central and local government, it did not establish any organization which could be considered as the forerunner of a parliament.

It was in the Five-Article Charter Oath proclaimed in 1868 that a certain kind of council system was at last hinted at. Except for Shotoku Taishi's Seventeen-Article Constitution of 604, there had been no other expression of recognition of the importance of democratic arrangements. This was especially so during the three major bakufu periods. In these periods Japan had, as a major national ideology, Confucianism, which is a philosophy of feudalism justifying the feudal stratification of the society. Its view of individual is entirely opposite to Christianity's, according to which individuals are equal in front of God. To the latter the ideas of civil society and fair competition among individuals would be perfectly congenial, while because of the former, little demand for democracy had traditionally been created in Japan.

In view of this lack of demand for democracy it is not surprising that Japan underwent a transformation along lines which are totally different from those we observed above for England, where such a demand was widespread and longstanding. Under the constitution authorized by Imperial order and promulgated in 1889, only rich men, whose total number slightly exceeded 1 per cent of the whole population, were awarded the franchise – the corresponding figure for Britain was 6 per cent in 1832 – and reflecting this, in the parliament opening the following year more than one third of the seats were occupied by ex-samurai, the ruling class in the Tokugawa era. Moreover, as the power of the Diet was limited, the essential character of the new Meiji state was not substantially different from that of the Tokugawa regime and farmers were exploited as severely as they had been hitherto. From this point of view, the Meiji state can be considered as a semi-feudal state which is a natural continuation of the Tokugawa regime; it is not surprising at all to see that the type of economy established after the Meiji Revolution was very far from that type of capitalism towards which England started to advance after her Glorious Revolution vigorously. As will be seen below it was a reinforcement of the Tokugawa absolutist economy, but not at all a free enterprise system.

Throughout the Tokugawa era, the central and various local (or clan) governments operated productive and commercial businesses, either

directly (i.e. by using their own samurai for management or work force) or indirectly (i.e. by leaving the businesses in the hands of their chartered merchants). Also, throughout the era, independent private businesses were growing. Government (or government connected) businesses prospered in the capitals of central and local governments (or castle towns) especially in the first part of the era (1600–1700), while independent businesses spontaneously developed in villages and local towns particularly in the second part (1700–1867). These two kinds of businesses and industries came into conflict with each other in the last decades of the era. The second, independent businesses encroached upon the markets of the first, chartered ones, since the central and local governments were becoming very weak financially.⁴ The Meiji Revolution can thus be considered as a financial propping-up of the economy by introducing new Western techniques and drastically modernizing the regime, while its basic socio-economic structure was kept unchanged; after the revolution, in fact, the inherited ethos was reinforced and promoted, so that an absolutist–nationalist economy was firmly rebuilt.⁵

Newly established was a dual-structured economy having government or government-connected enterprises as its upper tier and independent firms as the lower tier. We may trace the respective origins of these to castle-town and village industries in the Tokugawa period.⁶ For example, Mitsubishi zaibatsu, one of the largest businesses in the upper-tier group, succeeded to the shipping business of the Kaisei Trading Company belonging to Tosa clan, as well as to bakufu enterprises (Sado gold mine and Nagasaki dockyard) and the Saga clan's Takashima coal mine. Mitsui zaibatsu too, whose trading ties with the bakufu were traditionally strong, owed its coal mining section to the Miike mine of the Yanagawa–Miike clan: similarly Furukawa zaibatsu inherited the Ani and Innai mines of the Akita clan, while Tanaka Chobee had the Kamaishi mine of the Nanbu clan which is now operated by Nippon Steel Corporation. Even, in the spinning industry which is regarded as highly independent from the government, the history of the Nippon Spinning Company (now Unichika) can be traced back to the Sakai spinning factory of the Satsuma clan.⁷

The new economy may be regarded as a dual-structured, Keynesian-type economy. The scale of the industries in the upper-tier which produced arms, ships, machines, etc. was determined ultimately by the government's effective demand for them. In order to finance this demand, the Meiji government imposed heavy taxes upon landlords and farmers, who in turn transferred the burden to peasants or agricultural labourers by raising the rent for tenancy to a maximum or by reducing wages to a minimum. Since the agricultural income per man became an indicator of the standard of living of workers in independent businesses it is natural that a very low wage rate prevailed in these businesses in parallel with a low agricultural income, while wages were set high by the government for the employees of

government enterprises. Accordingly, big income disparities obtained between government and private sections of the economy. Moreover, later a life-time commitment system began to prevail in the upper-level sector of the economy, especially for white-collar employees, within which wages were paid according to the seniority system. Although the lower-tier sector was competitive, it was very difficult for people to move from the lower to the upper tier. The economy was modern on the surface but still authoritative, discriminatory and even predatory underneath.

Such a system will not last for long even if the rate of growth of the nation's population is small. However, if total population growth exceeds the rate of growth of the number working in the industries of the upper-tier sector, those unable to find jobs in that sector have to be accommodated in the lower-tier sector. In Japan, the businesses of this sector, especially agriculture, could be more labour-intensive in the Meiji period, and, therefore, had the capacity to absorb an enormous amount of excess labour. Moreover, after the Russo-Japanese War (1904–5) in which Japan gained a costly victory, the Japanese military became arrogant, overconfident and, hence, uncontrollable. This resembles the process England passed through after the defeat of Spain's Armada; as had been said before, the English bourgeoisie which contributed greatly to the victory became more and more confident and finally forced the monarch to accept a system of parliamentary monarchy. In the case of Japan, the military started their long years of aggression against China and other countries; apart from the devastating blows which Japan inflicted on the Asian countries she attacked, she also let her own people, especially those belonging to the lower-tier sector of the economy, fall into misery and distress; throughout the course towards final defeat, the dualism of the Japanese economy became more and more marked, and ordinary people in Japan were finally pushed to the verge of starvation, at the end of the Second World War.

In order to clarify the historical transformation of the economy experienced in Japan, I explain in Section III below how feudalism developed in the Tokugawa era, and in Section IV how the economy was reconstructed after the Meiji Revolution. While we are not here concerned with the cause and progress of the revolution,⁸ we believe these sections will be sufficient evidence for a conclusion that the transformation in Japan is so different from the one experienced in England that Japanese 'capitalism' cannot be dealt with by the use of the same model as that which was formulated, on the basis of the English experience, for an analysis of England.

III

Throughout the Tokugawa period (1603–1867) Japan was divided into nearly 300 feudal clans of various sizes. The domains were rated in terms of the amount of rice they could produce. The Tokugawa family itself had

territories which, though scattered all over Japan, altogether yielded more than 4 million koku of rice (one koku equalling approximately five bushels). There were about twenty other large clans occupying territories ranging from 200,000 to 1 million koku, but the 60 smallest clans produced only around 10,000 koku. Each clan, big or small, had only one castle town, since the Tokugawa central government prohibited any clan from having more than one castle within its domain. The castle town which was originally built as a fortress, became, as peace reigned for a long period, capital of the domain. Each domain was ruled by its local clan government (*han seifu*), while the Tokugawa central government (bakufu) tightly controlled the clan governments. The political system thus established is referred to by Japanese historians as a 'centralised feudal system'.

Most (say, two-thirds) of Japan's contemporary big-towns were castle towns, with the notable exceptions of Kyoto, Osaka, Sakai, Nagasaki, and Hyogo (Kobe). Kyoto had been the seat of the Imperial Court and remained so throughout the Tokugawa era. Osaka was once the capital of the Hideyoshi government which preceded the Tokugawa; the latter disarmed the city and held it under direct control. The other three towns mentioned above were domestic and international trading ports.

Castle towns were constructed in such a way that the central castle was surrounded by an inner moat, then, in order, by residential areas for samurai (warriors), residential and business areas for merchants and craftsmen, temples and shrines, and finally by an outer moat. In most clans with a few exceptions, the samurai were completely unproductive because they were prohibited from working in the fields or in business and therefore their necessities of life had to be provided by the farmers, merchants and craftsmen. The number of townspeople was determined more or less in proportion to the number of samurai who lived in the town, so that its ultimate determinant was the number of koku which were allocated to the head of the clan by the central government; thus the political power determined the scale of the economy.

Most castle towns were founded in the late sixteenth or the early seventeenth century. Their populations peaked at around the end of the seventeenth century, with two notable exceptions, Edo (now Tokyo) and Osaka, whose populations reached their maximum levels in the 1750s and 1760s, respectively. Edo, like Nagoya which was ruled by one of the three family branches of the Tokugawa house, increased its population again in the middle of the nineteenth century (see Table 3.1). These statistics do not include those people who belonged to the samurai households in the towns (i.e., the samurai, their family members and their servants). If they were included, the proportion of people who lived in towns with a population of 20,000 or more at around the end of the seventeenth century would be estimated at around 11–12 per cent of the total population of the nation.⁹ This is comparable with a similar estimate for the UK in 1801 of

Table 3.1 Population of selected towns in Japan, 1590–1869 (000s)

	Edo* (now Tokyo)	Osaka	Kyoto	Nagoya*	Kanazawa*	Okayama*	Fukuyama*	Hiroshima*
1590–99		200						
1600–09		.						
10–19		.						
20–29		.				28		
30–39		.	410			.		
40–49		.	.			.		
50–59		.	.	55		.		
60–69		269	357	55	57	29		
70–79		288	.	57	.	.		31
80–89		330	.	58	.	30	12.9	.
90–99	354	355	.	64	69	.	13.0	.
1700–09	.	352	.	.	.	31	12.5	.
10–19	.	374	347	.	65	28	.	37
20–29	487	385	374	50	.	30	.	.
30–39	494	404	.	.	.	.	.	.
40–49	460	404	.	.	.	.	.	.
50–59	508	414	.	.	.	28	.	.
60–69	505	422	.	.	.	24	.	28
70–79	483	407	.	.	.	23	12.7	.
80–89	473	379	.	.	.	.	.	27
90–99	487	381	.	.	56	.	.	.
1800–09	492	385	.	.	.	21	.	.
10–19	499	381	.	.	.	.	.	.
20–29	524	379	.	.	.	.	.	25
30–39	523	367	.	.	.	20	.	.
40–49	553	341	.	76	.	.	.	.
50–59	568	319	270 ^a	.	.	20	.	.
60–69	550	281	244 ^a	74	62 ^b	21	.	.

Notes: * indicates that the town was a castletown.

^a indicates that the figure was estimated from the population of the Yamashiro province to which Kyoto belonged. These two figures are comparable with Kyoto's population, 233, in 1878.

11.6 per cent, calculated from the Mitchell-Deane table of population of the principal towns of the United Kingdom, 1801–1951.¹⁰ One may say that in 1700, Japan was already at much the same stage of urbanization as the UK was in 1801, while in 1886 when Japan was going to start her industrial revolution, only 9 per cent of her population lived in towns (with a population of 20,000 or more) because she had experienced gradual and continuous de-urbanization throughout the 160 years following the beginning of the eighteenth century. Thus the Tokugawa era may be divided into two periods: the first a period of urbanization (1603–c.1700) and the second, of de-urbanization (c.1700–1867). As will become evident later, these two periods may be referred to as 'the age of the samurai-managed clan economy' and 'the age of competitive commercial agriculture'.

Why did Japan have such a long period of de-urbanization? Japanese historians appear to have been generally unconcerned with this problem.

Tottori*	Matsuyama	Kochi*	Bungo-Fudai	Kofu*	Matsumato*	Sakai	Nagasaki
							25
							.
							.
							41
		17				69	41
		.		12.8		61	40
		.		14.3		61	53
	17	.		.		64	65
	.	.		12.7		57	.
	.	.	5.1	.		51	42
	.	.	.	14.1		.	.
	.	.	.	13.3		52	.
13	.	.	3.9	13.0		48	.
.	.	.	.	.		47	.
.	.	.	.	11.3		46	.
.	12	.	4.0	.	8.5	.	32
.	.	.	3.7	10.6	8.8	.	.
.	.	.	3.7	.	9.4	.	.
10	.	.	.	.	10.0	45	.
.	12	14	.	.	9.9	44	.
.	.	.	.	.	9.8	.	27
11	.	15	.	.	9.3	40	.
.	.	16	.	.	9.8	37	27
.	.	.	3.4	11.1	.	.	.

^b indicates that the figure was estimated from Kanazawa's population in 1871.

Source: Sekiyama (1958), Toyota (1952), Harada (1981), Kodama (1969-74).

One may note that there have been some who have argued that, while in the Tokugawa era the birth rates in towns, like European towns in the fifteenth-seventeenth centuries, tended to be generally lower than the respective death rates, the opposite was true in villages; the population tended to decrease in towns and increase in villages. Others have ascribed the secular decrease in population observed in villages in the north-eastern part of Japan in the later Tokugawa period to the severe famines that frequently hit them in that period. They have also partly ascribed the population increase in the western part of Japan in the same period to the particularly comfortable weather conditions which these regions enjoy. It is impossible, however, to apply this sort of argument in order to explain why the two largest cities, Edo and Osaka, lagged behind other smaller towns in the turning point of their population growth; they should in fact have experienced a decline in the birth rate first, before smaller towns became a victim of the same mechanism.

It is said that more than half a million samurai, their relatives and their servants inhabited Edo at any one time during this era. If this number is added to the resident population of Edo, it would mean that the city had over one million inhabitants and therefore could be compared with London, then the most populous city in the world.

There was however an imbalance in the sex composition of Edo's population as illustrated by Table 3.2. Its samurai sector was dominated numerically by males, for according to 'the alternate attendance system' (*sankin kotai seido*), which the Tokugawa introduced in 1635, the heads of the clans were required to maintain their residences in Edo and when they returned to their domains, they were prohibited from taking their wives and their children with them. Furthermore, they had to defend their residences and accordingly, many samurai remained in Edo to maintain protection.¹¹ In addition to this, the downtown sector was also predominantly male, on account of the carpenters, masons and builders who had migrated to Edo unaccompanied by their families, to work on the many bridges and buildings which were under construction. Lastly, the large merchant houses preferred male to female store-keepers, particularly in the early years of the era, so that a tremendous number of male employees were called to Edo to work in their shops, especially from those areas from which these houses originated.

However, as Table 3.2 shows, the sex composition of the city drastically changed after 1700; the female population increased in comparison to the male. Any natural theory of demography which disregards migration cannot explain this change in the sex composition of the Edo population, even if the phenomena of *mabiki* -which is the custom of killing unwanted babies - was taken into consideration, since female rather than male babies were

Table 3.2 The population composition of Edo, 1721-1867: by sex and birthplace (in 000s)

Year	(1) Male	(2) Female	(3) Born in Edo	(4) Born elsewhere	(1) + (2)-(3)-(4) Error
1721	323	178	-	-	-
1734	338	196	-	-	-
1736	340	193	-	-	-
1743	316	185	-	-	-
1832	298	248	-	-	-
1843	291	269	386	162	12
1844	-	-	401	157	-
1854	294	280	430	141	3
1855	-	-	427	137	-
1860	-	-	425	137	-
1867	273	267	421	117	2

usually the victims of *mabiki*. Without a careful examination of the geographical movements of people from smaller castle towns to big cities and from towns to villages and vice versa, the urbanization and de-urbanization in Tokugawa Japan cannot be explained satisfactorily.

It appears to be a commonly held view even today among educated Japanese, including historians, that the population of Tokugawa Japan tended generally to be immobile, which implies that society was calm, quiet and stagnant. The Japanese believe that they were eventually aroused by Commodore Perry's four black ships. We can, however, point out a number of facts which are well accepted and provide enough evidence to suggest: that the society was remarkably dynamic.

First of all, the Tokugawa government was careful and scrupulous in the allocation of the clans in hereditary vassalage and gave to those traditionally outside of the Tokugawa group various domains of different sizes, according to their services and achievements. They were often transferred, especially in the early years of the regime, to a bigger or smaller domain when they were found to have done either meritorious or impeachable deeds. Many clans were abolished or demoted simply because their heads were 'mad' – those who were disliked by the central government may well have been diagnosed as 'mad'. As with modern government officials, clan chiefs moved from one domain to another by the order of the central government, but unlike them, they were accompanied by hundreds of their own samurai and their families.¹²

A small clan (defined as having domains of 10,000–50,000 *koku* each) had on average about 380 samurai in its hierarchy. In comparison, a medium-sized clan (with domains of 50,000–200,000 *koku*) had an average of 1,670 samurai in its ranks, while large clans (with 200,000 *koku* or more) had as many as 10,000 samurai each.¹³ The total number of transfers of rulers between the fiefs during the Tokugawa period reached 238 for small clans, 195 for the medium-sized clans and 14 for the largest clans.¹⁴ Therefore, it is estimated that: more than 550,000 samurai (and therefore more than 2 million people, if their family members are included) moved in this way. When the head of a clan moved, it happened sometimes that the people from the town who liked and respected him would also move to his new territory, although they need not (and legally speaking, should not) have done so. For example, when Todo Takatora was transferred from Iyo to Ise in 1608, many townspeople followed him in spite of the distance and formed Iyo-machi quarter in the midst of his new castle town.¹⁵

Secondly, 'the alternate attendance system' forced the heads of the clans to visit Edo frequently. Although the length and the frequency of the visits depended on such factors as the distance of the fief from Edo and the status of the clan – whether it was one of the loyal hereditary vassalages or not – a typical head of a clan was obliged to go and spend every alternate year in Edo. The system worked, in its strict form, for more than two hundred

years until it was relaxed in 1852 it produced every year, nearly 300 processions consisting of several hundred samurai arriving at or leaving Edo. These were regular annual events throughout the era. There was also an additional factor that servants preferred merchants to samurai as masters, hence servants for samurai were in short supply in the latter half of the seventeenth century. The long-term servants who could have been found in the first half of that century almost disappeared from the samurai sections in the latter half. It became more and more difficult to replace servants once they had returned to the villages. The shortage of servants created an increase in their wages, which resulted in general inflation. Moreover, when the samurai sections of towns contracted in this way, the business sectors were affected more or less proportionately, because the scale of business in 'the towns very much depended on the samurai's demand for those goods which were produced by the merchant sector. Since inflation weakened their purchasing power, the towns declined in prosperity and therefore in population.

Thirdly, merchants in the early years of the era were essentially transporters. Merchants from the Omi district in particular, known as Omi merchants, moved into the various castle towns and used them as a basis for a nationwide sales network. Prosperous agricultural areas, of which the Omi district was one, were located in the western region of Japan, while the centre of consumption, Edo, was in the Eastern region. Thus the transportation of goods between towns was a major industry. Another prosperous business was the dispatch of the revenue earned from selling the clans' own products to their Edo residences to cover their expenses there.

After having succeeded in selling goods in Edo, many merchants such as Mitsui and Konoike became money-brokers and developed an exchange system. They were then involved in reconstructing the financial position of various clans which were in a very poor state as a result of excessive borrowing. In this way, even when Tokugawa society was still enjoying a prosperous urban life, the foundations of the regime had become unstable. As merchants became more active and prosperous power began to slip into their hands from those of samurai, it was indeed to be expected that the administrators of many clans as well as those of the central government felt a growing sense of crisis.

At that time, like Britain, Japan had the custom of primogeniture. The second and third sons of samurai and farmers left their birth places to work in towns as servants, constructors, or day labourers. When the construction work in a particular town was completed, they moved to another town. Although this type of movement was prohibited by law, the clan government tacitly approved it. These men finally gravitated towards Edo, a city notorious for its frequent fires. Thanks to a large fire in 1658, followed by those in 1682, 1695, 1698, 1703, 1717 and many others, there was a constant need for construction work in Edo.

Osaka was also prosperous because it had become a major trading centre where most clans sold their wares in order to improve their financial positions. Clans were no longer groups of warriors but had been transformed into economic organizations that were very similar to the present-day Japanese general trading houses. Although certain kinds of businesses were relegated to the established merchants, the lower ranks of the samurai managed and operated their clan's business affairs. As the permanent employment of samurai was taken for granted, the clans could not decrease the number of samurai by dismissing them without reason, so they had to improve their financial positions by exploiting every opportunity for increasing the production of goods.

At first, they simply tried to promote the actual production of rice, but later they expended a great deal of effort on improving the conditions of production; for example, many clans reclaimed marshy land and expanded the area under cultivation. They also tried to increase the productivity of the land per acre by providing irrigation reservoirs and transportation facilities such as ports and canals. To complete these works, specialists were invited, if necessary, from other clans – even from very remote areas. After Osaka was established as a market and proved itself to be working well, the clans searched for other production possibilities. Each clan developed the production of goods which were indigenous to its domain; for example cotton, silk, paper, tobacco, sugar and salt were produced by particular clans and exchanged in Osaka. Innovations planned by clan governments led to the inauguration of many new industries. Moreover, by the end of the seventeenth century, it had become increasingly the case that the taxes imposed on the farmers were paid not in kind, but in the form of money. Farmers and peasants could, therefore, concentrate their effort on the production of those goods which were highest in productivity. Thus the producer's choice contributed to increasing the production of goods in each clan.¹⁶

Evidently, a system of taxation collected not in money but in the form of any other particular goods, say rice, is an irrational one. Nevertheless, clan and central governments kept it for a long time because they were obsessed with the idea that they would not be able to survive unless they had enough rice in reserve. This belief was not totally irrational because they could not import a large quantity of rice from foreign countries, for foreign trade was prohibited (or put under strict restriction) by the central government. This system of taxation in kind was finally challenged by commercial farmers who sold their products in cash to merchants to fulfil their rice-tax quota. The merchants used these products to buy rice from other farmers who could produce rice more profitably than other goods, while the original farmers now freed from the cultivation of rice could concentrate upon the production of a more profitable commodity, say, cotton. This method of production and payment of tax is far more efficient than

the simple system of direct payment in kind; both the farmer and the merchant are able to make some gain without the government losing any revenue and, in this way, a Pareto optimum will be established. Such a system was adopted, for example, in the advanced agricultural area near Okayama where cotton and rushes could be profitably produced.¹⁷

Nevertheless, there were a few clans who misjudged their circumstances and undertook inappropriate and regressive policies. The Matsuyama clan in the Iyo district was one of them. Iyo was a small district which was divided into eight fiefs which were ruled by different clans. Climatically, therefore, there was little difference between them. If one industry suited one fief, then it would have been appropriate for any of the other fiefs in the district. However, the Matsuyama government did nothing but make 'improvements' in the method of taxation, advocating saving and extolling the virtues of a frugal life. It drastically cut the scale of samurai salaries for the sake of saving and approved only a small amount of money for the merchants as subsidies for the proposed improvements in the production of Iyo-kasuri cloth. This contrasted greatly with the policies undertaken by the Uwajima, which held a neighbouring fief to the Matsuyama. The Uwajima clan promoted the production of goods such as wax, paper, tea, indigo, dried fish, seaweed and copper, although the clan did make a large reduction in the salaries of the samurai as well. Therefore, it is not surprising to find that in Table 3.3, the population decreased in the depressed domain of Matsuyama, while it increased in other places in Iyo.¹⁸ Although Uwajima is now only a minor town in Japan, it was held by a powerful clan in the Tokugawa period which accumulated enormous wealth in this way. Thus it can be seen that the de-urbanization in the second phase of the Tokugawa period cannot entirely be explained by natural forces such as birth and death, as is illustrated by the case of Matsuyama. Indeed, as Marx wrote, 'an abstract law of population exists for plants and animals only, and only in so far as man has not interfered with them'.¹⁹

Once producers were able to make a choice, agriculture became commercialised. Many agricultural products were used as raw materials for manufactured products – for example, cotton was woven into cotton cloth. Castle towns were not suitable places in those days for the production of

Table 3.3 Population of Iyo clans, 1721–1846 (000s)

Year	1721	1750	1756	1786	1798	1804	1822	1828	1834	1846
Matsuyama	172	159	161	160	162	158	166	169	169	169
The other Iyo clans	332	341	348	355	369	372	398	406	417	431

Source: Tanaka (1973).

cotton cloth; it could be produced more cheaply in villages by farmers' wives and daughters in the intervals between agricultural work. In this way village or cottage industries were set up in many places, and as villages became richer they attracted and accommodated more people. There was a steady exodus from castle towns into villages but individual movements were not of a sufficient magnitude to be recorded; in fact, as villages were so numerous, they were able to absorb the newcomers and still retain the qualities of the village. The Tokugawa government also supported this 'return- to -village' movement and issued regulations to that effect in 1790 and 1843.

The establishment of systematic coastal shipping services – the Kitamae ships – in 1672 gave the coastal districts a connection with Osaka via the western cape of Honshu. It had a great economic impact upon these districts for it not only enabled many ports on the Japan Sea coast such as Sakata, Niigata, Tsuruga, Yonago to flourish, but it also stimulated various places along the Inland Sea coast-line to improve their harbours. Compared with the Mediterranean and the Baltic Sea, the Japanese Inland Sea had been too limited in scale to be a trading centre for heterogeneous goods.²⁰ Now its sphere was expanded to include the northern regions which enjoyed a different climate, so that the variety of goods that could be brought to the market in Osaka was greatly increased. Osaka was thus praised as 'the mess hall' for the whole nation. Commodities produced in the warmer regions along the coast-line of the Inland Sea were bought at Osaka and taken by Kitamae ships back to the northern regions, while the products from the north coast sold at Osaka were sent on further to Edo by Higaki ships for final consumption. The whole or part of the proceeds of the sale of a clan's produce were collected by its officials who were stationed in Osaka and then sent to the clan's Edo residence to cover expenses there. In this way, trade between the clans flourished, creating transactions between Edo and Osaka *pari passu* and also local industries in the western part of Japan were invigorated.

Japan had two types of merchants, the first in castle towns and the other in villages. The former received a number of privileges from the clan government: for example, they were exempted from paying taxes to it: They were allowed to form guilds (Kabu-nakama) which gave them a monopoly of the right to trade in a town. As has been mentioned before, some of them had enough wealth to lend money to the clans²¹ and by virtue of this involvement in a clan's financial affairs, they were given appointments as financial advisers to particular clans. Therefore they were allied with the samurai and were often confronted by the village merchants who served the village industries as capitalists, providing the farmers with money for their industrial work.

In many respects, the town merchants dominated the village merchants. However, the village merchants were themselves capitalists and in some

ways they were in a more advantageous position than the merchants in the castle towns, because they were able to control the industries to earn for themselves profits from production. These two distinct types of merchants began to coexist in the period around 1685–1735; prior to this, the economy was greatly dominated by the guild merchants. A clear trend can be seen throughout the rest of the Tokugawa period whereby local merchants were becoming more powerful than the town merchants since guilds formed by the latter were disbanded in some clans and the foundations for a competitive market were created. If the Meiji Revolution had taken place 50 years later, it is likely that the economy which would have been established after the revolution would have been of a completely different character; it might have been a capitalist economy from below. Fortunately or unfortunately, however, the revolt took place in the middle of the transition period and resulted in an economy of a unique character – a ‘dual’ economy,

The local historiography of various districts of Japan shows that the economy after 1700 was quite different in character from that of the seventeenth century. For example, in 1738, a weaver travelling from Nishijin in Kyoto to Kiryu (beyond Edo) transmitted the skill of weaving Nishijin brocade to the eastern parts of Japan. Afterwards, the Kiryu cloth became popular and was brought back to Kyoto because it was cheaper than the product from Nishijin. The demand thus created for the Kiryu cloth stimulated greatly the traditional weaving industries in the neighbourhood of Kiryu. In the eighteenth century, Ashikaga, Sano and other towns in the area were known as significant suppliers of cotton and silk cloths to Edo. The merchants in the castle towns as well as those in Edo exploited these suppliers as much as possible. Between them various trade disputes arose concerning, for example, the violation of the distribution routes by village merchants. A peasant uprising clearly insisted that the monopolistic regime of the privileged town merchants should be removed and that complete freedom of the trade should be given to both merchants and farmers. Similarly, in Wakayama near Osaka, the town merchants complained to the clan government in 1738 that the trade in the towns was declining because of the rapid economic growth in the villages. In fact, the production of soya bean sauce in Yuasa, vinegar in Kokawa and lacquer-ware in Kuroe were all expanded greatly from the middle of the eighteenth century onwards, although their origins can be traced back to much earlier periods.

For such reasons many in the central government felt that the regime would collapse financially sooner or later. The Tokugawa regime had been founded on the basis of a balance of power between a multitude of mutually mistrusting feudal lords who spent too much on defence. Although weapons were primitive, the manpower that they had in reserve was huge. There was no economic rationale for the samurai’s high salaries; they were paid well only because they ranked higher than any one else in the caste

Table 3.4 Peasant uprisings

Period	Total no.	No. per year
1590–1740	734	4.86
1741–1840	1459	14.59
1841–1867	493	18.26

Source: Ando (1975:33).

system which had been initiated under Hideyoshi and was continued by the Tokugawa.

In the three major reforms which were proclaimed in the Kyoho (1716–35), Kansei (1789–1800) and Tenpo (1830–43) periods by the central government, frugal life-styles were emphasized for the general populace as well as the samurai and strict discipline was enforced upon officialdom. The government reorganized the administrative system for tax collection and these efforts produced some noticeable improvements in the financial position of the government. The clan governments of the various domains followed a more or less similar line. As merchants in the castle towns, who had been exempted from taxes for a long time, began to lose their privileges from around the year 1721, taxes from them grew at a considerable rate, so that they lost some of the benefits from living in a castle town and were thus given an incentive to return to the villages. Also the number of peasant revolts increased sharply (see Table 3.4) from around the time when the Kyoho reform was carried out.

IV

Towards the end of the Tokugawa era, various clans as well as the central governments established new Western style workshops. The Saga clan, which was asked by the Tokugawa to be responsible for Nagasaki – giving it an advantage, compared with other clans, of easier access to Western technology – was able to produce about 300 cannons in the last two decades of the Tokugawa shogunate. Productivity was developed to a level where 39 cannons were produced in 1866. The same clan had a unit to produce steam engines, and in 1865 it succeeded in launching steamships. It also, together with an Englishman born in Scotland, T. B. Glover, ran Takashima colliery using imported methods. Similarly, the Satsuma clan started a wool-spinning workshop in 1819, and produced cannons, guns, medicines and glass in 1846. The methods of production of these goods were greatly improved in 1851. In addition, the clan had numerous manufactories which produced such consumption goods as sugar, pepper, vegetable oil, fur, glue and paper. It established shipyards and modern cotton mills in

Kagoshima. Other clans such as Mito, Choshu and Tosa also managed modern shipyards and other production facilities.²² Of course, the central government was not behind with this kind of entrepreneurship.

However, although the domains and the central authorities individually and in different ways introduced new forms of machinery, it was impossible for Japan to become a country capable of resisting the Western powers, as long as Japan remained split up into around three hundred domains. The situation markedly resembled that of Germany in the 1840s observed by Friedrich List. The first thing to be achieved was unification. The nationalists at the end of the Tokugawa period who engineered the Meiji Revolution were not subject to the influence of List's ideas, but they too, like List, knew intuitively that unification gave a nation power, and that power could be used as a springboard in order to build a strong economy. Taking the view that it was only the emperor that could act as the figure-head of unification, they sought to bring about a revolution which would restore the emperor to power. The unification of Germany was achieved in 1871, but that of Japan came a little earlier, in 1868. In both of these countries after unification the economy was developed under the strong leadership of the central government, and capitalism from above was established.

After the revolution, the new central government abolished the clans and the caste system within a few years. Although most samurai lost all feudal privileges and many were unemployed, many others became officials of the new government. Moreover, most of the feudal lords remained as the governors of the newly-established prefectures. Many of the factories and other organizations such as schools which had been owned by clans were taken over by the new government, whilst others which were found inefficient went down with the clans. Those productive units which survived the revolution played an important role, as state-owned factories, in the early days of the Meiji era. For example, the Sakai cotton mill established by the Satsuma clan just after the revolution was a modern factory equipped with completely western style machines. It was taken over by the new government and played an important role in promoting the new western method of production. It was later privatized during a governmental financial crisis. A private company, which bought it later, developed into one of the major producers of the Japanese textile industry when Japan became dominant in the world market. Similarly, the Osaka Ordnance Works, a major state factory in pre-war Japan, originated from a Tokugawa arsenal; in the same way, other munitions, factories and shipyards of the Imperial Army and Navy were originally established as Tokugawa or feudal clan government factories.

The state-industry sector thus established by the Meiji government was superior to independent factories (i.e. those of private enterprises) in productivity and in the methods of production utilized. Throughout the Meiji period there was a substantial disparity in mechanization in terms of the

average horsepower per worker between state and independent factories. Because the government regarded the state sector as the core of Japanese industry, it was often given favourable treatment in the course of its development. Of course, many of the state factories were subsequently sold into private hands, but the government was successful in modifying and adapting the concept of 'state-industry' to the new environment. Then those zaibatsu (i.e. big financial combines) which bought state-factories collaborated with the government, and, therefore, the national interest was always secured. In this way, the spirit of state industry survived the financial crisis. A new concept of 'state-guided industry', i.e. a strong private industrial sector backed-up by the political power of the state was formed so as to act as an industrial arm of the government, in the new environment.

The new alliance implicitly formed by the Meiji statesmen and the zaibatsu businessmen (the latter being often called *seisho*, i.e. businessmen with political interests) was nothing other than a revival of the combination of the feudal lords and the privileged merchants who had been dominant throughout the first 100 years of the Tokugawa era. Moreover, Meiji statesmen and business elite were, as will be seen below, recruited from the same group of men. The alliance occupied the upper tier of the nation's dual economy. Apart from such infrastructural sectors as railway, telegraph and lighthouse management, the government was concerned with operating various mines, developing the textile industries and establishing the glass, brick, cement and steel industries. By leaving such important sections of the nation's economy to the state-industry sector, local merchants who had been increasing their significance in the second period of the Tokugawa era, while remaining highly significant at local or provincial level, mostly failed to achieve national prestige.

Meiji Japan was a samurai state, despite the fact that the class which was treated most unfavourably by the Meiji government was the samurai class. In fact, samurai lost everything, not only feudal status but also the honour of being a samurai. However, because of this, they acquired a freedom which they had not been provided with before. As they were dismissed from feudal service, they had to find a place where they could work. Therefore, they could occupy the strategically important positions in the new social and economic machinery, while the local merchants adhered to running their own businesses in a conventional way using the traditional methods of production. Innovations occurred mainly in the spheres of production where the state-industry sector was dominant, whereas there was scarcely a significant improvement in productivity in the local-industry sector. Naturally, a big productivity gap developed between the two sectors and never vanished. The dual structure persisted, and the local sector was destined to serve as the lower tier of the productivity hierarchy. Thus the revolution was a kind of 'restoration' which brought the economy of 1870 back to the stage of 1680-90 at which since 'the samurai

sector still held hegemony, the castle town economy was as prosperous as ever'.

Some of the state factories were, however, not profitable. They might have been too ambitious and too large; they might have spread their interests too widely; they might have pursued the 'national interest', rather than their own profit; or they might have been too loose in management and the level of wages might have been ridiculously high. In any case a number of state factories were sold to private enterprises in the period 1874–96,²³ but because of the lack of relevant statistics, the average wage rate of the state-factories cannot be compared numerically with that of the private factories for these years. It is only between 1905 and 1918 that the necessary statistics are obtainable. For these years, taking the average wage rate of the state factories of each year as the base, i.e. 100, the wage rates of the private factories for the years 1905–18 are shown in Table 3.5. From the table it is easily seen: (a) that the wage disparities were generally smaller for female workers than those for male workers, (b) that they were rapidly diminishing during the period, and (c) that they completely disappeared for both male and female workers at the end of the period.

By this period, the state-factory sector had already seen its best years and was about to be replaced by the private big-factory sector. In 1909 the private factories, large, medium-sized and small, did not differ much in the wages they paid to workers; in the same year the average wages of male (or female) workers of private large factories (defined as factories with over 500 employees) were as high as 76 per cent (or 90 per cent for female) of the corresponding wages of the state factories, whilst the small factories with 5–49 workers paid wages at the rate of 66 per cent (73 per cent for female) of the state factories. Therefore, these male and female wages were as high as 87 per cent and 81 per cent of the corresponding wages of the private large factories. In 1914, the private large factories almost caught up with the state factories; that is to say, the former paid 98 per cent of the latter's wages to male workers and 111 per cent to female workers. Furthermore,

Table 3.5 Private/state-sector wage disparities (wage per worker in the private-factory sector in terms of the wage per worker in the state-factory sector of the corresponding year in %)*

Year	1905	1906	1907	1908	1909	1910	1911	1912	1913	1914	1915	1916	1917	1918
male	75	77	79	81	72	69	70	74	82	84	80*	80*	86*	103*
female	87	87	92	92	80	92	89	90	93	93	84*	88*	97*	123*

Note

* indicates that workers of 14 years old are excluded, otherwise they are included in calculating the wage rate of private factories.

Source: *Meiji-Taisho Kokusei Soran* (1927), Tables 593 and 594 .

the figures presented in the *Kojo Tokei Hyo* (Statistical Tables of Factories) confirm that wage disparities were widening within the private sector in the period 1909–1914. This was indeed the period when the state-factory sector in the strict sense was being transformed in to a new ‘state-guided’ sector, that is a sector composed of large factories under the influence of the state, regardless of whether they were in the hands of the state or of private persons.

These observations are very much consistent with Japanese economists’ general view that wage disparities between large and small factories greatly increased after 1920. There are also reasons which enable us to believe that during the best years of the state factories, which were long before 1909, such wage disparities were not remarkable between large and small factories within the private sector, though satisfactory statistics to support this are difficult to find. In those days the major division of the Japanese economy was between the state and private sectors. By selling a considerable number of state factories, the government established a connection with influential private businessmen and thenceforth nurtured them; most of them later grew up to form zaibatsu. When this cooperation between the state and the ‘people’ had developed sufficiently, the dualism of the large and small factories became an important characteristic of the Japanese economy. It was nothing other than a revival or reproduction of the state (or zaibatsu)/private-small-sector dualism whose origin can be traced back to the privileged/local-merchant dualism in Tokugawa Japan.

Whatever the case, the government made a point of it, and for that reason the existence of very substantial wage differentials between the élite enterprises in receipt of some form of protection – including those which received protection that can be said to be criminal in nature – and the medium and small-scale private enterprises which received no such protection came to be accepted as the natural consequence of an economy of the ‘capitalism from above’ type strongly directed towards growth. The nature of this disease made it difficult to eradicate, as it existed as the reverse face of economic growth. As we shall see in later chapters, right through from 1920 to the mid-1980s Japan continued to be unable to do anything about this symptom. Even before that, it is clear from statistical analysis of the period 1909–1914 that these years marked the statistical incubation period, as it were, of the dual structure sickness. Analysis of such incubation periods is discussed in Chapter 6 which deals with wage differentials in the a dual economy on the basis of survey results for the period 1930–1960 and estimates for the years 1958–1985.

The first important achievement of the Meiji government after the revolution was the abolition of the clans and the caste system. To accomplish this the central government issued bonds to samurai in exchange for their feudal stipends. Because of this, those who had received a high stipend

in the Tokugawa period, such as clan lords, all became moneyed men. Combining their funds some of them established banks and some others textile, railway and insurance companies. Although they were not entirely successful in their new businesses, it is true that they (ex-clan lords) and the central government itself played the role of major suppliers of financial capital in the early stage of the Meiji economy. Other lower-class samurai also received bonds; they too started enterprises with these as capital though most of them failed in their ventures.

Apart from ex-clan lords who were raised to the newly established peerage, other samurai had to find new jobs for themselves. It was very natural that many of them became army or navy officers or soldiers, or policemen, but many others found a place in the central or local governments. Because they were relatively well educated they had a comparative advantage over those who came from farmer or merchant stock in managing a modern-style company. In fact, H. Mannari estimates that the proportion of ex-samurai in the business élite during the 1880s was around 23 per cent, while K. Ishikawa found that 48 per cent of 422 very successful Meiji businessmen born before 1869 claimed samurai origins.²⁴ In view of the fact that only 5.5 per cent of the total population in 1872 were ex-samurai, these figures, both Mannari's and Ishikawa's, must be regarded as very high. Thus we may consider that the samurai class was a major source of entrepreneurship in the Meiji period. Below we report the results of two investigations which seem not only to confirm the Mannari-Ishikawa observations but also bring to notice certain new aspects of the structure of the Meiji business world.

The first investigation is based on a book entitled *Nippon Zaikai Jinbutsu Retsuden* (A Series of Biographies of Great Figures in Japanese Business, Tokyo, Aoshio Publishers, Vol.1, 1963, and Vol.2, 1964), which contains the biographies of 200 successful entrepreneurs. Excluding the 23 who were too young to establish themselves as reputable entrepreneurs during the Meiji-Taisho period, 1868–1926, the remaining 177 are grouped into 8 groups: Group A consists of those who were already known as businessmen before the Meiji Revolution, 1867–68; group B includes those who stood out, for the first time, as pre-eminent businessmen during the period 1868–82; similarly those of the vintage of 1883–90 are grouped as C and those of 1891–97, 1898–1905, 1906–12, 1913–20 and 1921–26 as D, E, F, G and H respectively. The numbers of the members of these eight groups A-H are 11, 12, 9, 21, 18, 37, 24, 25 respectively.

Each group is divided into two subgroups: the first includes those members of the group who came from Satsuma, Choshu, Tosa or Hizen (SCTH) regions which had joined forces in the Meiji Revolution, and the second comprises those who came from elsewhere. Each subgroup is then further divided first according to whether they were samurai, or quasi-samurai, or non-samurai and secondly, according to whether they had

received higher, secondary or only primary education. At the time of the Meiji Revolution there were many young men who had not obtained samurai status by birth but had the same samurai spirit; they joined the revolution and were regarded as quasi-samurai by their comrades. Others of quasi-samurai status included rōnin (masterless samurai), goshi (rural samurai), doctors and scholars. All these are classified as quasi-samurai; it was an important category at a critical period of time – the Meiji Revolution – but faded away quickly after peace had been restored again. It has to be noted that classifications into higher, secondary and primary education were arbitrary and vague, especially in the early years of the Meiji period. In those days the formal education system had not yet been established and we classify those who studied Western or Chinese disciplines privately as having received higher or secondary education, respectively. Also, irrespective of whether a university graduate or not, all those who claimed to have studied abroad are listed as having received higher education if they were educated before the modern higher education system was established in Japan. For later years the classification is much easier and more rigorous; graduates from agricultural, engineering and commercial colleges as well as those from state and private universities are all listed as having received higher education, while those graduated from middle and high schools are categorized as only having secondary education.

Table 3.6 gives the results of these classifications. We may assume that all the persons of group A were fully active until the end of the fifth period, 1898–1905; but that only half of them worked in the sixth period, 1906–12 and that they were all retired from business afterwards. Group A, therefore, appears with only half their weighting in the sixth period, whereas it has the full weight before the sixth and zero weighting in the seventh and afterwards. Similarly we assume that the group B has weight 1 from its appearance until the sixth period, half weighting in the seventh and 0 afterwards. In the same way, group C keeps weight 1 from the third period until it has only half weighting in the eighth period. All other groups D, E, H have full weighting in every remaining period from their first appearance to the end (i.e. the eighth). Hence the number of the sample leading businessmen for each period is:

11 for period I (1860–67)	23 for Period II (1868–82)
32 for period III (1883–90)	54 for period IV (1891–97)
72 for period V (1898–1905)	103.5 for period VI (1906–12)
115 for period VII (1913–20)	149.5 for period VIII (1921–26)

Table 3.6 Classification of selected businessmen in Meiji-Taishō Japan

Group	subgroup	Classification by status			Classification by education			Total
		samurai	quasi-samurai	non-samurai	higher	secondary	primary	
A	A1	0	0	0	0	0	0	11
	A2	0	2	9	0	1	10	
B	B1	4	3	0	2	2	3	12
	B2	2	2	1	1	3	1	
C	C1	1	0	0	0	1	0	9
	C2	4	1	3	2	2	4	
D	D1	4	1	0	4	1	0	21
	D2	7	4	5	4	7	5	
E	E1	4	0	0	3	1	0	19
	E2	5	4	6	7	4	4	
F	F1	2	0	2	2	2	0	36
	F2	11	6	15	22	4	6	
G	G1	1	1	1	1	1	1	24
	G2	6	3	12	16	3	2	
H	H1	2	0	1	2	0	1	45
	H2	9	5	28	30	7	5	

Notes

Subgroups with numerals 1 and 2 consist of those members of the group who were born in Satsuma, Choshu, Tosa and Hizen and those who were born elsewhere, respectively.

The members of group A were already known as businessmen before 1868. For the remaining seven groups the periods during which the members, for the first time, stood out as pre-eminent businessmen are 1868–82 for B, 1883–90 for C, 1891–97 for D, 1898–1905 for E, 1906–12 for F, 1913–20 for G and 1921–26 for H.

Source: *Nippon Zaikai Jinbutsu Retsuden* (Vol. 1, 1963, and Vol. 2, 1964).

Therefore, from Table 3.7 we can see (1) the number of businessmen who came from the Satsuma, Choshu, Tosa or Hizen (SCTH) regions; (2) the total number of samurai businessmen regardless of their birthplaces, and (3) the number of businessmen who received higher education. These results are shown as percentages too. Selecting only those who were born before 1869 from the names collected in *Nippon Zaikai Jinbutsu Retsuden* (NZJR), we find that 44 per cent of them had a pedigree of samurai origin; this is comparable with Ishikawa's 48 per cent. If we add quasi-samurai to these, our figure would easily reach 60 per cent. We find from the same NZJR that most of the samurai business-élite (about 84 per cent of them) worked in the investment-goods sector or the banking sector. The proportion of samurai in these two sectors was found to be 52 per cent and 48 per cent respectively, while that of the consumption-goods sector was only 21 per cent.

Table 3.7 shows that people from the Satsuma, Choshu, Tosa and Hizen clans – which were the main forces of the Meiji Revolution – received

Table 3.7 The business élite of Meiji-Taishō Japan

Period	I 1860–67	II 1868–82	II 1883–90	IV 1891–97	V 1898–1905	VI 1906–12	VII 1913–20	VIII 1921–26
The no. of businessmen:								
who came from the Satsuma–Choshu–Tosa–Hizen area	0	7(30)	8(25)	13(24)	17(24)	21(20)	22.5(20)	21.5(14)
who had samurai origin	0	6(26)	10(31)	22(41)	31(43)	44(43)	48(42)	53.5(36)
who had received higher education	0	3(13)	5(16)	13(24)	23(32)	47(45)	62.5(54)	92(62)
Total no.	11	23	32	54	72	103.5	115	149.5

Note

The figures within brackets represent, in percentage terms, the ratio of the figure preceding it to the total number of businessman at the bottom of the table.

Source: Table 3.6 above.

advantages and privileges under the new government. It is not surprising that they were given a big share in the business world. All figures over 30 per cent must be said to be fairly high, because the population of the SCTH area was, in the Tokugawa–Meiji period, about 18 per cent of the total population and these areas are very far from Tokyo and Osaka, particularly from Tokyo. It can be seen that their share reached a maximum in the second period, 1868–82, and quickly diminished afterwards. This means that the SCTH group could not have been powerful in the business world through the second half of the Meiji period and in the Taisho period, despite the voices accusing the SCTH group of forming a clique in the political world, officialdom and, especially, in the army and navy. The increase in the percentage of samurai in the business-élite is more remarkable. Before the revolution, although there were many samurai who were involved in business and trade as officials of their clans, there were no samurai who were classified as businessmen; also there were a number of quasi-samurai who were not full-time businessmen but were actively involved in entrepreneurial activities.²⁵ In the first period after the revolution (i.e. our period II), however, the percentage of samurai in the business-élite had already grown to 26 per cent, which is very close to Mannari's estimate of 23 per cent. It reached a maximum of 43 per cent in period V, which is a very high figure in view of the fact that only a small percentage, 5 or 6 per cent, of the total population could claim themselves to be samurai. The number stayed above 40 per cent until 1920, but diminished rapidly afterwards.

There was, however, a third group, the group of élite businessmen with higher education. Its percentage among the total business élite was very

much lower than the samurai's up to period V, but overtook it in period VI. Its proportion has increased constantly since then, so that it would now be very near to 100 per cent. Thus membership of the élite of Japan's business world was transferred from samurai to university graduates, and people in Japan began to consider the latter as their new samurai. This status was not given by birth, unlike the genuine samurai of the Tokugawa era, but was obtained by effort and ability. The 'new samurai' group was more powerful than the old, which was ranked according to pedigree. Therefore, it has been able to monopolize almost all of the important positions of the financial and business world throughout the Showa period (1926–89). As will be seen later in Chapter 4, within the group there has been a shift from the graduates of private universities to those of state (or imperial) universities, but there has not been any other group which could challenge the university graduates.

As we shall see in the same chapter, after the War the zaibatsu families were purged from the economic world by order of the Occupation authorities. Not only did they cease being able to be involved directly in the running of enterprises, but they also had to dispose of their shareholdings. The vacuum in shareholdings thus produced was filled by friendly companies buying up the shares formerly held by the old zaibatsu families. Since this kind of institutional shareholding was formed in order to create a system of mutual dependence, the managers of each company came to be supported by the managers of the friendly companies who represented these institutional shareholdings. Thus a manager in postwar Japan ceased to be an employee working under a shareholding family, becoming instead a king wielding sovereignty over the company. This established the managerial revolution in Japan.

The sovereign rights of the manager are dependent on the friendly manager's continuing to hold shares. That shareholding continues even when it becomes less than desirable for it to continue. Why is this? It is because of feelings of mutual friendship between the current managers. In many cases this friendship is the result of the two enterprises belonging to the same enterprise grouping, or, alternatively, to the two men having been friends during their student days. The fact that the great majority of Japanese managers are university graduates has already been pointed out, and they tend to form factions based on which university they have graduated from, and those factions then constitute the basis for the enterprise groupings.

The second investigation was made by using *Jinji Koshin Roku* (Who's Who in Japan).²⁶ It listed the names of notables of various circles in the Kyoto–Osaka–Kobe (KOK) area as well as for Tokyo–Yokohama (TY). From the book we extracted 1447 businessmen's names from the TY area and 407 from the KOK area. We excluded those names working for small shops but included auditors of companies and those persons who held minor man-

agement positions in big companies and factories. The proportion of samurai among these selected businessmen was 36 per cent for the TY area and 23 per cent for the KOK. These figures may be increased to 38 per cent and 25 per cent, respectively, if the auditors were excluded. It can be noted that there is a substantial discrepancy between these figures for the two areas. This fact would explain the tendency of scholars like Takao Tsuchiya, who is inclined to emphasize the importance of the Tokyo business world in the Japanese economy, to insist that the business world of Meiji Japan was very much dominated by samurai, while others, such as Mataji Miyamoto, lay stress on the significance of Osaka merchants as they have mainly worked on historical materials from the Osaka area. Also we find from using this book that if figures from both the TY and KOK areas are consolidated, the proportion of samurai is 77 per cent for statesmen and government officials, 86 per cent for leaders and senior management of state enterprises, 41 per cent for Diet members, 75 per cent for scholars in science, technology and agriculture, and 50 per cent for scholars in social studies, humanities and other disciplines. From this evidence we can conclude that Meiji Japan was a samurai-state. Although 94–95 per cent of the total population were non-samurai they had only a disproportionately small share in every sector of the society. It was very far from a fair society.

Finally, using the same book, *Jinji Koshin Roku*, an investigation of mixed marriages between samurai and non-samurai was carried out. The results are given in Table 3.8. The men who were born in the years 1838–42 were at least 25–26 years old at the time of the Meiji Revolution, so that almost all of them would have been married before 1868. The figures for the

Table 3.8 Mixed marriages between samurai and non-samurai*

Husband's year of birth	1838	1843	1848	1853	1858	1863	1868	1873	Total no. of husbands
	1842	1847	1852	1857	1862	1867	1872	1877	
The % of: samurai husbands having non-samurai wives	28	35	33	24	28	32	35	37	1,558
The % of: non-samurai husbands having samurai wives	14	13	20	22	25	27	26	21	1,585

Note

* The Tokyo–Yokohama region only.

Source: *Jinji Koshinsha* (1908).

husbands born in 1838–42 show that mixed marriages were already achieving high rates at the end-of the Tokugawa period. At least one out of four samurai husbands had non-samurai wives. The figure of 14 per cent as the rate of mixed marriages for the non-samurai husbands can be considered to be very high because as those of samurai pedigree accounted for only 5 or 6 per cent of the total population, so the percentage of samurai daughters was similarly as low as 5–6 per cent. Table 3.8 shows that there was a considerable upward trend in the rate of mixed marriage for both samurai and non-samurai husbands. Furthermore the figures for periods 1843–47 and 1848–52 suggest that there was a mixed marriage boom for samurai husbands just before and after the Meiji Revolution. The caste-system which rigorously prevailed throughout most of the Tokugawa era started to collapse at its end and was quickly brought to an end in the Meiji period.

V

It has been seen in Section III that village industries were emerging and developing in the second period of the Tokugawa era and the people responded to this economic growth by moving from castle towns to villages. The traditional Tokugawa economy based on commercial and industrial activities in the castle towns for the samurai was in danger when faced by competition from new challengers, village industries. The Meiji revolutionaries were the saviours of the samurai class in the sense that they revived, reconstructed and modernized the dying economy into a new dual-structured one with the government and private sectors in the upper and lower tiers, respectively. Also, as has been seen in Section IV, organizations belonging to the upper sector were dominated by samurai or 'new samurai', and those working in the lower sector were segregated from those in the upper sector by the wage disparities between them continuing to expand after Meiji. Except for the unsuccessful military coups which happened in the 1930s, no resistance, not to mention revolution, was attempted against the regime, either by the bourgeoisie or by socialists, until its final collapse in 1945.

After the 1945 surrender to the Allies this regime was entirely destroyed by the GHQ of the Allied Forces which occupied Japan. The defeated Imperial Army and Navy were completely disbanded and Japan was prohibited from building up any new military forces. The zaibatsu, which were considered as the economic weapons of fanatical militarism and ultranationalism in the invasion of China and other Asian countries, were broken up into their constituent parts and a heavy property tax was levied on rich men as well as the Imperial family. A thorough-going land reform was carried out and workers were encouraged to form trade unions. Moreover, the Emperor denied his divinity in which people had believed until the end of the war. He became a symbol of the nation, and the new

constitution confirmed that sovereignty resided in the people, rather than the Emperor. These reforms were honestly and strictly carried out under the supervision of the GHQ; the surrender brought about the same effects as might be produced by a genuine bourgeois revolution.

It has to be remembered that this was a 'revolution' procured by an army of occupation, and not by the people of the nation. As time elapsed the attitude of the United States was reversed; she soon preferred a strong Japan to a peaceful Japan. When this was observed, Japan quickly responded and swung to the right. Although the zaibatsu families could not restore the position they had held before the war, the zaibatsu enterprises themselves rebuilt many of their links and huge monetary and industrial combines have grown up again. Furthermore these enterprises spoil the results of the land reform by buying up many plots of land on the market and becoming huge landowners. By the 1970s and afterwards trade unions had become almost toothless and powerless again. There is evidence that many Japanese people would probably prefer a more sacred, heavenly Imperial monarch. Much of the pre-war dualism still prevails and will continue to do so. Even now, as late as 1998, Japanese society and economy have not yet been fully democratized to the extent hoped for in 1945.

One may say that we have at last obtained a developed non-occidental national economy which, although broadly classified as a 'capitalist' economy, varies greatly from the stylized free enterprise system, yet is still easily compared with the Western economies, at least in physical productivity. We have here one example of the transformation from feudalism into 'capitalism'. The possibility of many different types of transformation, depending on the combination of various historical factors, suggests the existence of a variety of capitalist economies. Plural types of transformation must result in the economics of 'capitalism' also being of a plural nature.

Japan skilfully adapted the reforms ordered by the GHQ at the time of defeat, devised an extremely efficient economic system, and put it into practice. As the so-called Japan Inc., this system for a time alarmed the rest of the world. It embodied extremely skilful organizational innovation. While the Occupational reforms had the best intentions of Westernizing Japan, they were policies that at the same time aimed to weaken Japan in order to make it safer. For a time it looked as though this attempt at weakening Japan had been a failure. However, as we shall see in later chapters, the process of weakening did become apparent, but with a long time lag.

The postwar education initiated by GHQ's directives was an education that sought to eradicate from Japanese society the samurai, as the ideal embodiment of the laity who would adhere to the collectivist ethical rules of Japanese Confucianism, and eschew extravagance, following the simple lifestyle upheld not just by Japanese in olden times, but by Westerners as well. School education in the postwar years rapidly ceased to have any connection with Confucianism. Under these circumstances, it became almost

impossible for children to be educated at home in a Confucian manner. The children plainly reacted in a disapproving way, and Japanese who experienced this postwar education were brought up to be anti-Confucian. Initially their resistance was not apparent. Since the generation above them had been more or less brought up as samurai, they avoided friction except where there was no choice, and attempted to continue to live their lives in cooperation with their seniors. From around 1990, however, when the first generation to have been totally educated under the new postwar system turned fifty, the situation has changed dramatically.

While there are still older people actively working in society who remember the older Japan, most of them have now been exposed to the new education from part way through, for example from the first year of middle school, and Japan has entered an era in which the Emperor, the Prime Minister, the Minister of Education and people as a whole have received this kind of mixed education. They have gained little understanding of what Confucian behaviour is, and have, moreover, received a highly imperfect Western-style education premised on a raft of misunderstandings, so they have not been able to understand the true Western ethos either. They have come to believe that Westerners are materialistic, pleasure-loving and greedy, and that it is now possible economically for Japanese to live in the same way. What is the harm in greed, they ask. Given the size of Japan's GNP, and the level of GNP per head, it seems, if anything, a mistake *not* to pursue such a hedonistic lifestyle. Saving is a vice. Japan has thus rushed into a world where virtue has become vice and vice versa. If we see Occupation policy as a policy of punishing Japan, we should probably say that these policies have at last had their intended effect. In Japan it is this sudden change in morality that has preceded any collapse in the economy. At the end of the War I believed that as long as our moral backbone held firm, recovery of the economy was only a matter of time, but young Japanese today have to confront the opposite problem of how to restore morality in the face of more money than they need, and this is a far graver problem than the one that we had to confront.

4

The Japanese Financial System: its Solidity and Vulnerability

I

Many enterprises in the modern capitalistic economy are joint stock companies. There can be considered to be four types of these. The first kind is a company consisting only on shareholders who have no intention whatsoever of letting go of the shares that they possess. Let us call that kind of shareholder a lifetime shareholder or a stable shareholder. Since at the time the enterprise was established only those who approved of its establishment and operation invested in it and became shareholders, they were all stable shareholders who anticipated keeping their shares throughout their lives. Let us call this kind of company a 'type A' enterprise. When such an enterprise wishes to increase its capital, it decides on the total amount it wants to increase, and allocates this amount between the stable shareholders. Some of these shareholders may be unable to go along with this increased allocation, and in this case the amount of their shareholding will not increase. This does not mean a proportional increase in the number of shares held by the remaining shareholders. However, even after the increase in capital all the shares still remain completely in the hands of stable shareholders. On some occasions, however, it may be that one of these shareholders is unable to continue as a stable shareholder. In that case there arises the problem of what to do with the shares that are being renounced. When the shares can all be taken up by the existing stable shareholders, the enterprise remains of the A type. Where they cannot be so absorbed, part or all of the shares which are being disposed of end up in the hands of those other than the current stable shareholders. These new shareholders may not necessarily be concerned with the operation of the enterprise over the long term. They may well soon sell their shares to someone else, cutting their connection with the enterprise. They are likely to be shareholders who will resell their shares if they think that switching their shareholding to another enterprise is more profitable than staying with the same one, that is, they are unstable shareholders. We thus have an

enterprise whose shareholders consist not only of stable shareholders but also of unstable ones as well. It certainly does not mean, however, that the presence of unstable shareholders is bound to make the process of decision-making in the enterprise unstable as well. The most important decisions regarding the enterprise are made at shareholders' meetings, and those shareholders' meeting decisions are made on the basis of whether or not a motion is approved by a majority of the shareholders. This means that even though there may be unstable shareholders, they will have little impact on decision-making in the enterprise as long as their total shareholdings do not exceed half of all shares. I will refer to this kind of company, in which shares are held by both stable and unstable shareholder, but where the decision-making in the enterprise accords with the will of the stable shareholders, as a type B enterprise. When such an enterprise wishes to increase its capital, it is likely to allocate the total amount of the increase to existing shareholders in proportion to their current shareholdings. Shareholders unable to comply with the increased investment determined by that allocation will probably sell part or all of their shareholding either to another shareholder, or to a third party.

An enterprise in which stable shareholders have ceased to comprise the majority, and which allocates only a part of the increase to existing shareholders when it wants to increase its capital, will be called a type C enterprise. Should the unstable shareholders find themselves in agreement, they may well force change in the ranks of the enterprise's management. It is, however, difficult for the opinions of the unstable shareholders to present a totally united front directly in support of other specified managerial staff. The existing management of this kind of enterprise is safe as long as the increase in shareholdings adopted does not bring about a major change in the existing composition of shareholders. Thus in a C type enterprise there are unlikely to be major increases in capital, and where there are increases at all, will be limited to what can be spread among the existing shareholders. Where increases of this kind are insufficient to provide the capital needed for investment, the shortfall will be made up by a loan from a bank, or some other institution. This brings about a reduction in the proportion of total capital accounted for by internal capital. In order to prevent this proportion falling to an extremely low level, the proportion of the enterprise's year on year profits which are retained by it have to be very great indeed. Since stable shareholders' being in the majority is a sufficient condition for stability in the rights of management, but not a necessary condition, the actual majority of enterprises in Japan are of the type C kind.

Those enterprises in which stable shareholders cannot command a majority, where shareholding is open to the general public and capital is raised by the issue of shares on the open market, will be called D type enterprises. New shares of this kind change hands at current prices, and not at their face value. Where the increase in capital is entirely allocated pro-

portionately among existing shareholders, it is possible to make such an allocation on the basis of the face value of one share, but where new shares are partly being sold to investors other than existing shareholders, the entire transaction has to be based on the current price. Alternatively a limit has to be set on the amount purchased, and market dealings rationed and controlled. D type enterprises obtain investment capital through the issue of shares at current prices, using borrowing from banks only as a supplementary means of acquiring capital.

Actual joint stock companies take one of these four forms, but they certainly do not always remain in that same form. Frequently a company which may have been of the A type takes on a different form, and in exceptional cases may even subsequently revert to being of the A type. As we shall see below, in the postwar period Japan's former zaibatsu enterprises continued to be of the A type despite the dispersal of their shareholdings under the influence of the zaibatsu dissolution directives of the Occupation authorities. Prior to the Second World War, enterprises linked to the zaibatsu had been fully of the A type, but following the Occupation directives the zaibatsu families were no longer able to own shares in the enterprises. The shares held by the zaibatsu families were sold off to the various zaibatsu-linked enterprises. Since each enterprise was forbidden to hold its own shares, company *a* acquired the shares of company *b*, company *b* those of company *c* and so on. Decisions about the shares thus acquired were made by the presidents (managers) of the companies that had acquired them, and so the president of company *a* controlled company *b*, the president of *b* company *c*, and so on, right through to company *a* being controlled in its turn by the president of company *n*. This produced the exceptional situation in which managers are controlled by managers.

However, as long as company *a* does not dispose of its shares in company *b* it is a stable shareholder. As long as the various zaibatsu enterprises kept their mutual promise not to dispose of their shares, the form of those former zaibatsu companies was almost untouched despite the major change of names in the register of shareholders. In each case the company was totally separated from the zaibatsu family, and management was also secure. They can even be said to have become more secure than before, in that they did not even receive guidance from the zaibatsu family. Certainly the president of company *a* was controlled by the president of company *n*, but if the president of company *n* was to try and force through his wishes against the wishes of the president of company *a*, the president of company *a* would in his turn respond by putting pressure on the president of another company, and so on, in order to prevent the president of company *n* from doing what he wanted. The result was that none of the company presidents was able to impose his own wishes, and so they all agreed that it was acceptable for each to act as he thought best. Thus in Japan the purging of the zaibatsu families resulted in a situation where managers controlled companies.

In order for this kind of self-contained system of mutual shareholding to be established, it has to be provided with an atmosphere which will make it seem natural and inevitable for all the companies within the system to be holding each others' shares. There did indeed exist such an intimate feeling among the former zaibatsu enterprises. Moreover, since the largest enterprises out of these companies had been broken up into a number of small companies as a result of the Occupation's directives, the number of members of this population was very great. It must be acknowledged that it was very easy to identify among them a circle within which, directly or indirectly, there was mutual shareholding. It is clear that a system of this kind is very effective in achieving a situation in which managers are free from shareholders, and indeed where managers control shareholders, and so there was a move to establish new enterprise groupings besides of the former zaibatsu ones, and to create a situation where powerful managers exerted control by virtue of controlling mutual shareholdings. The small former zaibatsu, too, formed groupings that included enterprises in the locality.

For managers to gain complete control over their enterprises, they have to create a situation where a majority of the shares is held by stable shareholders. To do this, however, is extremely difficult, and up to now there has been no need to look for perfection in this respect. Even though the total number of stable shares may be less than half of the total, management control can be virtually established. The result is a C type company under managerial control. Since companies of this kind do not want to bring about a collapse in the existing proportion of total shares accounted for by stable shareholders, when they want to increase their capital they will not issue new shares on the open market, but try to allocate the burden of this capital increase proportionately to existing shareholders. New shares will then be issued to all the shareholders, with the liability calculated on the basis of the face value of the shares that they hold. That is to say, new share issues to increase capital are made at face value.

It is apparent, however, that when new shares are issued, the cost of that issue is likely to be lower if the issue is done at current prices than if it is done at face value. In effect, if the current value is lower than the face value, the new shares will not be bought at their face value, and so it is just not possible for new shares to be issued at face value. The current price is therefore higher than the face value. For that reason the dividend on each share discounted by the current price (the cost of issue at the current value) is lower than the dividend discounted by the face value (the cost of issue at face value). This cost can be regarded as the cost of supporting the stable shareholders. An enterprise that selects the first of these two options is a type D enterprise.

However, the answer to this question of choice has been an obvious one. Even supposing that the plan has been to retain stable shareholders by

paying a high cost in order to raise capital, the scale of investment will be small, the profits from the investment small, and management will come in for criticism. By contrast, if the new shares are issued at current value, reducing the cost involved in increasing capital, then the stable shareholding system will be put at risk, but the rate of return on investment will go up, and similarly the reputation of management. This means that they no longer need their back-up of stable shareholders. Under these circumstances many Japanese enterprises came to move in the direction of the D type. The model of what has been referred to as Japanese style industrial organization was one in which A type enterprises formed enterprise groupings and a stable group of shareholders, resulting in the creation of an enterprise controlled by managers independent of the shareholders, but this kind of system was never itself stable, and there was always the possibility that it might collapse. The result was that Japanese industry finally moved towards the D type enterprise configuration, with capital being raised through the issue of new shares on the open market.

In the case of A, B and C type enterprises large amounts of capital from the general populace did not flow into the enterprise. The enterprise would retain an appropriate part of its surplus (sales minus purchases) within the company and put it towards investment capital. Dividends were consequently restricted. The remainder of the investment capital was covered by borrowing from a bank. Each enterprise, as will be shown later, had a main bank, following a proposal made during the war, and the main bank would put the maximum effort into ensuring that the enterprise's finances ran smoothly. The enterprise groupings formed to ensure the smooth running of the mutual shareholdings of necessity included a large bank (a former *zaibatsu* bank). Once D type enterprises had become the norm, however, capital poured in through the public market for shares. The importance of the main banks was accordingly reduced. Thus as the enterprises moved away from the very Japanese style A type, backed up by enterprise groupings, to become more like the Anglo-American D type, the role of Japanese type financial organization, and of the main banks, decreased. The Japanese character of this kind of industrial organization and financial organization was based on a belief that one's partners would continue to act as stable shareholders, and confidence that the main bank function would continue, but is something that breaks down easily. A system along these lines shifts to a D type enterprise system. As these enterprises raise their capital on the stock market, what supports the system now is not trust – and lying behind that duty and human nature – but the principle of the market, and the principle of competition.

The shift that is of decisive importance when enterprises move from the A, B, and C types toward the D type is that final shift when enterprises finally cease to be A, B, and C type, and are transformed into D type. Once this shift is completed, the difference between the Japanese economy and

the Anglo-American economy more or less disappears. If we call this kind of transformation a neoclassical transformation, then once that transformation is completed, the Japanese economy, as we shall see in Chapter 7, will cease to be capitalism from above, and become instead capitalism from below. Japan developed capitalism from above after the Meiji revolution, and around 1930 had the chance of making the transformation to capitalism from below. However, with the start of the shift towards the right in Japan, and Japan's aggression against China, Japan's course was put into reverse, and the country was unable to achieve capitalism from below. The classes which had brought about capitalism from above scuttled back to the old system with which they were familiar. Such a U-turn was indeed at that time possible, but for it to happen again under present circumstances is almost inconceivable. The problem is what kind of capitalism from below will result, and we cannot rule out the possibility that it will stop short at a half-baked, half-ripe capitalism from below. If this happens, then the Japanese economy will end up with a weaker capacity for growth and being less competitive.

Following on from this theoretical, abstract analysis of the process of transition of Japanese enterprises, this chapter will continue with an outline of the history of the Japanese economy since 1931, concentrating on the following points. The aim is to give some substance to this theoretical analysis through concrete historical observations. During this period of sixty years (1931-1991), the Japanese economy was converted from a quasi-free enterprise economy, i.e. a capitalist economy from above, to a controlled, planned one, and then after the war returned back to a (quasi- or genuinely free) enterprise system. The transformation to the planned economy was quick and rather easy because of the existence of a powerful, despotic government. The military forces were very strong. It was impossible for the general public and businessmen not to follow the military's will, especially after the majority of journalists and academics had surrendered themselves to the opinion guided by the militarist – ultranationalist power. However, although Japan was put under a new strong power (the Occupation forces) at the beginning of the postwar period, she was provided with a weak government in the period of self-governing democracy after the surrender. Democracy created chaos. Therefore, the reverse course from the planned economy to the free enterprise system was slow because of bureaucratic resistance against losing vested rights to meddle in private business and other difficulties. This was especially true in the monetary field, as will be seen later.

First, as mentioned in the above, zaibatsu families were prohibited after the war from running their own businesses; they had to sell their companies' shares and retire from the business world by order of the Occupation forces. Thus the main problem of postwar Japan was to find out how a free enterprise economy would be workable without the money from these rich

families, that is to say, how a capitalist economy is possible without dominant individual capitalists. After the peace treaty, the businessmen devoted most of their effort to this problem of restructuring the economy. The answer they came up with was to establish a system of 'mutual shareholding' which has already been described and will be explained in detail in Section II below. On the basis of this organizational innovation having been carried out in 1955–60, Japan paved the way to flourish in 1970–89. (In fact, if I were asked what element had most contributed to the success of the Japanese, I would without hesitation mention their ability to make organizational innovations, which the reader will observe in various places throughout this chapter.)

Secondly, it will be seen in this chapter that behind this system was the power of professional managers. It was higher education in Japan which enabled her to achieve this organizational innovation. Accordingly the analysis of the cliques of university graduates in the Japanese business world is very important. Section III shows that the dominance of university graduates in the sector of big business was already obvious in prewar Japan as early as the 1920s. Among the most powerful cliques has been, and still is, that of the graduates of the University of Tokyo. They succeeded the *samurai* group which formed the central government after the Meiji revolution, and dominated the other cliques in the government until now. Therefore, in the business world too they were extremely powerful, because the company would have a great advantage by establishing within it a power structure similar to the one in the government, in order to maintain good relationships between them. Of course, it is without doubt that cliques of any kind are a big source of corruption. Nevertheless, a country dominated by selected university graduates, though most of the Japanese personally dislike it, would be a more bearable and more productive society, compared with the usual plutocratic, capitalist countries where cliques formed by the rich families let nepotism prevail among them. This was true until the middle of the 1980s. We examine the cliques in the big enterprise groups and in the financial sector in Section IV.

Regarding the monetary side of the economy, the process of transformation to the planned economy and the reverse process back from it will be studied in Sections V and VI. It may particularly be emphasized that throughout most of the postwar period, Japan adopted Keynesian monetary policy, fixing the rate of interest at a low level; city banks lent as much money to the industrial companies as they demanded. Where commercial banks could not satisfy all the demand directly, they satisfied it by borrowing from the central bank. Of course, this easy supply of money created a number of bouts of inflation; on several occasions they were very severe. In the trade-off between inflation and economic growth, Japan obviously chose the latter rather than minimizing the former, and she was then clearly rewarded greatly.

The market connecting the firms as demanders for money capital with the commercial banks as its suppliers is not competitive but collaborative, in Japan. The 'main bank system' which originated during the war, formed couples of demander and supplier in which the latter took the responsibility of providing the former with the money capital it needed. In many cases the couples have been a 'one to many' correspondence in the sense that there are several banks forming a consortium which collectively takes the responsibility of supplying the funds. As a result of this system it has seldom happened in Japan that at some point of time of construction of production facilities (say, a channel tunnel) the money is exhausted and the construction work is stopped, as has often occurred in the case of the construction of the Euro-tunnel. 'Once it was decided, it should go as it had planed.' This iron rule was very rarely disobeyed in Japan as far as the financing of investment projects is concerned, thanks to the main bank system.

The main bank relationship is usually formed within the enterprise groups, between the companies in a group and the city bank in the same group, so that the bank naturally plays the part of the headquarters of the enterprise group; it is the pivot for unifying the group. We discuss, in Section VII, quantitatively, how the city bank grips the industrial companies of the group, that is to say, an index is given for quantifying the bank's control of the enterprise group. In any case, having city banks supplemented by industrial and other special banks, Japan never felt a shortage of money in supporting ambitious industrial innovations in the 1970s and 1980s. It is not an exaggeration to say that this banking system is another example of the organizational innovation made by Japan; it smoothed the channelling of money required for investment from banks to companies in these two decades remarkably.

Also in this section the technical innovations of the 'Japanese type' are discussed, which were especially carried out during the years of oil crises and after. It is seen how inevitably the rapid progress of the real sub-economy induced the development of the monetary sub-economy as it happened in the midst of the long continuing process of economic growth in 1970 – 85; this is, in fact, symbolized by the fact that Tokyo became one of the financial centres of the world in the 1980s. Finally, it is indicated that parts of Section II and VII review why the successful advance of Japan in the 1970s and the early 1980s finally brought about financial scandals and collapses in the late 1980s and after.

II

Japan's surrender to Allied Powers brought her a revolution. Although the Emperor survived the war, he had to transfer most of his property to the State. The major zaibatsu Konzerns, the kernel of the pre-war Japanese

economy, were all ordered to disband. Holding companies of zaibatsu groups were dissolved and zaibatsu families had to dispose of shares they held. Not only were they themselves not allowed to be appointed to the position of director or executive of any company which had belonged to a zaibatsu group previously, but also many war time directors and executives of big companies were purged out from the business world because they had been in collaboration with militarists in the war time. Moreover, big companies were divided into pieces. In the case of Mitsui Trading Company (Mitsui Bussan) and Mitsubishi Trading Corporation (Mitsubishi Shoji), for example, a new company was prohibited to form if it employed more than two high class members (directors of the departments or above) or more than 100 staff members and clerks of either of the two companies. Big city banks, however, were not subdivided. In all these companies, after directors and executives had been forced to resign, the vacancies created were filled by younger people. But among them there were even such persons who had little experience of running a company in the period of free competition. In fact, although some experience of company management under the direction or control of the government, others did not because they had spent many years at the front as soldiers. These new presidents and executives of these companies were powerless because they had no powerful shareholder who would support them but were just promoted to the places their predecessors had vacated. The shares they themselves held were, if any, negligible.

In Japan, it was already obvious as early as the time of the First World War that the management of the big, modern enterprises were left to professional managers graduated from university. Nevertheless, it cannot be said that ownership and management was separated in Japan by the reason pointed out by A.A. Berle, Jr and G. C. Means.¹ Behind the managers of the pre-war zaibatsu companies, there were shareholders, i.e. zaibatsu families, who supported them, so that it cannot be said that management and ownership were separated from each other. In the post-war economy, they were separated, however, not by the economic reason as was asserted by Berle and Means that where a joint-stock company becomes large, dominant shareholders disappear as the holding of shares tends to be dispersed among many small shareholders, but by the political reason that big owners of the company were forced to give up the ownership, so as to take the so-called 'responsibility for the war'. It is true, nonetheless, that newly appointed managers had to fill up this vacuum of ownership to make the company firm and safe as well as to secure the legitimacy and authority for their own positions. In fact, companies were in an extremely shaky position after the war both in ownership and management.

During the occupation period it was true for each zaibatsu Konzern that although it had been disbanded, chairmen of its member companies met each other and kept contact themselves secretly. After the independence

the meeting of chairmen of ex-member companies of a zaibatsu Konzern became more open and regular. In the case of the Mitsubishi group, for example, the meeting was called the Friday meeting, which began to play a significant role as an informal decision-making body around 1954, though it had existed since 1946, rather secretly, in a form of a social gathering of executives of ex-member companies of the Mitsubishi Konzern. Other Konzerns too had similar meetings, at which important matters were discussed and resolved. In this sense, it may be said that the prewar zaibatsu survived and continued to be active after they had been disbanded.

However, zaibatsu families never came back to their own groups. This was so because these families had been criticized severely from both the right and left wings – they had been, in fact, targets of terrorism in the pre-war period, so that they did not want to be reinstated in their former positions. It is also true, on the other hand, that new executives of these companies did not welcome their comeback. Without these former bosses, how could these companies re-establish the previous solidarity and regulation between themselves which they had enjoyed in the time of zaibatsu Konzern. They had no longer the holding company (or the head corporation) which had taken the role of the headquarters; moreover, new executives were in a very weak position, because they had no powerful shareholders behind them.

These were overcome in the following way. First, each group had a big city bank and a big comprehensive trading house (Sogoshosha). Companies in a zaibatsu group were usually financed by its city bank and their purchasing of materials and selling of products were dealt with by its trading house; so the chairmen of these organizations were naturally regarded as the leader and the chief secretary of the group. Sogoshosha was not just a trading company; it had the great ability of gathering information about anything. It dealt with commodities ranging from noodles to jet planes. It is often said that Mitsui trading company is as powerful as the CIA; thus it perfectly fits the position of the head office of the group. In order to band the companies in the group together strongly, it was devised as was said in Section I that they mutually held a substantial portion of shares of the companies in the same group. Let A , B , C be companies in a group. If A holds shares of B so as to be able to dominate other shareholders, similarly B holds shares of C and C shares of A , then A is controlled by C , which is reciprocally controlled by A indirectly, because A control B which in turn controls C . Thus A , B , C form an *indecomposable* group, so that collaborate with each other in the same way as they did in the time when they formed a zaibatsu Konzern² Thus without the holding company it was found that companies were able to form a powerful group as long as they held shares mutually, so as to be linked with each other to make an indecomposable group.

This system of mutual holding of shares was a very powerful device, by means of which directors and executives were able to secure their positions

without individual shareholders' backing. In the classical capitalist society, they themselves were either big shareholders' agents who were approved and trusted at the general meeting of shareholders or the big shareholders themselves. Each share has an equal right to cast one vote, so that a person who has the largest number of votes behind him is most powerful in the company. This was true in the prewar Japanese business world and it is still true in the contemporary Western capitalist societies. In the exceptionally chaotic period after the war, due to an enormous vacuum created by the absence of zaibatsu family members from the shareholding, however, it was especially true for the ex-zaibatsu companies that the new executives would have been powerless, unless they were supported by institutional shareholding. For this purpose the mutual shareholding system explained above worked very effectively. As there is no person, except the chairman of company *A* himself, who can legitimately represent the shareholding of *A*, the mutual holding system may work as a mutual support system of the current chairmen of the companies in the group. On the basis of the majority shareholding of *A* in *B*, chairman *a* of *A* supports chairman *b* of *B*, who supports *c* of *C* by means of *B*'s majority holding of shares in *C*. Similarly *c* support *a*. In this way a revolutionary takeover was made by moneyless (or proletariat) managers in the ex-zaibatsu companies from the hands of individual owners.

In Japan, professional managers have traditionally been highly regarded since the introduction of Western technology and system of business. In almost every sphere of activity the society was dual-structured already before the end of the nineteenth century. *Shoten* (its literary meaning being 'shop') was distinguished from *Kaisha* (company or corporation) as the former often meant a company of the traditional Japanese style, while the latter always meant a company of the Western style. The latter needed educated professional managers and technical experts, whereas masters and gentlemen without Western education could run traditional shops and works. Moreover, where these were involved in business with government offices, they had to employ educated professionals, in order for them to be able to be a match for government officials. In this way educated persons were highly regarded in companies; the bosses or capitalists entirely relied on them. The loyalty of these employed professional managers to the boss was the most important virtue and duty in the business world. As Japan was a typical Confucianist country where education was most highly respected, this system of mutual trust worked with no trouble between boss and professional managers in the pre-war era.

Nevertheless, it is true that once the owners were purged from the companies by the GHQ, the companies were hijacked by their employed managers, who secured their own positions by inventing the system of mutual shareholding. The following case of the *Asahi Newspaper* shows how firmly the standing of executives had now been established within the company.

Asahi, originated and owned by the Murayama family, has been one of the most influential newspapers through the modern history of Japan. The family was purged by the GHQ but later wanted to restore its status as the owner of the company. The then chairman and executives of Asahi were, nevertheless, strong enough to resist the proposal, though they had finally to make a compromise and accepted Ms Michiko Murayama as one of the directors. From the point of view of the family this may be taken as a revolution, while from the viewpoint of the professional managers there has been no revolution at all because they were lawfully appointed to the post of executive, and the company is still owned by shareholders, individual or institutional, who have decided to support them.

The device of mutual holding of shares was later found to be effective in defending the company from a take-over bid to which an outsider or a foreigner challenged its executive team. The system started, as has been seen above, to support otherwise powerless employed executive members. It was intrinsically based on an implicit assumption that the institutions involved in the scheme would never sell the shares they had bought. Such shareholders are said to be 'stable'. As unstable shareholders can never be trusted, shareholders taking part in the scheme must all be stable in order for it to work as a mutual supporting system. It is therefore very natural that the system was encouraged again and promoted in the late 1960s when Japanese companies were considered as possible targets of American take-over. It was then criticized by foreign, especially American, investors as clear evidence that Japan's financial markets were not open enough.³

In Japan the new shares used to be issued at face value and allocated to the current shareholders in proportion to the numbers of shares they held. In the 1970s, however, it became popular to issue them at their current prices. It would then be of great benefit of the companies to keep their share prices high at the time of issue. Under the system of mutual holding of shares the stable holders would never sell the shares but only buy the new shares to keep their proportions. Then the prices would be kept high because a significant part of supply was sold to stake-holders and the rest to keen purchasers; in this way, therefore, the companies issuing the new shares at their current prices would acquire a huge amount of capital. Then the mutual share holding system, originally having been successful as a means of mutually supporting powerless employed executives, was found to be also very effective as a means of raising massive funds cheaply; it was effective as a means of protecting the companies from possible take-over as well. Thus the system propagated itself to those companies which did not belong to the big enterprise groups.

On the other hand, the tendency in the opposite direction was created by the same reason. Those companies whose shares had not been listed on the stock exchange never wanted to open their ownership to the public,

because they were afraid of the take-over of their companies by their own employed executives by putting them in the system of mutual share holding. Given this mutual shareholding and given the comprehensiveness of Japanese securities firms discussed below, it is not surprising but understandable that the security market followed the full course of suicidal downfall. In Japan there is a tendency that many things tend to be comprehensive. Like the enterprise groups and the trading houses, the securities firms are not an exception. Unlike those in Britain, they are comprehensive (or universal) in the sense that each of them has within itself all the sections of securities business: underwriting, brokerage and dealing. As there are conflicts of interest between these three, securities firms usually specialize only in one of them to avoid unfair profits obtained by dealing with these businesses simultaneously.

For example, a securities firm *S* with underwriting and brokerage sections undertakes to buy the new shares issued by company *A* and sells them to those customers who want to buy them. Of course, *A* wants to sell them at as high a price as possible, because *A* will then raise the highest amount of funds. This has no conflict with the underwriting section of *S* because it will then obtain the maximum amount of commission. On the other hand, the brokerage section of *S* will want to buy the shares as cheaply as possible, with the intention of selling them to customers. Thus there is an obvious conflict of interest between *S*'s underwriting and brokerage sections. (Similarly, a conflict of interest is observed between brokerage and dealing businesses, i.e. brokers and jobbers.) If these were separate and belonged to different, independent companies, they would meet each other in the market, where the price would openly and fairly determined. However, as they are sections of the same comprehensive firm, the price is decided within it; and this insider trade may, and perhaps will, produce unfair prices.⁴

Throughout the 1970s and 1980s it was easy to manipulate the prices in the security market. First of all, it was (and still is) monopolized by the big four, Nomura, Daiwa, Nikko and Yamaichi, all comprehensive and uniform in the sense of behaving similarly. (In 1997 the last made self-declaration of bankruptcy.) In addition, customers were extremely speculative in those days, so that they were in the state of mind that they would not take much notice of the level of prices as long as they could believe that the prices would continue to rise in the future. By providing news and information to the effect that the price of shares of company *A* would be higher in the future, it is almost certain that the big four could create a speculative rush of customers to the market to obtain the shares of *A*. Under the mutual holding regime the institutional stable shareholders of course bought *A*'s new shares to keep its proportion in shareholding, so that the rush always created a big excess demand for the shares, producing a high price. Thus the news and information (suggested by the big four to the customers by

various means) were confirmed. Repeating the same story as this for many cases of new issues, customers came to believe rationally and confidently that because of their economic success Japanese companies' share prices would be higher and higher in the future. The manipulation worked very well. Company *A* acquired a large amount of funds, huge profits accrued to securities firm *S*, and individual customers were satisfied because they succeeded in speculation.

So far, so good. In 1987 Nomura Securities surpassed Toyota car-manufacturing in the amount of current profits produced. And big corporations obtained huge amounts of funds by issuing new shares, so that they could pay back to the banks the money they had borrowed from them for industrial investment. The rate of the company's own capital in its total capital improved greatly, but in the 1980s there was no big, promising industrial investment opportunity; it was a period during which the financial world was much more flourishing and prosperous than the industrial world. Those companies which had raised excessive amounts of funds started to use them for financial investment and loans to their subsidiaries. They behaved like city banks and were teasingly called Toyota bank, National Panasonic bank, etc. Excessive issues of shares continued further; it then became more and more difficult for 'stable' shareholders to remain 'stable' by buying an appropriate proportion of the new shares, because they needed huge amounts of money to do so. Thus a fear for viability of the mutual holding system naturally emerged, and the confidence that share prices would continue to raise was shaken and faded away among individual speculators. They then started to sell the shares, and the prices actually fell, confirming their worries. Once the tide was rolled back, the prices declined lower and lower. Not only individual speculators but also institutional shareholders for the 'stability' purpose greatly suffered.

During this process of reversion the securities firms made a serious mistake because of their internal conflict of interests. Both individual and institutional shareholders lost considerably in proportion to their holdings because of the fall of share prices. However, the securities firms treated them differently. In the case of institutional customers, the underwriting sections of the firms benefited (or would benefit) from those which had issued (or would issue) new shares, while individual customers were only connected with the brokerage sections. The firms therefore compensated the losses of large companies, whereas individual customers were usually left out. This was of course a scandalous and discriminative treatment and invited criticisms from various corners of the society.

Simultaneously, it was revealed that Nomura and Nikko had loaned a huge amount of money to a *yakuza* (mafia). He used it for buying shares to 'takeover' a company. Moreover, it was found that Nomura had manipulated the share price on behalf of him. (In fact, regarding the so-called 'take-over' undertaken in Japan it is usually understood that the person

who has bought the shares in a large amount has actually no intention of taking over the company but blackmails the company into believing that they will be taken over. Then the company buys back the shares at a much higher price. It is shameless indeed that leading securities firms, like Nomura and Nikko, have been involved in such a dirty affair.) Individual customers' confidence was entirely betrayed. Share prices plunged repeatedly. From this story many would agree that the mutual holding system is one of the tricky but most effective organizational innovations that the postwar Japanese business world has ever devised. It already contributed enormously to promoting the strength of Japanese enterprises. It went too far, however, because of its effectiveness, and finally it gave rise to a decline, or at least a halt of Japan's economic growth for a considerable length of time.

III

For a university graduate, Japan is a paradise. This has been true almost from the beginning of this century. As I have emphasized elsewhere,⁵ the Meiji revolution 1867–68, usually referred to as the Meiji restoration (of the direct administration of the Emperor), was an overthrow of the samurai regime carried out by samurai themselves with the purpose of transforming Japan into a modern nation-state, but it was quickly realized after the revolution that unless samurai were replaced by a new type of samurai, university graduates educated in the Western manner, it would be impossible to establish a country as civilized as the West. The government reformed the traditional education at the elementary and higher levels, just after the revolution, and conspicuous yields of the new education system were already appearing in the 1880s. Around the turn of the century, the new intellectuals had acquired a significant share of power in every corner of society. This quick propagation and great success of the new (Western) education would probably be attributed to the fact that Japan was a Confucianist country, where education was regarded as having a high intrinsic value and the classification of the people was made according to their education received into, say, literates and illiterates. As Japan had been more Confucian before the revolution than after, the education had already been widespread there at a considerably high level in the feudal Tokugawa period;⁶ what the new government should do was just to convert from the existing Chinese-style education to the Western.

Naturally, the samurai of those clans which had taken the leadership of the revolution acquired high positions in various spheres of activity in the post-revolution world. As they decided not to transfer the capital from Tokyo to any other place, their clans had to shoulder a big disadvantage that they all were located very far from the capital. The driving force of the clans expired soon, and this contributed greatly to an easy advancement of

the university students into all sorts of circles of society. In 1926, the end of the Taisho period, five years prior to the appointment of the Keynesian Minister of Finance, Korekiyo Takahashi, the business world was already dominated by university graduates and was unworkable without them.

The process of historical transformation of the traditional business world to this modern type has been seen in the last part of Chapter 3 above. There we classify the people according to whether they have received higher education or not. In the early days after the revolution, a formal education system, particularly that of higher education, had not yet been established as a system available to ordinary young people in Japan. In order to receive higher education, boys were sent abroad. It is also very difficult, and, therefore, more or less arbitrary to decide whether an individual actually received higher education or not in a foreign country. In the biography of an eminent businessman in the very early Meiji period, it is usually written: 'He yugaku-su [he played and studied] in America.' But he might have mainly 'played' and occasionally studied. Accordingly, for those persons who had visited a foreign country, a 'higher education diploma' was given by my personal, intuitive judgement. But in later years the numbers of such persons declined significantly because most of them went through the Japanese system, so that the arbitrariness due to my personal conferment of diplomas does not affect the general conclusion of the study.

Before the revolution, the Tokugawa central government and a number of feudal clan governments had schools for their own samurai boys. Most of them were transformed, after the revolution, into British-type grammar schools, while a few of them become schools for higher education. In particular, on the basis of the schools of the central government in the feudal age, the University of Tokyo was established in 1877; it was later (in 1886) reformed into the Imperial University, which was further reformed into the present University of Tokyo after the Second World War. In parallel to this, a few private higher education organizations were emerging in the closing days of the Tokugawa shogunate. The most famous and influential of these was Keio Gijuku (the present Keio Gijuku University) and the other would be Tekijuku (now the School of Medicine of Osaka University). Immediately after the revolution, private higher education gained power and led the public higher education, whereas their relative positions were soon reversed.

Under the Imperial University a few high schools were founded and played the role of a preparatory school to the university. The Imperial University system then expanded; in 1926 there were already five imperial universities in Tokyo, Kyoto, Sendai, Fukuoka and Seoul, Korea. Also, quite a few colleges of agriculture, commerce, medicine and technology were founded and the high schools were increased in number, in correspondence to the expansion of the university system, especially after the First

World War. At the end of 1926 there were 33 high schools in Japan and Taiwan but not in Korea. Whereas both private and state universities expanded greatly in terms of quantity, the quality of the private universities was taken as being generally much lower than that of the imperial universities throughout the last five of the eight sub-periods we are concerned with in Table 4.1 below. As in Chapter 3, 177 samples are taken from *Nippon Zaikai Jinbutsu Retsuden* are allocated into eight periods according to the time of debut as businessman.

In the first period, A, of Table 4.1, businessmen had no higher education. The business élite in that period consisted of traditional merchants only. In the post-revolution period B, however, new technology was introduced and educated businessmen appeared but they all studied abroad. In the third period C the business circles began to accommodate graduates of Japanese private higher education organizations, while it was in the fourth period D that they received state university graduates for the first time. As far as the entrants in successive periods are concerned, the share of those without higher education and that of those with it but in foreign countries in the total members of the sample have both declined almost monotonously. The businessmen with Japanese state university education had increased more rapidly than those from private universities.

On the basis of these statistics, Table 4.1 is obtained on the following assumptions:

- 1 All the persons in group A were fully active until the end of the fifth period, 1898–1905; but only half of them worked in the sixth period, 1906–12, and they were all retired from business afterwards. Group A, therefore, appears with only half weighting in the sixth period, whereas it has the full weight 1 before the sixth and zero weighting in the seventh and eighth.
- 2 Group B has weight 1 from its appearance to the sixth period, half weighting in the seventh and 0 afterwards.
- 3 Similarly, group C keeps weight 1 from the third until it has only half weighting in the eighth period.
- 4 All other groups D, E, ..., H have full weighting in every period after they have first appeared until the end (i.e. the eighth). The numbers of active leading businessmen for the eight periods are then obtained.

Table 4.1 gives statistics regarding active businessmen in the eight periods. In this table we are concerned with the kind of higher education received by élite businessmen, and not with the question of whether they came from Satsuma or Choshu, or whether they were of samurai origin, which is the concern of Table 3.7. It is clear that the percentage of those with no higher education in the business élite steadily declined throughout the Meiji-Taishō period. It started with the figure of 100 per cent and

Table 4.1 The business élite of Meiji–Taisho Japan: flow table*

Period	A 1860–67	B 1868–82	C 1883–90	D 1891–97	E 1898–1905	F 1906–12	G 1913–20	H 1921–26
The no of businessmen	11	12	9	21	19	36	24	45
Classification by education:								
No higher education	11 (100)	9 (75)	7 (78)	13 (62)	9 (47)	12 (33)	7 (29)	13 (29)
Foreign higher education	0 (0)	3 (25)	0 (0)	2 (10)	1 (5)	1 (3)	1 (4)	3 (7)
State university education	0 (0)	0 (0)	0 (0)	4 (18)	6 (32)	15 (42)	9 (38)	20 (44)
Private university education	0 (0)	0 (0)	2 (22)	2 (10)	3 (16)	8 (22)	7 (29)	9 (20)

Note

* The figure in the parentheses indicates the percentage of the total number of samples to a relevant category of education in a particular period.

Source: Nippon Zaikai Jinbutsu Retsuden.

Table 4.2 The business élite of Meiji–Taishō Japan: stock table (%)

Period	A 1860–67	B 1868–82	C 1883–90	D 1891–97	E 1898–1905	F 1906–12	G 1913–20	H 1921–26
The number of businessmen	11	23	32	53	72	102.5	115	149.5
Classification by education								
No higher education(%)	100	87	84	75	68	54	46	38
Foreign higher education	0	13	9	9	8	7	6	5
State university education	0	0	0	8	14	24	30	36
Private university education	0	0	6	8	10	15	19	20

Source: *Nippon Zaikai Jinbutsu Retsuden*.

reached to the low level of 38 per cent. This means that traditional merchants had been constantly replaced by university graduates. The circles became more and more intellectual, and without the professional specialist knowledge concerning management and technology it become very difficult to run companies and factories. Also, from Table 4.2 we may observe a clear import substitution concerning education. Japan first imported from abroad educated and capable experts though they themselves were Japanese. The share of such persons quickly diminished and became one-third of its level of the first post-revolution period, at the end of the Taisho period. The native experts with state or private higher education not only filled the new places created by the expansion of the business world but also advanced into the vacancies produced by the retirement of businessmen with foreign higher education as well as those with no education.

Table 4.2 also shows that those from state universities increased more rapidly than those from private educational organizations. On the basis of these figures it may be inferred that the business world would eventually be dominated by the managers and directors with state university education. The section below confirms that this inference has been correct throughout the Showa period, 1926–89, at least.

IV

Dramatic changes happened in both the business and education worlds after the Second World War. As has been mentioned, the zaibatsu Konzerns were disbanded. Ultra-nationalistic political influences, as well as military controls and interventions, no longer existed in post-War Japan, while the left-wing labour movements had once been vehement and strikes had frequently occurred before Japan was transformed into a relatively easily governable country with no serious opposition group in the middle of the 1970s. The scale of the business world in the early years of the 1990s has been greatly expanded. Enormous sectors of big businesses and of small and medium-sized businesses now exist in Japan. Furthermore, the big business sector as well is structured hierarchically; at the top of it, there are companies whose chairmen and presidents are regular members of the luncheon (or breakfast) meeting of an ex-zaibatsu enterprise group. The second stratum may consist of the major companies which belong to the six enterprise groups but are not the member companies of the lunch or breakfast meetings. The third would be those others whose shares are listed in Part I of the main exchanges. Of course, there are some big, powerful companies among the unlisted but they are comparatively small in number. To those businessmen in the Meiji–Taishō period who were reviewed in *Nippon Zaikai Jinbutsu Retsuden*, comparable are the directors and executives of the luncheon (breakfast) meetings of the six enterprise groups, as I shall show the result of the comparison below.

The education system also changed greatly. The system which had treated the imperial universities differently financially from ordinary state universities, and under which their autonomy in appointment of professors and in curriculum decisions had been respected by the Ministry of Education, was abolished by the GHQ as it considered that these universities had collaborated with the military forces in the invasion into the Asian countries. Imperial universities were then transformed into ordinary state universities and their special connection with high schools was dissolved. Under the new regulation the term of the usual undergraduate courses was extended from a three-year system to a four-year American system. High schools in the cities where an imperial university had existed became part of it to form a new state university in which they were concerned with education of the first two-year students, while all other high schools were combined with colleges of medicine, commerce, technology, etc. in the same region to form a new provincial state university. As military academies had all been closed, universities were the only means to climbing the social ladder in the secular world, so that the rat race for obtaining a place in a state university was tense and very severe in postwar Japan. Those who were unsuccessful in the race rushed into private universities. These too, therefore, had to expand in capacity and the list of private universities became very long.

We may then classify the universities in contemporary Japan in the following groups: (1) Tokyo University, (2) Kyoto University, (3) Hitotsubashi-TIT (Tokyo Institute of Technology), (4) major state universities, (5) other national and municipal universities, (6) Keio and Waseda Universities, and (7) other private universities. Groups (1) and (2) are ex-imperial universities in Tokyo and Kyoto respectively. In group (3) Hitotsubashi is the former college of commerce in Tokyo, now specializing in economics and other social sciences, while TIT is the former college of technology in Tokyo. These two together would perhaps make a second Tokyo University. Group (4) includes five former imperial universities (Tokoku, Kyushu, Hokkaido, Osaka and Nagoya) and Kobe, this last being a comprehensive university, comparable with Osaka and Nagoya, established after the war on the basis of college of commerce in Kobe with other institutions. The universities in category group (5) are influential in their respective localities but have not yet established a nationwide reputation. Among private universities most eminent are Keio and Waseda listed in group (6); in terms of the numbers of students, the latter is much larger than the former. Although the latter is more powerful than the former in political circles, journalism, etc., Waseda is far less influential than Keio as far as the business world is concerned. Group (7) includes huge private universities such as Nippon, Kinki and Fukuoka, as well as more moderate universities such as Meiji, Rikyo and Doshisha, etc. with some historical reputation. Also it includes small organizations, some with historical reputations but others being new enterprises.

It has already been seen that after the War employed professional managers and experts were in high positions without the back-up of powerful shareholders; they allowed their companies to buy shares of their friends' companies and the mutual holding of shares formed in this way was used as a means for supporting their respective posts in the companies. However, this would not work unless those on the top stratum in different companies could trust each other. What would play the role of the bond of trust between them? Is it their personal friendship? Obviously not, because if so, every time the president of a company was replaced by a new person, the shareholding for the previous president had to be replaced by the one for the new, and this would create a chaotic state in the stock market and was never observed in the past. The mutual shareholding has been stable over a long period exceeding the span of the individual presidency. Behind this there must have been trust in the persistence of the characters which the president and executives of a company have as a group. One of the elements which determine the colour or character of a company would be the composition of the universities from which its staff members have graduated. The composition is stable over a considerably long period, so that companies which have a similar composition may trust each other. The trust is even more unshakeable, especially when they belong to the same enterprise group. In any case, the school tie is very strong in Japan.

The 1992 distribution of executives of the six enterprise groups according to the educational backgrounds may be summarized as in Table 4.3. Column (A) gives the percentages of those graduated from the first class state universities, while (B) gives the percentage from the first class state or private uni-

Table 4.3 Educational backgrounds of executives of the six enterprise groups, 1992 (%)

	State universities					Private universities		Others (8)	Sums (%)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)		(A)	(B)
Mitsubishi	36	6	15	11	6	17	6	3	68	85
Mitsui	25	7	9	15	9	26	6	3	56	82
Sumitomo	29	20	7	19	6	10	6	4	75	85
Fuyo	28	6	10	14	9	21	8	6	58	79
DK	22	6	7	13	12	22	12	7	48	70
Sanwa	15	16	5	18	16	10	12	8	54	64
Average	25	10	9	15	10	17	9	5	59	76

Notes: (1) Tokyo, (2) Kyoto, (3) Hitotsubashi-TIT, (4) major state universities, (5) other national and municipal universities, (6) Keio-Waseda, (7) other private universities, (8) others: (A) = (1) + (2) + (3) + (4); (B) = (A) + (6).

Sources: Toyo Keizai Shimposha (1992) *Yakuin Shiki-ho, Jojo-kaisha ban* (Executive Quarterly: Listed Company Edition).

versities. It is found from Table 4.3 that there is a clear distinction between the top four ex-zaibatsu and the bottom two newly formed enterprise groups. Among the four Mitsubishi and then Sumitomo are biased towards state universities, while Mitsui and the Fuyo towards private universities. In more detail, Mitsubishi is very much Tokyo-oriented, while Sumitomo Kyoto-oriented. This probably reflects the history that Mitsubishi has been very much connected with the Tokyo government dominated by Tokyo graduates, since the time of the Meiji revolution, whereas Sumitomo originated from the Kyoto–Osaka region. In the private university oriented groups, Mitsui's Keio faction dominated its Waseda faction by 2:1, while in the case of Fuyo, the proportions of Keio and Waseda are more or less even. On the other hand, in the case of the new enterprise groups, Daiichi–Kangyo (DK) and Sanwa, it is seen that minor national or municipal universities (5) and minor private universities (7) still have substantial shares.

The ratio, $[(B)-(A)] \div (A)$, that is $(6) \div (A)$, would give a fair index for showing the relative powers of state and private universities. The lowest is the one for Sumitomo, 13 per cent, followed by the one for Mitsubishi, 25 per cent, while the highest in Mitsui's 46 per cent followed by DK's 44 per cent. Figures for Fuyo and Sanwa are 34 per cent and 31 per cent, respectively. The average or the six enterprise groups is 31 per cent, and that for all listed companies is 48 per cent in 1992. These figures may be compared with the figures obtained from the bottom two rows of Table 4.2. It is 36 per cent for the period 1921–26 of column H, so that we may conclude from these that the relative power of the private universities against the state universities is much weaker, in the business world, in the postwar than in the prewar years. This may contradict the intuitive view of the business world which the contemporary Japanese people would depict; but our statistics clearly support this conclusion.

Similar statistics can be obtained for the presidents and chairmen of the board of directors of various companies. Table 4.4 shows the distribution of presidents and chairmen according to their educational background for the six groups. The general patterns of Table 4.3 and Table 4.4 are similar, except that the relative power ratio between private and state universities, i.e. $(6) \div (A)$, is much lower for each enterprise group for presidents and chairmen than for executives. Even in the case of the two groups, Mitsui and DK, which are in favour of Keio and Waseda universities, the ratio falls from 46.4 per cent and 4.8 per cent, respectively, for executives to 28.2 per cent and 28.8 per cent, respectively, for presidents and chairmen. This means that the very top stratum of the business circles is still more dominated by the national universities. Mitsubishi's and Sumitomo's figures clearly reflect this general character, though the former is typically Tokyo-oriented while the latter tilts towards Kyoto.

The index of the relative power of Keio and Waseda against the major state universities (i.e. all ex-imperial universities plus Hitotsubashi, TIT and

Table 4.4 Educational backgrounds of presidents and chairmen of the six enterprise groups, 1992 (%)

	State universities					Private universities		Others	Sums (%)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(A)	(B)
Mitsubishi	61	10	7	5	5	10	5	2	83	93
Mitsui	43	13	10	5	0	20	0	10	71	91
Sumutomo	57	20	9	9	0	3	3	0	95	98
Fuyo	45	9	9	11	0	11	2	11	74	85
DK	46	5	6	9	3	19	3	9	65	84
Sanwa	28	17	11	8	6	8	8	15	64	72
Average	45	12	9	8	2	13	4	9	74	87

Notes and Source: See Table 4.3.

Kobe) is calculated by subdividing the enterprise groups into three sub-sectors: (I) financial companies comprising city banks, trust banks, insurance, securities and lease companies, (II) trading corporations, real estate agents, warehouse and transportation companies and recreation facilities and (III) companies belonging to other industries. These subgroups are referred to as the financial sector, the non-financial, tertiary industry sector and the secondary industry sector, respectively. Table 4.5 summarizes the results for the executives and for the presidents and chairmen of the enterprise groups. The figures in each column represent the number of Keio–Waseda alumni as a percentage of alumni of the major state universities. From Table 4.5 we may derive the following two conclusions: First, the indices for financial and non-financial tertiary sectors are generally higher than the corresponding indices for the secondary sector. This is especially true for the Mitsui group. This group is not very much different from the other groups as far as the secondary industry sector is concerned but has very high indices in the other two. This would not be surprising in view of the fact that Keio and Waseda are weaker and smaller than the state university in the field of science and technology, whereas they have big social science faculties, especially in economics, business, commerce and politics. Secondly, the figures for presidents and chairmen are generally lower than the corresponding ones for executives, though those for financial and non-financial, tertiary sectors fluctuate greatly because samples are very small; that is, at the very top level state universities still dominate private universities more than they do at the executive level.

It has been pointed out that the university affiliations of the directors are different between the enterprise groups. Mitsui and Fuyo are oriented towards Keio–Waseda, while Mitsubishi and Simutomo towards Tokyo–Kyoto. From Tables 4.3 and 4.4 we may suggest that even Mitsui, Fuyo and DK did not

Table 4.5 The relative power of private universities to state universities, 1992: sectoral indices (%)

	Executives				Presidents and chairmen			
	(I)	(II)	(III)	(T)	(I)	(II)	(III)	(T)
Mitsubishi	33	33	19	25	0	20	14	11
Mitsui	70	172	31	46	40	67	17	31
Sumitomo	17	22	10	13	14	0	0	3
Fuyo	31	36	35	35	0	100	15	16
DK	67	57	39	45	100	11	26	29
Sanwa	18	27	16	17	25	100	3	13
Average	36	46	26	30	24	39	13	17

Note: (I) The financial sector, (II) the non-financial tertiary sector, (III) the secondary industry sector, (T) the total for the group.

Source: see Table 4.3.

differ from the Mitsubishi type in the sense that the ex-imperial university group, i.e. the sum of (1), (2) and (4), holds a commanding power in the group; Sanwa is a mini-Sumitomo with a strong Kyoto group. Nevertheless, we may point out a remarkable similarity through these groups, with respect to one other respect of the education backgrounds of the directors, that is to say, with respect to their academic fieldwise composition, as we see in Table 4.6 below.

The directors are now classified into two groups: one consisting of those graduates from social science or humanity faculties and the other of those from natural science faculties, i.e. science, technology, medicine or agriculture faculties. The ratio of the number of directors of the second group to the total number of directors of both groups is calculated for various categories (for the aggregate of the financial and non-financial, tertiary sectors and for the secondary industry sector) at the executive level as well as the president-chairman level. From Table 4.6 it is seen that the sectoral figures for executives are remarkably similar between the enterprise groups but the total figures (T) are higher for Fuyo, DK and Sanwa than those for Mitsubishi, Mitsui, Sumitomo, reflecting the fact that the last three have bigger (I) and (II) sectors than the former three. Comparing columns for the presidents and chairmen with the corresponding columns for the executives, it may be said that the executives from the science side are less likely to be promoted to president or chairman than the executives with the social science or humanity backgrounds.

It has been mentioned that each enterprise group has a city bank and a trust bank; in the case of DK, however, it has no trust bank but a securities company which is included in the category of trust banks when Table 4.7 is produced. It is clear that the special banks, Bank of Japan, Japan Development

Table 4.6 The percentage of executives and presidents with science, technology, medicine and agricultural degree (%)

	Executives			Presidents and chairmen		
	(I) + (II)	(III)	(T)	(I) + (II)	(III)	(T)
Mitsubishi	6	45	30	0	42	26
Mitsui	5	49	29	0	46	29
Sumitomo	4	44	27	0	42	26
Fuyo	9	45	35	6	34	24
DK	4	46	33	0	46	32
Sanwa	10	48	38	19	45	38
Average	6	46	32	4	43	31

Note: (I) + (II) financial and non-financial tertiary sectors, (III) secondary sector, (T) = (I)+(II)+(III).
Source: See Table 4.3.

Table 4.7 Educational backgrounds of executives and presidents of banks, 1992 (%)

	Executives						Presidents and chairmen					
	(1)	(2)	(3)	(4)	(5)	(6)	(1)	(2)	(3)	(4)	(5)	(6)
Special banks	86	7	3	0	3	0	100	0	0	0	0	0
Industrial banks	54	11	16	4	2	10	100	0	0	0	0	0
City banks	41	12	10	12	3	18	64	9	18	9	0	0
Trust Banks	24	8	9	12	4	21	67	17	8	0	0	8

Notes: (1) Tokyo, (2) Kyoto, (3) Hitotsubashi-TIT, (4) major state universities, (5) other national and municipal universities, (6) Keio-Waseda.

Special banks: Bank of Japan, Japan Development Bank, Export-Import Bank of Japan.

Industrial Banks: Industrial Bank of Japan, Long-Term Credit Bank of Japan, Nippon Credit Bank.

City Banks: Mitsubishi, Sakura, Sumitomo, Fuji, DK, Sanwa.

Trust Banks: Mitsubishi Trust, Mitsui Trust, Sumitomo Trust, Yasuda Trust, Toyo Trust.

Source: See Table 4.3.

Bank, and Export-Import Bank of Japan, which play most significant roles in the Japanese economy, are almost perfectly monopolized by the three state universities, Tokyo, Kyoto and Hitotsubashi. Industrial banks (or long-term credit banks), which were born by the will of the government, are heavily dominated by these three. City banks are also very important because they may be regarded as the headquarters of the respective enterprise groups, and 78 per cent of their executives come from national universities, while the corresponding figures takes on a value of 57 per cent for the trust banks. Thus the dominance of the state universities is heavier and heavier in the banking sector accordingly as the stratum in the hierarchy of the banking sector (having special banks at the top and trust banks at the

bottom as arranged in the first column of Table 4.7) is higher and higher. From Table 4.7 we see that the same drift is more conspicuously observed at the president–chairman level.

It is not, therefore, surprising that many graduates of the national universities (especially Tokyo University) hold important positions in Japan's banks. This is because the Ministry of Finance and the Bank of Japan are bastions of national university graduates, starting with Tokyo University. Under the system of capitalism from above, particularly in a postwar Japan that was highly centralized, it was extremely important in the financial world for there to be smooth connections between all of the financial institutions and the government and central bank. Table 4.7 shows very clearly how vertical links within the Japanese business world are based on the old school tie. On the good side, this can result in a close relationship which permits speedy interaction between government and the private sector, but it can also have a negative side, acting as a hotbed for collusion, and in the worst cases, as an advertisement for the existence of bribery and other economic crimes.

It was with the intention of destroying this kind of academic clique that from around the mid-1990s the Ministry of Education initiated a major expansion in graduate schools. The belief was that if graduates of one university were after graduation to go and study in the graduate school of another university, they would not be closely tied to one particular university, so the academic cliques would be likely to merge into a single group. However, the expansion in graduate schools has necessitated a supply of teaching staff far in excess of that which the existing higher education institutions have been able to provide. In the early stages of the expansion, therefore, the quality of graduate education is unlikely to be of a high standard. Despite this, young people who wish to be involved in education and research have increasingly had to complete their education at graduate school. Their period of education has therefore become longer, and the time they work in the real society shorter. Moreover, the fact that these individuals survive until the second half of their twenties on grants, side jobs (so-called *Arbeit*) and support from their parents, has weakened them, reinforcing their position as children in the actual world.

It is not clear at this point in time how the business world will deal with those who have completed graduate school, but except for the specialists who have received a specialized training in something like the natural sciences, it is likely that the impact of the big increase in graduate schools on the business world will be small. Any effects will, moreover, only be apparent after a considerable period of time has passed. From the point of view of the students, however, many will try to progress to graduate school purely because it signifies the existence of a course at a higher level than the undergraduate one. Thus the outstanding undergraduates will cease to go and work for the industrial and financial world in their twenties. Of

course, future generations of Japanese may acquire greater knowledge, but what Japan now needs is not knowledge, but a larger number of young people who have the desire to work in society, and to contribute to it.

V

Let us now turn to the monetary side of the economy. In September 1931 the Manchurian Incident took place, which initially had favourable effects upon the economy which was in the midst of the great depression, but later it became Japan's heavy burden as it expanded into her prolonged war with China and finally gave rise to the Second World War. During this period, the government geared the economy to the demand of circumstances; it was rapidly transformed into a controlled economy according to the totalitarian political principle, by abandoning the free-enterprise system modelled after Britain which had emerged round 1885 and had been maintained until 1930. Japan was moving away from Britain towards the Nazi Dritte Reich.

It is Korekiyo Takahashi, Minister of Finance, who carried out Keynesian policies before the publication of Keynes' *The General Theory*. As a result of these policies Japan was able to recover from the depression very rapidly. But unfortunately these expansionist-spending policies greatly helped the army circles which were preparing to spread the war into wider areas. It is not surprising that the spending policies were carried out to a degree which was more than intended by Takahashi for the purpose of economic recovery from the depression. They naturally created an excessive inflation, as a war-time inflation was added over and above the one due to proper Keynesian policies. Having realized this, he changed his attitude in later years so as to minimize the increase in military expenses. As a result of this in the 26 February 1936 uprising he was chosen as one of the targets of the *coup d'état* and killed.

As for issuing the government securities there are two ways of distributing them. One is that the government sells them to private individuals or institutions directly (i.e. through, say, post offices) or indirectly through city banks, while the other is that it first sells them to the central bank which, in turn, later sells them to the city banks, according to their demand. In the case of the second method, all the government securities issued are immediately bought by the central banks, so that the government will at once get the amount it wants to raise, though they are eventually held by private persons or institutions if the central bank and then the city banks have succeeded in selling the government securities to them. It is obvious that in the case of the first method it takes time to sell off all the securities the government wants to sell, so that the spending policies have to be carried out gradually, whereas the second method produces an immediate result. From this point, we may say that the second is more preferable

and effective than the first. However, because the central bank becomes an administrative office of the Ministry of Finance, there is no authority which could control the amount of money, independently from the government's political aims. Takahashi adopted the second method, and thus subjugated the Bank of Japan under the Treasury. It was the start of the march of the Japanese economy towards all-out nationalization.

In the case of the first method, the money is transferred from the private sector to the government in exchange for the government securities sold, so that there is no creation of money, though some amount of idle money held in the private sector is activated by the hand of the government which uses it for carrying out its fiscal policies. In the case of the second method, however, an amount of money equivalent to the securities issued is created immediately, although part of the whole of it will later be absorbed by the central bank from the private sector when the former sells the securities to the latter. This method, therefore, will bring about a substantial decline in the value of the country's money and, therefore, in its exchange rate against foreign currencies. Also it results in a reduction of the rate of interest. Of course, the government can use the money raised in this way to achieve its aims. At the time of Takahashi, civilian departments of the government were much weaker, in power, than the army and navy departments of war, so that the money was used to finance the Manchurian war. After the 1936 incident in which Takahashi himself perished, this abuse of the 'Keynesian policy' was continued by successive ministers of finance. For example, Eiji Baba who had succeeded Takahashi accepted the financial demands of the military forces and, therefore, his policy was more or less similar to, or more generous than, the 'Keynesian' one originally adopted by Takahashi. As the military forces now got the alchemy that could serve for the imperialist expansions, Japan's invasion into China became unstoppable.

Japanese politicians in these years were put into a dilemma: either to prevent the militarists from accomplishing their purpose, or to collaborate with them and minimize evils which their imperialist expansionism would bring about. It implied as the case of Takahashi proved, a death (or a political death at least) for a politician to take the anti-militarist stance; thus many of the statesmen or the politicians in prewar Japan became collaborators with the politicized factions of the military authorities. It is then natural that Japan was isolated in international affairs; international trade treaties were scrapped one after another. A number of Japanese exporters were accused of social dumping because the cheap yen enabled them to reduce the prices of their exports greatly. But in this way Japan's trade surplus deteriorated.

In December 1931 the Japanese government laid an embargo on the export of gold, but it had to ship gold to those countries to which Japan owed a big trade deficit, in order to make payment. As gold holdings in

Japan would be exhausted sooner or later, all the available gold mines, however poor they might be, had to be mobilized for production. As the production had to be carried out against the law of marginal productivity, some special encouragement would have to be given to the gold mining industry, so an artificial incentive scheme had to be devised. The international isolation created a bigger demand for weapons and munitions; in order to satisfy it the economy had to be converted to a planned economy as quickly as possible.

Japan was already an over-populated country, so that land was one of the most scarce commodities. The entire non-residential and cultivatable land had to be shared between industry and agriculture. It was vital that the former be developed for winning the war, while the latter was equally important, because for a country like Japan which was isolated from others in international trade, self-sufficiency in producing food was a necessary condition for victory. The government embarked on introducing planning, rationing, and controls by some means or other into the economy and intervened in spontaneous economic activities. As the theory of economic planning was very poor in those days, there was no orthodox answer. The government should not be afraid of using its power and authority to form a planning economy .

Big companies were combined or amalgamated into even larger ones by the order of the government as part of its industrial rationalization policy. Smaller companies were annexed to larger companies so as to form a sub-contractual factory system. In these vertical relationships between companies, the high-ranking companies had to control their own subordinates, so that the government could be concerned with handling the top companies only. The relationships were not freely competitive in the sense that these firms could behave on an equal basis, but were 'obligatory'. Each company had to fulfil its own duty assigned by the government; it should, first of all, be loyal and obedient to its immediate superior. The firms were transformed from a profit-pursuing organization to an entity which was entrusted with everlasting national services. This period of the war or quasi-war structure (1931–45) was a return to the Tokugawa feudalism that had prevailed until 1867. We can still see its reflection in the contemporary Japanese subsidiary (*Keiretsu*) system.

Furthermore, the Japan Hypothec Bank and Industrial Bank of Japan, which had been established in 1896 and 1900 respectively, for the purpose of supplying sufficient long-term funds to industrial companies were strengthened and reorganized such that they could give priority to the heavy and chemical industrialization urgently needed. Banks for agriculture and industry existed in various prefectures since 1896. After 1921 many of them were merged into Japan Hypothec Bank; they totally disappeared when the remaining five were amalgamated into JHB in 1944. To fulfil the responsibility of supplying industrial funds these banks were

allowed to make long-term loans, provided that banks were granted reliable debentures and shares by way of security. The Bank of Japan issued bank notes, if necessary, without limit, i.e. without cash reserves corresponding to them.

In 1943 the government finally started to arrange 'marriages' between munitions companies and city banks. One or a few banks assigned to a munitions company took responsibility for supplying the funds it needed. Then an intimate, continuing collaboration began between them. This marriage system soon spread itself widely in the whole industry, because the definition of munitions companies was extended so as to include railways, warehouses, construction and building companies, etc. The system may, of course, be criticized as a favourable treatment of munitions companies discriminating against others. There is no doubt that this is correct, but it is also true that from the point of view of industrial efficiency it is not a detrimental system as long as its operation is confined within a medium term. The coupling of banks with manufacturing companies continued to exist in the postwar world in a modified form. The contemporary 'main-bank' system, discussed later, emerged in this way.

Thus Japanese industrial companies became to be well taken care of financially by their respective custodial banks. As far as this aspect of the war-time economy of Japan is concerned, it is very close to Hilferding's 'organized capitalism'.⁷ The banking system is no longer merely an organization for intermediation of payments but also the one for financing industry; industrial capital is combined with banking capital to form financial capital. This exactly happened in war-time Japan. There was little possibility of competition between banks. Various kinds of capital were accumulated within banks in the form of money capital; it was controlled by the government and allocated to industrial companies in accordance with their perceived contributions to carrying on the war to a successful finish. The role of the central bank was dramatically changed. It was no longer responsible for maintaining the internal and external value of the currency; its main function was to utilize the available amount of money capital in order to realize the aim of the government in a most efficient way. Of course, the aim was switched from 'victory over the enemy' to 'economic growth' after the war, but the relationships between companies and banks still remain more or less intact, businessmen and bankers sharing the same aim with the same ethos.

The marriages between banks and companies brought about not only favourable effects, as stated above, but also evil outcomes, as some of the bankers and economists were critical of this change in the banking system. As they were assured to obtain enough funds for their production activities, there was no incentive for them to save money. Unless they were subject to banks' strict superintendence, there was always a possibility that the funds provided by the banks were spent wastefully. Furthermore, banks themselves

too were inclined to lose the sense of self-responsibility because the money they lent to the companies was provided by the Bank of Japan which in turn enabled it to create the money and as much as it was wanted. The postwar habits of the city banks of over-lending to the manufacturing companies and over-borrowing from the central bank originated in the tight collaboration of banks and companies during the period of the controlled economy. In any case the ratio of the company's own capital to its total capital declined sharply. It was 90 per cent in 1934, while only 30 per cent in 1944.

The Bank of Japan lost its independence from the government. After it became the underwriter for national bonds which the government issued, the amount of currency expanded rapidly. Of course, the Bank of Japan could have sold the national bonds in the open market. If it had done so on a substantial scale, the price of the national bonds would have declined and money would have been tight – a contradiction to its principal duty of channelling a sufficient amount of money to the industry. Moreover, the real outputs of all commodities declined enormously due to shortages of materials, war damages, etc. When Japan was allowed to join the IMF, in August 1952, the exchange rates were set at 360 yen per dollar and 1,008 yen per sterling, while they were 3.43 yen per dollar and 17.14 yen per sterling, respectively, in October, 1934. Though this great decline in the value of yen occurred under very unfavourable conditions, it is certain that it was partly due to the continued 'Keynesian' policies during the war or quasi-war time, whereas it was also partly ascribed to the destruction of the production facilities by bombing, etc. as well as their maladjustment to the new circumstances after the Second World War.

Following the prohibition of gold exports in 1931, and the ending of conversion of bank notes into gold in 1932, it was felt that Japan had given up the gold standard system only temporarily. History shows, nevertheless, however, that she got deeper and deeper into a managed currency system as time went on. The fiduciary-reserve limit set to the Bank of Japan became elastic and more and more generous. On the basis of the government bonds and other securities, gold and silver foreign currencies and bills of foreign exchange submitted to the bank, it was allowed to lend money to manufacturing companies. Obviously, the supply of industrial funds became the prime objective of the central bank and the money was created with no consideration upon how its value would be affected by its creation.

Japan became a country without a central bank in the traditional sense. Nevertheless, yen should have played the role of the standard money in the area Japan occupied. As she imported materials from the countries in the area, her trade balances against them became unfavourable. Naturally the price of yen was inclined to diminish in the yen bloc. If it declined, Japan would have been put in a more difficult position in collecting materials from the countries in the area. In order to keep the price of yen, she

should have sent gold to them to pay the deficits. This gold standard dilemma in the non-gold standard country was solved by actually sending gold, which meant that Japan had virtually no gold reserve before the end of the war. This was an obvious bankruptcy of the militarists' idea to free countries of Asia from Western colonization. The Bank of Japan anticipated it as early as 1938; in the same year the Governor of the bank sent a document to the Minister of Finance, in which the Governor distinctly stated that the government should have a clear idea of how to reach a political settlement of the war against China, particularly in taking the capacity and feasibility of the Japanese economy into account.⁸ Unfortunately, it was too late. The war had its own momentum; the Governor's warning did nothing to stop it and the Japanese army looted gold in the territories under occupation.

VI

In August 1945 Japan surrendered to the Allied Powers; she had, until the conclusion of the San Francisco peace treaty in 1951, two governments, one being her own government and the other, the Allied Powers General Headquarters (GHQ). The former was put under the control of the latter. Of course, while high-ranking officials in the war time were barred from holding public office, ordinary officials remained in their offices. Their way of thinking or mentality was not very much different from the one in war time and often conflicted with the liberalist view of the GHQ. The former still lived in the control economy, while the latter wanted to establish a free-enterprise system in Japan as quickly as possible. Where their views conflicted greatly, the GHQ rightly and properly gave orders which the Japanese government had to carry out. Even in such cases it was possible for the government to put planning elements into the policies when they were implemented. Thus the planning-oriented way of thinking still survived when Japan achieved independency and naturally revived itself afterwards.

It was fortunate for the Japanese that Joseph M. Dodge, the President of the Bank of Detroit, was appointed to a financial adviser to the Supreme Commander for the Allied Powers (the SCAP) in 1948. He was a classical, orthodox banker, ascetic, diligent and thrifty and believed in the price mechanism in the free market economy. He was a staunch supporter of the theory to the effect that government should be kept small and welfare spending had to be minimized. He was a person who could claim to be called a genuine Thatcherite. He insisted that government spending should be confined within its current income, i.e. tax revenues, revenues from state enterprises and others; the central bank should not pay the deficits of the government. The finance corporation established for reconstruction and redevelopment in 1946 was allowed to issue reconstruction savings

debentures, provided that they were sold in the open market; its aim was to lend money to the basic industries which had difficulty in obtaining funds for equipment. However, because the corporation had not been strict enough in withdrawing loans, the GHQ ordered in 1949 that the corporation had to be closed. Whereas the government considered the official prices either to be raised or to be abolished, Mr Dodge's line was to push down the black-market prices to the official ones by rationalizing enterprises such that they could bear international competition under the given foreign exchange rates. The enterprises were allowed to rely on the price-control compensation only as a temporary means. Naturally a compromise was made between the two. Although the Japanese government respected the Dodge line, the official prices gradually rose and met the black-market prices which were declining. The equilibrium prices established in this way were perfectly consistent with the exchange rate on which Mr Dodge finally agreed with the US government.

We may say that economic controls were removed from the most areas except food supplies, international trade, foreign exchange, and finance. This was, however, only legally true. For a fairly long period yet to come, administrative directions were given to private enterprises; the government was able to lead the economy to the aimed position by treating some enterprises favourably and some others unfavourably, especially in the allocation of money capital.

In such a stage of reconstruction we could not say that competition was more essential and preponderant than planning. Enterprises, even though they were equally profitable, had to be distinguished and discriminated in the government's policy point of view. At the very beginning of recovery, agriculture and food industry were very important, which were later replaced in the ranking of importance by material importing traders which in turn were replaced by the industries for exports. Although the order of significance of industries was changing from time to time, the government had to discriminate between enterprises appropriately according to their moving significance in its national economic plan for reconstruction. As far as such a period of time is concerned, it cannot necessarily be said that fair competition should be more respected than discrimination.

The problem was how to use efficiently the given amount of money capital. In order to make finance to key industries smooth, the Bank of Japan bought the government securities from the city banks which held them and let these lend the money thus obtained to the selected enterprises of the key industries. Moreover, it exempted these from the progressive interest-rate scheme which was applied to a large loan exceeding some minimum amount. Such an operation of buying securities and bonds for the purpose of smoothing or facilitating the supply of loans to some particular enterprises was called a *himotsuki* (tied) operation. By means of it the Bank of Japan took the responsibility for financing the industry even in the

Dodge-line period. Of course, a himotsuki operation should not be confused with the open market operation for the monetary policy purpose.

In 1950 the Korean war broke out when the inflation due to the Second World War was going to cease. There was no doubt that this new war was also a cause of another inflation, because it stimulated exports greatly, so that Japan benefited by obtaining an enormous trade surplus. The dollars earned in this way were changed into yen; therefore, the prices of commodities would tend to increase as larger amounts of money circulated in the economy. To avoid such an inflation, imports were increased in order to keep the trade surplus as low as possible. To stimulate imports some beneficial treatment should be extended to importers. Loans were given to them on very favourable terms. This created an over-loan of the central bank to city banks which in turn made an over-loan to the importers. In this way materials for a further expansion of the economy were accumulated and even a speculative inventory investment was made with respect to imported materials.

Whereas a great emphasis was laid on the stabilization of the value of money, the Japanese government stuck to its war-time policy. This was supported by businessmen. In fact, in a letter addressed to Mr Dodge, the Federation of Economic Organizations (Keidanren) asserted that the main objective of monetary policy should be to provide necessary funds for development of such basic industries as coal, electricity, steel and ship-building, and to help those industries which had potential for exporting their products, by furnishing them with funds for making their equipment adequate and modern. In order to secure industrial funds it was important to reform the tax system so as to promote capital accumulation, in addition to enhancement of national savings. According to the view of the Bank of Japan at the time, those funds which could be used as capital for a long period, such as the funds relating with the US aid to Japan and the deposits to the Treasury's deposit department, should be allowed to be regarded as long-term funds of the industry. Export Bank of Japan and Japan Development Bank were both established in 1951 along this line of thought. The economic and scientific section of GHQ was reluctant of this movement. It warned the Japanese government of their approval that enterprises could use their profits, which were very big due to the Korean war, for an expansion of production facilities and inventory holdings, without returning the loans they had borrowed. As Japan became independent, it diverged from the GHQ line considerably and the Bank of Japan continued to be involved in the finance of industrial investment, as it had been so during the War, so that the official rate was kept low over a long period of time after the San Francisco treaty.

After the peace treaty, the Japanese government more loosely interpreted Dodge's philosophy of finance in such a manner that the scale of public finance could be expanded. Nevertheless, we may say that the essential

spirit of the Dodge line was respected in the sense that the government gave a high priority to the stability of the value of yen; the funds needed for expanding basic sectors, electricity, shipbuilding, etc. as well as the funds for rationalizing heavy-chemical industries, had to be supplied mainly by increased savings. The finance of the remaining part was left to efforts of the banking and financial organizations as it had been so during war time.

At that time, however, Japan was in a gravely difficult situation; price levels were higher than that of its international competitors, so that Japan had to tighten credit in order to secure an equilibrium of international trade balance. On the other hand, in order to reconstruct industry an expansion of imports was inevitable, which had to be accompanied by an expansion of exports, to restore an equilibrium in trade balance. To stimulate imports and exports some scheme for subsidizing imports and exports enterprises should be inaugurated, for the purpose of which a credit expansion was needed. Economic reconstruction meant an easy-money policy. Nevertheless, it is true that the government had to increase the effectiveness of the available amount of money. To do so, therefore, it strengthened the progressive interest-rate schema, rationalized the scheme for favourable treatment of the loans for import and intensified the government's control (guidance and regulation) on borrowing for the purpose of industrial investment.

As a result, money poured itself into the circle of big firms; small and medium-sized firms were segregated and hardly obtained the funds for investment. As a result of the increase in the productivity of the whole nation due to this tight financial policy, the wholesale prices of commodities declined and approached their international level. The international trade balance was considerably improved, although the production of mining and manufacturing industries became lower. In an economy like the Japanese one in this period of time, in which everything was in short supply, it was very important to select and distinguish those enterprises which had an ability to make a better performance, so that in deciding on an economic policy the government's quality assessment of the enterprises was taken into account. It might be criticized as an unfair system because it was not operating, according to an impersonal principle of even opportunity. In 1953–54, however, the money market was tightened in order to improve the trade balance, and a consideration was clearly paid to the restraint of total demand. In this sense, a return to the orthodox financial policy was observed in some degree. Moreover, during the occupation period, concerning financial matters, the GHQ gave directions to the Bank of Japan directly rather than indirectly via the Japanese government. Thus it contributed to making the monetary policy more independent of other industrial policies.

In 1955 Japan succeeded in expanding exports greatly, so that its real GNP grew at a very high rate of 8.8 per cent. Prices were stable, trade balance

was improved, and lending–borrowing positions of commercial banks were improved. For a short period at least, the central bank was set free from the fear of acceleration of over-loan. Unemployment decreased, though the economy still had many disguised unemployed workers. In 1959 circumstances of the labour market changed dramatically; labour at last became scarce. Competition for new school leavers was becoming fierce. Furthermore, during the ten years from 1955 to 1965 foreign capital was introduced into the economy; this, together with the improvement in international trade liberated Japan from the international trade balance constraint which had been very restrictive in the past.

However, an over-loan of the central bank reappeared as soon as business conditions recovered because commercial banks relied on the central bank and excessively borrowed from it in order to lend to the firms as much as possible. Such a situation should be considered as unhealthy, but it was, nevertheless, a case in which the central bank could, rather easily, manipulate monetary policies in order to encourage or discourage investment activities of the firms.

In 1955–56 when over-loan almost disappeared the government tried to establish an open market for the government short-term securities, but its open market operations did not work, because it issued them excessively and insisted on the original conditions of the issue. Consequently the Bank of Japan had to buy all the securities remaining in the market. This shows how difficult it was to re-introduce free markets into the economy once citizens and administrators had forgotten how to behave in the market and how to operate it. Even though the economy was provided with a market, the price mechanism did not work there. The interest rate was not adjusted flexibly, and so the economy was characterized as a fix price (or fixed interest rate) economy, in spite of the fact that the Bank of Japan wanted to have an open market where the rate of interest was flexibly changed by virtue of its open market operations. In fact, the official rate changed only three times during the postwar period of inflation and only once in the six years from 1949 to 1955. Occasionally, either rationing was carried out in the market, or a progressive interest-rate scheme was applied to large loan. Otherwise, Wicksell's fixed-interest-rate models of cumulative process were perfectly adequate for describing the Japanese economy in this period.

Why had such a financial structure continued to prevail after the Second World War? During the war period the interest rate was kept low in order to support enterprises. Commercial banks lost the principle of self-responsibility and played the role of tunnels connecting the central bank and the industrial firms. They lost their own individuality and they uniformly just informed the central bank of the fact that they were unable to support the firm's industrial investment of such and such an amount. All the excess demand for industrial funds were cleared by the central bank at the given, current rate of interest. There was no need for the firms to issue new shares. All stock

exchanges were closed during war time and were only re-opened again in 1949. The firms were thus financed by borrowing from commercial banks which in turn borrowed from the central bank, and this last only printed paper money as much as requested. This easy going 'over-loan' regime continued to prevail, in spite of Dodge's efforts, after the war and even after the independence of Japan.

This occurred where the city banks lent to the firms that money which they had borrowed from the central bank, and their lending became too large in comparison with the deposits they received. The total liabilities of the city banks, except the part that was lent to the firms, were held either in the form of cash or deposits, or in the form of stocks or securities. Where the holdings in this last form were small, lending would be large, provided that holdings in cash or deposits were limited. While the stock exchanges were closed, the tradition of over-loan came to stay in the postwar economy.

Obviously the stock exchanges had to be re-opened and stimulated in their activities. As will be discussed later, however, there was a reason for the fact that the business world in that period did not much welcome a very active circulation of shares but wanted to have stable share holding. Then the Bank of Japan investigated an alternative way to overcome the over-loan phenomena. Its plan, as will be seen later, was not carried out.

In any case, to the eyes of foreigners it looked very unstable and vulnerable that commercial banks lost the spirit of independence and self-responsibility and easily over-borrowed from the central bank. It was extremely important and urgent to restore the free financial market of the prewar period because the role of international trade became more and more significant for the recovery and new development of the Japanese economy. On the other hand, in spite of the recognition of over-loan as being undesirable and in spite of every effort of the Bank of Japan to get rid of it, it survived. It is true that over-loan almost disappeared for a short while in 1955, but as soon as this was realized by the firms and the commercial banks, the former requested the latter to lend them more money, while the central bank had to support the commercial banks by satisfying their demand for borrowing from it. In those days where there was a limitless demand for industrial investment for recovery and the government committed itself to providing the industry with enough funds for recovery at a low interest rate, an elastic supply of money and, therefore, an inelastic interest rate were natural consequences to a certain extent, although the supply of money was restricted by introducing rationing in the case of the demand being too large.

In emergency circumstances like those after the War, sectors of the economy were treated differently according to their expected roles in the whole process of recovery and development. A special and distinct treatment was, in fact, made to each of them in such a way that the economy would work most effectively. The economic principle supported in postwar

Japan was planning and rationing on a priority basis but it was neither rationing on equality basis nor free competition. The following sectors were favourably treated:

- 1 those non-munitions industries which had been badly damaged by air raids;
- 2 the agricultural sectors, including the fertilizer and other agribusiness, which had to play a crucial role in rescuing the people from the serious difficulty in obtaining food in a period just after the war;
- 3 the international trade sector importing the materials for domestic industries; and finally,
- 4 promising export industries.

As for (3) the loan for establishing the funds needed for settling import bills was granted on a favourable condition in the first ten years after the War. Such a consideration was almost terminated in 1955 and completely abolished in 1966. Secondly, regarding (4) a similar consideration was made concerning the funds for settling export bills; it survived until 1973. In order to strengthen the nation's export capability the government treated selected industries favourably by providing them with a loan for investment at a low rate of interest. This scheme was criticized by international competitors as unfair, but the postwar Japanese experiences show that planning carried out on the priority principle was more effective than free competition. There was, of course, a trade-off between the rate of growth of production and the depreciation of the value of the currency. Whereas a generous finance in favour of industrial investment would have created excessive inflation, it would also have roused economic growth greatly. Clearly gain dominated forfeit.

Finally, it may be said that the financial policy followed by the Japanese government was 'Keynesian', while the one insisted on by Mr Dodge was 'monetarist'. According to the former, it is most important to establish nationally-agreed economic policies systematically, so that the central bank is subordinate to the government and gives support only to those proposals which are consistent with the government's plan. On the other hand, according to the latter, the main task of the central bank is to make the value of the currency stable; the monetary policy should, therefore, be neutral and independent from the political aim of the government. Like the two-party political system, the central bank should perform a part of the Opposition to the government. Such a structure obviously slows down the speed of development, though it secures the economy against inflation and other monetary difficulties. The Japanese were 'Keynesian' after, as well as during, the war. They always run at their full speed, once collapsed and then roused themselves to action again.

It is true that throughout the postwar economic history of Japan until 1970 the following Keynesian characteristics were evidently observed. First,

the official rate was kept low so as to enhance industrial investment. Secondly, the quantity adjustment, rather than the price mechanism, prevailed in the money market, in order to pour as much money into the industry as possible. Fortunately, in spite of this kind of monetary policy no serious inflation of prices was noticed in the 1960s, whereas some necessary monetary measures, including tightening of the central bank's lending regulations, were taken in the case of the situation being serious. The financial capital of the industry was supplied by banks, while equity finance deteriorated. Therefore, bankers, rather than shareholders, ruled the enterprises. Nevertheless, it is also true that the Bank of Japan tried, several times, to restore its classic independence from the government; its efforts, however, may be said to have been generally unsuccessful, though it tended to be independent at a very slow tempo.

VII

When the rate of interest was fixed at a low level, investment increased greatly in the 1960s; there were, of course, many investment opportunities for redevelopment and reconstruction of the production facilities damaged and destroyed during the War. This expansion in investment resulted in an increase in GNP which in turn brought about an increase in the tax revenues. Thus the government had enough money for expanding its expenditure. The fiscal policy worked well, which contributed to making a further increase in GNP. Moreover, new facilities improved the quality of the products, so that exports increased remarkably. This produced a further increase in GNP. In the early 1960s a shortage of labour began to be felt and imports of materials for production were increased. The increase in exports was not so high as the one in imports; the trade balance deteriorated, but the rate of interest was kept low.

Naturally, therefore, firms borrowed greatly from city banks which in turn borrowed from the central bank. This created an atmosphere in favour of a financially centralized economy that could be regulated by rationing lending to city banks by the central bank, the rationing being called *madoguchi kisei* (the window regulation), according to which an allocation of lending to city banks is decided by the central bank on the basis of their reports of their performances in the previous periods and their prospects in the future. Of course, other measures were also proposed. One of them was that for strengthening the firms' own capital, a special fund was proposed to be established within the Bank of Japan on the basis of foreign money which the government's special account for foreign exchange stabilization held. The firms would then sell newly issued bonds and shares to the special fund of the bank and would return the money thus acquired to the city banks to pay back the money they had borrowed. The city banks would then be able to return the money they had borrowed from the

central bank. Then all of the over-lendings to the city banks would be cleared. Although the fund would lose the foreign money they had received from the government, they would have acquired the bonds and shares, on the basis of which it was thought that Japan would then be able to establish a sound and powerful securities market which would make a great contribution to increasing the firms' own capital.

It was, however, very difficult to realize this scheme, because its most essential premisses, that is, the central bank's purchase of the foreign money that the government held, the issue of corporation debentures and shares and so forth were not considered to be realized in a reasonable span of time at the time when the scheme was considered. Thus the over-loan remained in the economy; the interest rate was kept low, and money was lent by the central bank to city banks as much as it agreed to the requests made by them. Then, as the interest rate was fixed, city banks maximized their profits by maximizing the amount of their lending, so that the quantity mechanism remained to prevail in the lending market. Although the 'real' side of the economy was greatly freed and the control measures for the real economy which had been introduced before or during the War were mostly removed afterwards, the monetary side was still using the method of rationing, in order to allocate the scarce resource, money, among the industrial firms. Thus, in the Japanese economy of this time the price and quantity mechanism worked in the real and monetary sub-economies, respectively, and the Japanese banking system was constructed so as to fit this mixed mechanism perfectly.

Under the central bank, there have been, after the War, two specialized banks, one for financing the activities for development and the other for promoting international trade. Japan also has established three banks for providing long-term credits to the industrial investment projects. These collaborate with city banks, surrounding which industrial firms form enterprise groups. As has been shown in Table 4.7 the proportion of national university graduates, especially those of the graduates of the University of Tokyo, in the executives and presidents of these central and semi-central banks is very much heavier than those for city banks, while these banks themselves are very much dominated by the executives and presidents from the national universities. The school tie or the academic clique in the financial sector would perhaps be the basis on which the monetary controlled system has been built; or conversely, it at least reflects the control-economic character of the postwar financial sector.

It has been pointed out that each group has one city bank and one trust bank with the only exception of the DK group which has no trust bank. It is not unusual for the city bank to send its staff members to the companies in the group to which the bank belongs, as either executive or president. On the average of six groups, the city banks send 0.75 persons per company, though this figure may be regarded as somewhat understating the reality

because the statistics book I have used does not record those executives and presidents who came from the outside to some lower posts of the companies and then promoted within the same companies afterwards, as such.⁹ These city banks play the role of either the headquarters of the groups or the bond cementing the member companies in the groups; the staff members sent by the city bank to the companies in the same group form the artery putting organs under its control.

Moreover, the city banks of the six enterprise groups are usually the main bank of the member companies in their respective groups – the main bank system being a legacy of the system of marriage arranged between munitions companies and city banks during the War, as has been pointed out earlier. In such a couple the city bank assumes the moral responsibility of providing the company with an amount of money that it needs for carrying out its production plan. The ‘marriage’ may be polygamous; and this is especially so for large companies. They may each have a consortium consisting of a few main banks. These are not on an equal basis; there are big differences in their responsibilities between the city bank which is nominated as the first main bank and others nominated as the second, third, ... main banks. The burden of responsibility declines rapidly, where a city bank is ranked at a lower place in the consortium of the main banks. When a company wants, for example, to raise some money for introducing a new method of production, it has first to propose the idea to the first main bank which will draw its conclusion after consulting with other main banks. Therefore, the power of the first main bank is distinctly higher than that of the second main bank which in turn is distinctively higher than that of the third, and so forth. The distribution of power among them is very similar to the distribution of power between the first wife, the second wife, ... , the *n*-th wife in a polygamist family. It is much more sociological or anthropological than economic, in the sense that the distribution of power is not necessarily proportional to the amounts of money the banks lend to the company. Accordingly, when this law of distribution of power is violated, a war for ‘humanity and justice’ starts between the main banks and the company without any ‘humanity and justice’,¹⁰ in the same way as wives of the same family fight with each other in similar circumstances. The first main bank’s rights are extensive, as will be seen below, in exchange for which they are burdened with a duty to behave paternalistically. The bank which violated the rule would be ostracized in the banking world.

Consequently, in the banking business, the competition for obtaining the position of the *first* main bank is most severe and fierce. Of course, in the case of the company being in serious financial trouble, its first main bank will be affected severely because it has to pour an additional substantial amount of money into the company which is in a critical condition. However, the bank will, in exchange, have the power to control not only that part of the money of the company which the bank has loaned to it,

but also its entire money, otherwise the bank cannot bear the responsibility of keeping the company financially sound. Therefore, when it expands or improves its production facilities, the first main bank will be granted a right to loan a substantial portion of the necessary money to the company. This is a big attraction for banks to raise their activity levels in such an economy as Japan's in the period of time when the quantity adjustment mechanism works in the lending market. Obviously the bank must have the greatest possible group of firms to which it can loan money for investment.

Thus it is very important for a city bank to become the first main bank of the greatest possible number of companies. Moreover, the first main bank has a great opportunity of sending its staff members as executives to the companies that it takes care of. This entry into companies for the purpose of control is very much appreciated by the bank because it has to find satisfactory positions for high-class staff members, to which they are willing to be transferred. Otherwise, under the notorious permanent employment system, the bank will go bankrupt because of the over-employment of high-salaried managers.

The powerfulness of the main bank differs considerably between enterprise groups. In the case of the Mitsubishi group, Mitsubishi Bank is in the position of the first main bank for 95 per cent of those 20-member companies of the Friday meeting of the group, which exclude Mitsubishi Bank, Mitsubishi Trust Bank and Meiji Insurance Company. Similar figures which show the percentages of Mitsubishi Bank to be the second and the third main bank of the same twenty companies are 5 per cent and 0 per cent, respectively. To get the overall index from those three figures we aggregate them with weights, 1, $\frac{1}{2}$, $\frac{1}{3}$, respectively. Of course, these numerical values for weighting are arbitrary but may be considered to be not very far from those estimated to be reasonable. Thus the index obtained according to this formula would not be entirely out of tune for the purpose of showing the bank's power of commanding the companies in the group. The index is calculated at 97.5 per cent for Mitsubishi. Similarly, it is at 87.5, 100, 92, 92.5 and 92 per cent, respectively, for Mitsui, Sumitomo, Fuyo, DK and Sanwa. See Table 4.8.

From these it is seen that the most powerful bank vis-à-vis the companies in its own group is Sumitomo which is followed by Mitsubishi, at least in 1992. The banks of Fuji (for Fuyo), DK and Sanwa form the next group and are almost equal in powerfulness. The Mitsui group is weakest in its bank's power of commanding the companies in the group, though this situation is expected to improve for Mitsui after its bank having been merged with Taiyō-Kobe Bank, a large city bank to form a new Sakura Bank. In addition to these city (or commercial) banks, each group (except DK) has, its second bank, a trust bank. Their main bank indices are calculated on the assumption of the same weighting system. Sumotomo's score is again at the top

Table 4.8 The percentages of the member companies of the six enterprise groups having their own city banks and trust banks as the 1st, 2nd, 3rd main banks, 1984

Enterprise group	City bank			Trust bank		
	1st	2nd	3rd	1st	2nd	3rd
Mitsubishi	95	5	0	0	70	15
Mitsui	80	15	0	5	35	25
Sumitomo	100	0	0	0	76	18
Fuyo	84	16	0	0	16	24
DK	85	13	3	0	0	0
Sanwa	86	6	9	0	14	14

Source: Nippon Keizai Shimposha (1984) *Nikkei Kaisha Joho* (Nikkei Information on Companies).

with an index of 44, which is followed by Mitsubishi (40) and Mitsui (31). Fuyo and Sanwa are weak, scoring 16 and 12 points, respectively.

From these observations we may conclude that the Mitsubishi and Sumitomo groups are a typical, or ideal, enterprise group whose member companies are united by means of the financial commanding power of its city and trust banks. However, Mitsui is seen to be clearly weaker than these two, confirming the usual view that Mitsui which had been the most powerful and successful zaibatsu before the War was taken over by Mitsubishi afterwards. DK and Sanwa are the new groups formed around a big city bank; there is still an obvious distance between them and the old Mitsubishi and Sumitomo.

Having been provided with enough money for investment by their main banks, the companies in the six enterprise groups played the role of locomotives bringing the Japanese economy to a place from where it could launch a fresh mission for chasing developed Western countries. Thanks to the new production facilities made available by the loan for investment, the economy was enabled to produce more products of better quality. Also, in the 1960s Japan enjoyed a huge increase in demand from the US as its economy was booming and involvement in the Vietnam War became deeper and deeper, so that the procurement of the US forces from Japan became hectic. Japan's capacity of production had expanded greatly, and her cost of production diminished remarkably. Exports expanded at an enormous speed and yielded a large trade surplus. A high rate of economic growth was sustained and in spite of the booming condition remaining in the economy from year to year, wholesale prices were stable. Eventually a drastic appreciation of the value of yen became unavoidable. The old IMF regime at last collapsed in 1971. Obviously, the advancement of Japan was one of the factors responsible for the collapse.

The luncheon/dinner meetings of presidents and chairmen of the enterprise groups naturally produced new ideas of entrepreneurial activities,

many of which were later realized by a number of member companies collaborating with each other. To establish a new business necessary factors of production have to be brought together; they are money, knowledge about the market, knowledge about the necessary technology, ability to construct the factory, etc., and all these are available within the group. Especially, money is provided by the city bank of the group, while the necessary market research is made by its trading house. We may, therefore, be able to say that conversations in the luncheon meeting may relatively easily result in a major industrial innovation.

According to Schumpeter innovations are decided individually and secretly. However, although the meetings of presidents and chairmen are secret, what has been discussed there is very difficult to be kept in absolute secrecy because the meetings are attended by many people. Once some good idea is examined in one group, more or less similar ideas would soon appear on the agenda of some other group. Thus, in Japan, innovations are observed in quick succession or gregariously. For example, a committee for atomic energy was formed in the Mitsubishi group in 1955 and then in both the Mitsui and the Sumitomo group in 1956. On the basis of these committees, companies named Mitsubishi Atomic Power Industry and Japan Atomic Power Enterprise were established in 1958 by Mitsubishi and Mitsui, respectively, followed by Sumitomo Atomic Power Industry in 1959. The same story was repeated soon after this with reference to the petrochemical industry.

In the 1970s, the (first) oil crisis immediately followed the collapse of the international money market. Businessmen and politicians had a presentiment of an age of uncertainty and Japan groped for industries in the future. Then the Prime Minister, Kakuei Tanaka, the author of 'A Plan for Remodelling the Japanese Archipelago', had a very ambitious outlook concerning the future Japan. Although his premiership was terminated after only two and a half years because of his involvement in the Lockheed scandal, the relationships of the government with the business world were kept tight. The businessmen surrounding the Prime Minister became very powerful; the 'national consensus' produced by them often became a topic of the presidents'-chairmen's meeting of the enterprise groups. Then a number of innovations were carried out by the groups. Japan developed greatly in the field of electronics, information, computers, business machines and medical instrument industries. Robotization was carried out rapidly in the small and medium-sized factories, more than in the large factories. As smaller factories realized labour shortage more acutely than large factories, they had a big incentive to equip themselves with robots, and the quality of the products of robotized small firms improved greatly. It is no doubt that all these contributed to expanding the export market and increasing employment of Japan.

In Japan too, the problem of Keynesian theory versus the monetarism attracted the interest of academic economists in the late 1970s and the

early 1980s. It was, however, no more than a problem of academic interest. No Japanese economist seriously believed that these theories were able to remove imminent difficulties in that period. Japanese politicians and businessmen, thanks to Kakuei Tanaka, were neither Keynesian nor Milton Friedmanian but Schumpeterian as far as at least this period of time was concerned. They believed that wherever a number of innovations were successively carried out almost at all times, employment would be kept high; there would be no need for a reduction of real wages as well as no need for expanding the government's expenditure to keep employment of labour high. In addition the economy's position of international trade was to be very favourable because exports were kept high, thanks to the quality and novelty of the products. Thus the Japanese industries remained very aggressive. Besides those industries mentioned above, Japan started, in the beginning of the 1980s, to extend its interest in the fields of biotechnology and oceanics. Naturally then, ambitious institutes of research for development and think tanks were built by many private corporations; and the government authorized in the 1970s to expand the faculty of technology of national and private universities in order to prepare the economy for innovations.

By watching Japan in this period another important issue of academic interest will be revealed. From the textbook of international trade we know that the sum of current account, capital account and cash account is identically zero. Then, providing that cash account and non-trade balance in the current account are both in equilibrium, a positive trade balance implies a negative capital account. Therefore, during the long period of trade balance having been black, Japan's holding of capital assets in foreign countries was increasing more rapidly than foreigners' assets in Japan increased.

These experiences revealed the clear inadequacy of the conventional neo-classical growth theory. It usually studies the phenomena of economic growth on the assumption of the economy being closed, despite experiences telling that there was no significant real economic growth under such an assumption.¹¹ In fact, in the actual world, only those countries which are successful in the business of international trade have shown a perceptible growth of industry which is, in turn, accompanied by expansion abroad of their financial organizations and property businesses. This repercussion of growth from the secondary to the tertiary industries has been clearly observed with respect to Japan in the period of the 1970s and 1980s. Thus we may conclude that exports and imports are indispensable elements linking the theory of economic growth on the real side with that on the monetary side; without these the theory only traces out a monotonous expansion of the industrial sector with no effect upon stock markets and foreign exchange rates. Thus the conventional neoclassical theory of growth based on the assumption of the closed economy has only made a monotone caricature of the dynamic actual world.

After the Second World War Japan had to obey the GHQ's order of land reform; big landowners had to sell their land for farming to peasants and tenant farmers. During the period of high industrial expansion and the following period of 'remodelling the archipelago', big business bought land from petty landowners for their future development or simply for speculation. Therefore, the price of land was already extremely high in the late 1970s and early 1980s. Moreover, because of the worldwide oil crisis (first and second) Japan's tempo of industrial expansion became slower than the rate at which the economy had expected to grow. Consequently, the price of land was halted at last in the late 1980s; it reached its peak in 1991. This created very damaging effects, because in Japan, in the period after 1970, land has been closely linked with stocks; in fact, small landowners bought shares with the money they borrowed by putting a portion of land as a security. When the stock market plunged in the 1990s, as has been discussed above, those small landowners not only lost their land offered as a security for borrowing money but also had to sell shares or some portion of their remaining land, in order to return the money they had borrowed to the bank. Thus the land price started to decline in parallel with the fall of share prices. These affected the value of the yen adversely. To foreigners' eyes, Japan might appear to be faltering, but Japanese economists and businessmen seemed to remain rather optimistic because the fundamentals of the economy were still considered to be not too bad. They thought that yields from the innovations which they had decided on in the early 1980s for the 1990s were still continuing. The actual consequences of this stumble were very serious, because its causes were deep-rooted.

VIII

As we have seen above, during the period of the planned economy during the War the Ministry of Finance and the Bank of Japan became adept at controlling the city banks. On the other hand, the stock market was closed down during the war, and was not reopened until 1949. In addition the number of securities companies at that time was more than 1,000, so each of them was very small scale, making control of them extremely difficult. The total number had eventually been reduced to 425 in 1965. In 1990 it was around 220. Of these Nomura, Daiwa, Yamaichi and Nikko Securities were particularly large, and the market was effectively a four-company oligopoly, controlled by these four companies. Moreover, since they acted in step with each other the securities world was virtually a monopoly.

From around 1970 enterprises became able to issue new shares by public subscription at the prices current when they were seeking to raise the capital. These current prices were far higher than the face value of the shares. This meant that a top class enterprise whose share value was high was able to raise large amounts of capital for a very small expenditure. The

1980s became the decade of equity finance. Any capital acquired by enterprises over and above that needed for industrial investment went on land speculation. Where there was yet more capital it was invested in other companies in the same *keiretsu*. Up until this point production in these companies had been under the control of the parent company, and they had also been subject to the financial control of the city bank of the enterprise grouping to which the parent company belonged. The parent company now came to have financial control over its subsidiaries as well. This had a major influence on city bank control over enterprise groupings.

What also happened was that in the decade of equity finance it became impossible to maintain the system of stable shareholding. If a company wants 600,000 yen out of every increase in capital of 1 million yen to go to stable shareholders, then any increase in capital on the part of another company will require a matching contribution to the first company. In this sense the stable shareholding system is a practice that can prove to be expensive. Moreover, as long as the stable shareholders stand firm, the price of shares will respond sensitively to the slightest change in supply and demand. This is because the amount of shares held by stable shareholders is very inelastic in relation to price changes. For that reason, in order not to confuse prices in the domestic market, enterprises ended up using surplus funds obtained through equity finance outside Japan, on such things as the purchase of works of art or villas in holiday resorts. Companies had increasingly to worry about mergers and takeovers should the framework of the stable shareholder system become weakened, and these led to instances of companies' facing threats of extortion from gangsters (*yakuza*) and racketeers. Raising finance through the issue of new shares sold off in a fragmentary fashion the company's right of control, and since these rights were sold on the open market they were not sold to designated individuals. The company thus ceased to be able to trust its own shareholders. By contrast, when companies had depended on bank lending for their finance, the bank would send out inspectors to supervise what was going on, with the result that a large part of the company's highest personnel matters were controlled by the bank.

Despite this the prospect of being able to sell large numbers of new shares at actual prices was very attractive to enterprises, with the result that they turned precipitously towards the use of equity finance. This shift meant on the one hand that they moved towards becoming the type D companies outlined in Section I, and on the other hastened the decline of Japanese-type management, that is a system of enterprise groupings, stable shareholders reliant on mutual shareholdings, and a main bank system. The long-term industrial finance of companies that was characteristic of Japanese banks became a 'bad second' of bank business, and banks increasingly had to focus on their main business, namely adjusting the volume of money and stabilizing its value. Under these circumstances it was imper-

ative during the period from the late 1980s to the early 1990s that there should be some change in the shape of the Japanese economy, i.e. that it should undergo what I have termed a neoclassical revolution.

Notwithstanding this situation, the Japanese were at that time carried away with a mistaken dream. Those enterprises that had sufficient capital used their accumulated funds to speculate in land. On top of that individual small landholders in general pledged their land as security to borrow money with which to buy up more land. More than that, they purchased land and buildings overseas, and speculated on works of art and antiques. Many saw the danger in this situation, calling it a 'bubble', and in 1990–91 this bubble eventually burst. The situation had, moreover, been improperly exploited by the securities companies. Japan's securities companies, as I have already said in this chapter, were not specialized, but dealt in a wide range of activities. The normal practice in Britain is for securities companies to be specialized either as brokers, or as underwriters, or as dealers, but in Japan the same company deals with all these branches of activity. The fact that one company can combine the work of a broker entrusted with matching demand with supply, and that of an underwriter, entrusted with producing that required supply and doing so themselves singlehandedly, makes insider trading easy. One major scandal resulted from a securities company discriminating between demanders who took losses, and making up the losses of demanders of corporations.

Moreover, since the four large securities companies utilized their oligopolistic position to recommend certain sales, if they said that a price would rise then everyone would buy, and so the actual price would rise. Thus the bubble continued to be fuelled over a long period. At one point Nomura's overall profits were put at the highest in Japan. As share dealings multiplied, however, it became increasingly impossible for the four big securities companies to control share prices. Equity finance was even carried out in the European markets, but the shares that were sold there to foreigners were resold by them on the Japanese market, depressing share prices in Japan. When the bubble burst land prices fell, and so Japanese sold their shares as well, trying to offset any reduction in the value of the land that had been pledged as security. The decade of equity finance had come, but as far as the securities business was concerned, the situation was not one in which its existing way of business could carry on unchanged. As explained above, the current trade account surplus of the 1970s and 1980s had created a capital account deficit of similar proportions. That is, the value of the assets purchased by Japanese overseas had come to exceed the value of those acquired by foreigners in Japan by the same amount of the trade surplus. In fact, Japan held more of the American government's debt than any other country. So Japan's becoming an economic superpower in effect meant becoming a financial superpower. In the background of the bubble was a Japanese pride based on this awareness of being a 'great power'.

The shift from issuing new shares at face value to issuing them at current prices thus had a major influence on Japan's economy. Japan found itself facing the neoclassical revolution. The so-called Japanese economic system, with its three pillars of the enterprise grouping based on a system of stable shareholders with mutual shareholdings, the main bank system aimed at protecting that grouping, and the *keiretsu* enterprises incorporated in these groupings, found itself facing a crisis in this revolution. These Japanese-style systems rest on trust, but trust is established on the basis of nepotism (backed by familial relationships and alumni background). Where there is strict scrutiny of a relationship of trust, that trust can be a great virtue, but where there is no such scrutiny, then trust can result in the most tawdry criminal activity. In the mid-1990s it was the evil side that proliferated, and it became apparent that the Japanese economic system was far from being the creature so commended by so many foreigners. In addition, the system suffered from the chronic sickness of polarization between large and small companies, which had resulted in sharp wage differentials between large, medium and small enterprises, as will be seen in Chapter 6.

In Japanese enterprises management makes efforts to look after its employees, and so employment tends in principle to be lifetime employment; by contrast shareholders, except for stable shareholders, will move from one company to another in search of capital gain. Managers distribute very little of their profits in dividends, but retain most of their profits within the company. For that reason shareholders do not hold shares with a view to dividend, seeking instead to obtain capital gain by reselling shares. Thus with the exception of stable shareholders, shareholders in general have very little consciousness of 'our company', lifetime shareholders are very few, and it is difficult for a company to continue being of the A type. All companies have a latent tendency to move towards the D type, and the danger of collapse is inherent in the Japanese economic system. If there is no feeling among general shareholders of 'our company', they will have no interest in shareholders' meetings. Therefore, even when the number of shares held by stable shareholders has fallen to a very low level, a shareholders' meeting will still go along with the proposals put forward by the management. Taking advantage of this easy going situation, there appeared at shareholder meetings in Japan professional activists, whose possession of a small number of shares gave them the right to speak at meetings, and whose purpose was to protract and disrupt the meeting. Management's response was to hand over money in an attempt safely to survive the shareholders' meeting. Japanese management thus became steeped in scandal.

Once the advantages of acquiring capital through the stock market, rather than borrowing from a bank, are understood, the significance of having a main bank virtually disappears, and the more capital is raised through the stock market, the more impossible it becomes for enterprises to

continue having a sufficiently large body of stable shareholders. Enterprises start to become detached from the main bank, and if mutual shareholdings cease to be significant the enterprise grouping will collapse. Even the *keiretsu* companies will become more autonomous, except for the very small ones. Once these autonomous enterprises start to look to efficiency, they do not guarantee lifetime employment. Once this has happened, the era of Japanese-style management is gone for ever.

With the collapse of enterprise groupings and the main bank system, and the changes in the modes of activity of enterprises, the ways in which banks act as well will change. Virtually none of enterprises' investment decisions approved at the presidents' meetings has anything like the status of innovative plans. Only in exceptional cases are banks likely to make long-term advances. The problem of over-loaning disappears. The Japanese banking system has not permitted banks to deal in securities, but once this is permitted dealing in securities is likely to account for a significant part of bank business. In the case of Japan, however, the development of the stock market and of other securities markets has been very retarded. Although they may have advanced into foreign markets, Japanese financial institutions have little knowledge and experience when they come to dealing in bonds, and so are likely to do very badly in the face of the competition. Their main activities are naturally likely to remain call money and other shortterm lending, and foreign exchange business. Attempts are at last being made to implement the statement made by Joseph Dodge, special adviser to the Occupation authorities, that the special role that banks have in society is regulation of the money supply and control of prices. The implementation of this kind of neo-classicalism is the task that faces Japan at the start of the twenty-first century. Whether this is achieved sooner or later, Japan must begin by consolidating her financial markets, and so, given this great delay, it may be thought that, for the reasons that will be outlined in Chapter 8, the country is very short of the talent that will be needed to lead this work. Should this actually be the case, then the future for Japan is not a bright one.

5

Japanese Enterprise as Private Sector Bureaucracy

I

I am going to discuss here a problem related to the question of Japanese 'uniqueness', namely why American and British enterprises are different from Japanese enterprises. The idea that Western enterprises are of the company-law type, while Japanese enterprises are of the community type, was first articulated by Ronald Dore. Why, then, does this difference in type exist? Dore does not really answer this question of 'why?'¹, but what I propose to deal with here is just one half of this question: in other words, why Japanese enterprises are of the community type. In university textbooks the argument usually goes along the following lines: let us consider capitalists setting up enterprises. Where their own capital alone has not been sufficient, they persuade other rich individuals to provide money. In exchange for the money thus provided share certificates are handed over as deeds, and those who hold these become shareholders. In this way capitalists have been able to found companies. It is thus the capitalists, or the shareholders, who become the members of the company. This is, in effect, the company law type company, under which the company is a collective of shareholders. These shareholders use their own money to employ workers. They buy raw materials as well, and equip the company with the necessary machinery. The workers are not, therefore, members of the company; they are merely employed by the shareholders (who are members of the company), and come to the company just to work. In my own house we have a gardener, who comes once a week to cut the grass. He comes only once a week because on my income I can only hire him once a week, but if I had enough money I might well get him to come every day. However, just the possibility that the gardener might come every day cannot make him a member of the family. By contrast, my son, who is hardly ever there, is a member of the family. Just as the gardener can never be more than an employee, so company employees can never be members of the company.

So why, then, do workers go to the company each day? The answer is, of course, a simple one: they go to get wages in order to live a decent life. Their motivation is to obtain wages, and because in doing so it is human nature to try to secure wages which are as high as possible, these workers act in such a way as to secure these highest possible wages.

Let us suppose, for example, that a famous footballer leaves club *A* where he has been up to now, and moves to club *B*. What on earth does this mean, when he has only been at club *A* for a year? The supporters of club *A* say that he is not at all the sort of person to leave the club and go elsewhere, particularly since during that year he had been unable to perform fully due to, say, injury, but this is a way of justifying their feelings that club *A* is a community. As far as the player is concerned, the incentive is the salary, and he will go to the place that offers him the most. If we take this kind of attitude to life, with its assumption of wage maximization, as our basic premise, then for the player to move from *A* to *B*, and from there to *C*, is a perfectly rational action. He is a model worker of the company law type.

II

However, are actual workers really of this type? In America, for professors to move from one university to another is considered something of an honour, and there was one of my American friends who changed jobs almost every year. At first everyone was envious, but after a while his movements ceased to be the subject of gossip. If someone that mobile is appointed as professor, it is the students who suffer, so he ceased to be popular with students, and a university will not pay a high salary to a professor who fails to attract students. While in the short term his actions were rational in financial terms, they were not financially rational in the longer term. If this is the case even within America, then in Japan, too, the case of actual workers is going to be very different. When someone becomes a member of a Japanese company – using the term ‘member’ in the Japanese sense – the purpose is not wage maximization. If the actions of a company employee were driven by wage maximization, it goes without saying that on occasions he would move from company *A* to company *B*, and to remain with a single company throughout for 15 or 20 years, would be totally irrational. There is thus a difference between the ‘Japanese company employee’ and ‘the worker described in the textbooks’. Nevertheless, in my saying that they are different, I am being told by an orthodox economist that I believe in Japan’s uniqueness, which is pretty much the same as being accused by a Marxist economist of not trying to understand the Japanese economy by using the logic of capitalism. There are, however, profound reasons why Japan is different.

One of the reasons for this is that it was in 1867–68 that Japan was re-organized into a unified nation state for the purpose of modernization. This

was at almost the same time as the achievement of national unity in Italy and Germany, in 1861 and 1871 respectively. All these three countries built up their own nation states during this period, and subsequently strove to develop capitalism, and until they ended up in the same bottomless pit in 1945, these late-developing capitalist countries had not dissimilar histories. Of course, since Japan first of all learnt from Europe – greatly from Britain – the earliest modern companies were of the company-law type, but even in the Tokugawa period prior to 1867–8 the Japanese economy had already become fairly well developed, and so Japan's new Western-style companies were not exclusively in the British style, exhibiting from early on a range of facets which were the outcome of compromise with retained elements from pre-existing commercial businesses or factory-type operations in rural areas.

The Tokugawa period was, moreover, a time when the status system dominated, with the populace ranked according to four hereditary castes warrior, farmer, artisan and merchant. In addition, except in very unusual circumstances, it was not possible for an individual to change his or her caste; the life-style prescribed for each caste was totally different, and the structure and characteristics of the household were also different. In the warrior households there were gatehouses and attendants and maids lived in them, and there were strict divisions between such people and the members of the family. The relationship that prevailed between these two groups was one of strict orders and obedience, and could hardly be thought of as one of warmth and kindness. Only the child who succeeded the head of the house could succeed to the status of a member of the warrior class. Other remaining male children could only retain warrior status if they were adopted into a warrior family that did not have sons of its own, so even within the family strict rank prevailed, with little scope for sentiment. Moreover, because of these circumstances, warrior families tended in general not to be large families.

Agriculture, by contrast, was an enterprise that required the collective effort of a number of people. For that reason families tended to be larger, living either in the same house or close by, engaging in mutual help whenever necessary.

In the case of the artisans, who ranked third in the hierarchy, those who wished to acquire the skills possessed by a master craftsman would become apprentices, living and studying in the master's house. However, because what they were learning there were practical techniques, there came a point in time when these had been acquired, and they had nothing more to learn. When this happened they graduated, as it were, and had to leave the master's house. The former apprentice normally set up his own house, starting business either in a different town or in the same one, but in doing so he became his former master's competitor. Thus apprenticeship, even though it might entail living in the same house, did not prevent master and apprentice from becoming competitors in the future, so was unlikely to result in anything like the affection found between father and son, being in all likelihood

no more than the affection a university professor now might have for his or her students, in particular that which is bestowed on the inheritor of one's own skills. Even when students set up independently on their own, they do not forget their master, gathering at his house on his birthday, engaging in fond remembrances of earlier times, and celebrating his skills and person.

Within the four main groups the merchants held the lowest position, and the merchant houses, too, had their apprenticeship systems. The apprentices, however, had not taken up that position in order to acquire specified skills. Moreover, the head of the merchant house expected that the apprentices would grow to become adults with whom in the future he could share some of his own work. For that reason the relationship between the head of the house and the apprentice had no time limit, lasting throughout their lives. The head of the house would treat the apprentice like his own child; at meal times the master would eat with his wife, followed by the children who ate with the apprentices. There would not be between them that much difference in age, so the feelings between them were more like those of brothers and sisters, and the apprentices would in addition frequently marry the daughters of the head of the house. Even where other apprentices grew up and left to live in their own houses, they continued to work under the aegis of the master. Merchant families were in effect a system of lifetime employment, where the affections of parent and child existed between the employer and the employee.

III

This was the kind of society that Japan inherited from the Tokugawa period. Within the total population, the warrior families accounted for around 6 per cent, the farmers 72 per cent, the artisan class 10 per cent and the merchant families 12 per cent. However, the Meiji regime perceived the typical Japanese family to be that of the warrior class, meaning that since Meiji the Japanese family was in general small in size, with maids and manservants living within the household not considered to be part of the family. Hence in Japan the affection normally found within families was not extended to domestic workers living and working within the household. Merchant families were, however, different; in merchant families, particularly in those which could trace their origins back to the Tokugawa period, extended family affections persisted between the children of the family and those employees who lived with them.

For a while this kind of old merchant family flourished in the form of the merchant houses of the Meiji period, and one element of them – a very small element – grew into the great zaibatsu. It is not to be wondered at that in the modern companies that went to make up the zaibatsu, family-type treatment was accorded to company members who had been trained from boyhood. At the same time the Meiji government set up a considerable

number of state enterprises at the start of the Meiji period, but in these the relationship between manager and employee was that of the samurai family, with the strict relationship of orders and obedience of the type found between family and servants. Most of the government enterprises soon disappeared, though some continued to exist as arsenals for military and naval supplies, or as iron manufacturers. When the Japanese economy moved towards preparing for war after 1930, this bureaucratic company management spread to munitions factories in the private sector.

The core of the Japanese economy, however, was firms, most of which followed the Western model, and were thus of the company-law type. The competitions between factories for workers was fierce, and not just for workers: the competition to hire white-collar workers who would constitute the future top management of the company was equally fierce. There was on the other hand, however, the competing tradition of the great merchant houses of the Tokugawa period, which had evolved into the great zaibatsu, with their ethos of working all one's life for the same company, and the company in its turn showing its respect for the principle of lifetime employment by providing for a worker's livelihood throughout his life. We find that two types of lifetime employment, the bureaucratic and the paternalist, were nurtured through the large companies (both the munitions companies, and those of the zaibatsu).

From around 1930 Japan moved every year further into war. As a result, workers and young company employees were conscripted into the armed forces and rounded up for the war, then discharged from their military service and returned to civilian life, perhaps to be conscripted once again.

During this period, while there was the freedom to move from one company to another, workers and employees tended to take the view that it was preferable to find permanent employment in one place, rather than moving for the purpose of obtaining higher remuneration, even if it meant giving up that mobility. (This was because even when they were released from military service they could automatically return to the companies from which they came.) Moreover the government itself, as part of its planning for a system of production that would support the war, did not consider it desirable for workers to move, so the lifetime employment system spread considerably during this period. It was not just that many companies adopted this system, but that it was applied to blue-collar, and not just white-collar, workers. The war-time regime brought the liberalistic Japanese economy back towards the state capitalism of the early Meiji years.

The members of Japanese companies in the postwar period thus became not just workers, but bureaucrats. Normally it is government officials who are referred to as bureaucrats, but Max Weber, who first developed the theory of the bureaucracy, pointed out that apart from government officials, there also existed a bureaucracy in private enterprise, consisting of that group of individuals working within an enterprise with the aim of

securing advancement within it. Where a company has grown very large, it is necessary to have a staff to superintend and administer its day-to-day operations, supported by a substantial administrative division. Since those working within such divisions and bureaux are involved in team work in running the company it is difficult to make any assessment of their contributions month by month on an individual basis. Apart from in exceptional circumstances, singling out the individual is difficult, leading to the existence of promotion according to one's turn. Just as in the administrative structures of government, here, too, the approach has to be one where the business of administration is allocated according to ranking in the hierarchy, and there is regular promotion. Under these circumstances the basic motivation of individuals within the system is to rise up the hierarchy; they are no longer working purely for money, something assumed to be the case of workers in general. We can also say that for the worker whose main objective is to work for and achieve career advancement within a certain company, the fundamental concern is to secure some sort of guarantee in relation to working for that company throughout his or her life, and, having done this, to have security in his or her retirement.

Such workers have thus come to enjoy lifetime employment, an old age pension and a salary commensurate with their rank, just as in the government bureaucracy. Moreover the actual work that they do is little different from that of government bureaucrats, while the precepts that they have to follow in carrying out their service are also the same as those for bureaucrats. They have, for example, to follow out exactly the orders of their immediate superior. This is because they are members of a team, and team-work would be impossible if each individual were to go his or her own selfish way. Once a plan has been decided on at the highest level, it is only by each worker acting in accordance with that plan that the future circumstances of the company can be estimated, hence making it possible to establish plans of action and a strategy for the longer term. Furthermore, each worker must always operate in the conventional manner, according to the rules, and in a way that can be monitored. All dealings must as well be totally impartial, regardless of whom the counterpart is. There has to be total confidentiality regarding information obtained at work, and in matters of judgement as well as in dealing with one's duties, there must be no confusion between what is public and what is private. It is those administrative employees in large private sector bodies, who can be characterized along the above lines, that Weber designated 'bureaucrats'.

IV

Let us consider a little more closely, therefore, exactly what a bureaucrat is. There exist in effect two bureaucratic traditions, one European, the other that of East Asia.

The European bureaucracy started with the ancient Egyptian kingdoms. In this case, in the same way as described by Weber above, the bureaucracy had unquestioningly to carry out their work according to the orders of the monarch. There was absolutely no question of resistance or criticism, and they had to work at the monarch's beck and call. They could not involve their private feelings in their work, nor pursue private gain. All they could do was reject personal profit and personal desires, and do exactly what the monarch ordered, keeping their personal feelings out of the issue. Orders were implemented with the force of law. In accordance with the law, bureaucrats faithfully implemented the orders of the monarch, just like mechanical dolls. In doing this, the individual bureaucrat's desires and value judgements were totally excluded. Should there be a difference of opinion with the king, a bureaucrat's life became intolerable. By contrast, when such a disagreement occurred in Korea, an official would go to the king and say to him: 'my opinion is different from your own, and I cannot do what you ask. I must therefore resign.' He would leave office, build himself a house some distance away from Seoul and live in seclusion and retirement. In Japan, too, in ancient times, there existed such individuals. The author of *Tsurezuregusa*, the Buddhist priest Kenko, was also a former bureaucrat, and wrote this famous work after he had gone into retirement. In Egypt, however, those who aspired to be officials, were in effect slaves, who neither did, nor could, demand freedom, and it was for that reason that the monarch used them as bureaucrats. Slaves served for their whole lives and could not move elsewhere, so they experienced lifetime employment just like bureaucrats. Slaves, too, were not permitted to have any opinions, so their personal feelings did not intrude upon their work. This kind of slave-type bureaucracy is the origin of the Western bureaucratic tradition.

The Chinese bureaucratic tradition, which started with Confucius, is quite the opposite. Confucius taught his followers that they should use their intellect in the service of their king, whoever he might be, and that this was the most likely route to good government. This was the thinking behind Chinese Confucianism. As Confucius himself was too individualistic, it was not possible for him to become a bureaucrat, but his followers all went out to the different provinces of China, enjoying considerable success as bureaucrats. This basic political philosophy of Confucius spread to many countries, and the Chinese-type bureaucracy held to the idea of intellect and conducted politics according to intellect and the virtue founded upon it.

Given the importance of intellect in the Chinese bureaucratic tradition, bureaucrats came to be chosen by a stiff examination, and an examination system was established around AD 578, an astonishing advance for that time. This was very quickly brought to the attention of the Japanese, and a similar bureaucratic system was soon introduced into Japan. Shotoku Taishi

drew up his 17-article constitution, a 12-grade bureaucratic hierarchy was established, and Japan became a constitutionally governed country, but there was a great deal of resistance to any kind of examination system. In Japan it was not those who had achieved good results in the examinations who became bureaucrats; instead bureaucrats were chosen according to which family they came from. The lineage system dictated that where a father had enjoyed this or that high status position, his son also had a right to such a position. From that time onwards, Japan was not a competitive society, but a society of connections. During the last years of the Tokugawa period, one English diplomat who came to Japan levelled the following criticism:

Japan is ruled by a hereditary system. Since both the Imperial Family and the Tokugawa shogunate are governed by this principle, they are weak. There is no concept in Japan of promoting men in accordance with their ability. I think this hereditary system is a mistaken one.

By the end of the Tokugawa period, however, Japan had, in fact, changed considerably. In the national crisis at the end of the Bakufu period the Tokugawa bakufu realized for the first time the evils of the lineage system. Fortunately, however, because schools had been set up by the bakufu and the domains, they were able to know who were the best brains of the time. Japan had not yet introduced an examination system, but a meritocracy based on school results was introduced right at the end of the Tokugawa period. However, the highest levels both of the imperial court and of the bakufu, as pointed out in the English diplomat's account, continued to be ruled by the lineage system. Nevertheless, at the middle ranking levels there was a considerable improvement.

The new Meiji government immediately moved to set up an education system to introduce a greater element of meritocracy into society. This happened in 1872, meaning that there was a gap of only two years between Britain's establishment of a modern education system and Japan's adoption of a modern system of compulsory education. In education, therefore, Japan could hardly be called backward. It had in addition introduced a Western-style bureaucratic system from Germany (Prussia) and was attempting to modernize and westernize the Japanese bureaucratic system inherited from the Tokugawa era. Since Germany was at the time undergoing a remarkable period of development, the Japanese were full of respect for Germany, particularly for its leader, Bismarck. Bismarck was a great devotee of the bureaucratic system, and had been responsible for perfecting it in Prussia. Ito Hirobumi, dazzled by Bismarck and hoping that he himself would be seen as Bismarck's Japanese counterpart, introduced the Prussian bureaucratic system into Japan. The Japanese bureaucratic system was perfected in the Meiji period as a synthesis of the Confucian and Bismarckian bureaucratic systems.

V

The bureaucratic system can be summarized as a mechanism for the transmission of documents. On the one hand, documents are passed from below to higher levels, with head officials, faculty heads, faculty councils and governing bodies, for example, conveying documentation upwards from below. On the other hand, documents are passed downwards, meaning that the bureaucratic system is acting as a channel for the flow and passage of documents. The bureaucratic system is thus characterized by being a collaborative operation. It is not possible to run up to the managing director oneself, carrying a document, nor is the managing director going to rush down the stairs to give his orders to the porter. Administration and management have to be undertaken through this 'conveyor' system. Thus team work is a characteristic of the bureaucratic system, and documents have to be passed on accurately, step by step. Thus no individual should work excessively, nor impede work by taking a rest. At the same time, because it is team work, the structures are such that it is possible to monitor whether there has been a slip-up anywhere.

Furthermore, the bureaucrats themselves rise up the bureaucratic hierarchy step by step. This is their essential rationale, and the whole purpose of their existence is to rise as far as possible up the hierarchy. When I myself am being introduced, therefore, there is a detailed announcement of when I became a teaching assistant, when an assistant professor, and when a professor. Since the Japanese are plentifully imbued with bureaucratic sentiments, this is the typical way of introducing someone in Japan. It does not matter what sort of view I have on life, what sort of character I have, or what sort of principles I hold; all these are ignored, the focus being on my career alone. Though I do not like it, it is entirely in the bureaucratic spirit. The aim of bureaucrats is to advance as far as they can. This may sound a harsh judgement, but is it any worse than accusing a worker of having only one motive in life, namely wage maximization?

This collection of individuals bent on advancement is an organization for the service of the ruler. The ruler is at the top of the hierarchy. In the world of politics before the Second World War this was the emperor, and government officials were the emperor's bureaucrats, but in the world of the private sector bureaucracy, the ruler was represented by individuals such as members of the Iwasaki, the Mitsui and the Sumitomo families. It was these people who were the capitalists, and the private sector bureaucracy was there to serve the capitalists.

During the War, in Japan, the bureaucratization of workers was promoted, something which proved to be an advantage in the explosive advance of postwar Japan. Up until then workers in Japan had frequently been enticed to move from one company to another. Enticement of female factory workers existed in parallel with the appalling conditions in which

most were employed. In front of the gates of Company A waited men from companies B and C hoping to lure workers away. As workers reached the gate on their return from work, these men would attempt to attract their attention, and lead them off to another company. In order to prevent this, companies employed guards and sought to restrict the women workers' freedom of action. Moreover, as the companies became less and less able to get back those workers who had returned home, they established dormitories and effectively imprisoned the workers inside them. While the mobility of workers was very high, it was impossible to plan for the economy. The distribution of materials between company A and company B during the period of preparation for the coming war was known as 'planning for the mobilization of materials', but for such planning to be possible it was essential to know the amount of labour that would be employed by a company over the next year. With workers moving in a random fashion, the resulting situation might be one in which, notwithstanding a meticulous allocation of raw materials, there were no workers. Strategies during the War were aimed at discouraging workers from moving, and the most precise means of achieving this was the bureaucratization of the workforce. Thus the planning for the mobilization of materials required the stabilization of manpower. If workers could successfully be trained to be bureaucrats, they would submerge their individualism and serve the company with loyalty throughout their lives. Bureaucratization was carried out in big Japanese companies in the war years, 1938–45.

For workers to be bureaucratized, however, they had first of all to be treated like bureaucrats. To achieve this there had to be a change in workers' personal attitudes towards the act of production. However, given the stage of development of the planned economy in the prewar years, factory production in Japan had already reached a fairly high level of development. First of all, a long process had to be gone through to transform raw materials into products. For each process machinery had to be provided; workers used this machinery according to a certain division of labour to produce more nearly finished goods, until finally the finished product emerged. This was in general the modern pattern of production. Japan no longer enjoyed the pattern of production of former times, in which a single metalworker produced goods using nothing but his own strength and skill. In these earlier times it was possible to assess the products of one individual metalworker against those of another, and to compare them. It could be said that a worker worked well and possessed strength, resulting in that worker producing a lot. The concept of individual marginal productivity was thus of significance.

Now with products produced by the production line system as a whole, it ceased to be possible to measure the productivity of the individual. Thus remuneration could no longer be paid according to marginal productivity and individual efficiency. Workers were now administrators of machinery,

and no different from the clerical workers whose responsibility was to administer documents. If this latter category could be regarded as bureaucrats, then the former, too, had to be dealt with in a bureaucratic fashion. Workers, too, were given a ranking system, and were paid wages not according to their productive ability, but according to their position in the hierarchy. This would encourage them to work hard to move up the system.

VI

It is often said that Japan is incapable of innovation, or that Japan's scientific ability is not up to making major technological discoveries. It is not possible for me to judge whether Japanese technology is purely derivative or not, but what is absolutely clear is that technological innovation is not the only form of innovation. Innovation can also take the form of radical reforms in management organization. In this respect Japan has been truly outstanding. On the other hand Britain, where there is confidence in management, is paradoxically incapable of innovation in this area. On the technological side Britain has produced many innovations, but on the managerial side, perhaps because of overconfidence, it has been unsatisfactory. By contrast, the managerial ranks in Japan had little confidence, and perhaps for that reason were able to discard their own management views and carry through the major innovation of the thorough bureaucratization of private enterprise. History is indeed full of irony.

The bureaucratization of private enterprise was pushed forward further in the postwar period. It was not the Japanese alone who did this. It occurred in the period of occupation by the United States, and the Japanese should pride themselves on having turned an American policy aimed at weakening Japan into something, which actually strengthened the country. This was the immediate postwar policy of dismantling the zaibatsu. It goes without saying that the zaibatsu were capitalists and owned enterprises. Through a policy of excluding the zaibatsu families from these enterprises, and forbidding them any future involvement in management, these families were thrown out of enterprise management. The zaibatsu had constituted the major force in the business world of prewar Japan, and the United States attributed to them some responsibility for the war. As a result, the zaibatsu families ceased to own their own companies. This zaibatsu dissolution programme was the root of a transformation of Japanese companies away from the company-law type towards the community type.

Company presidents were thus dismissed. Successors had to be found, but since all zaibatsu family members were excluded, there was no alternative but to choose the new presidents from those who possessed ability, seniority and leadership among the existing company employees. They

chose, in effect, those who were at the pinnacle of the company's bureaucratic structure. Using the analogy of government, in Japan this would be the bureaucratic vice-minister in each ministry, or the permanent secretary in British ministries. It was like announcing to all ministers that they would be dismissed due to involvement in corruption, the top bureaucrats becoming ministers and Japan becoming a perfectly bureaucratic country. The result was a perfectly bureaucratic private sector business world. More recently it has been said by some from the Japanese business world that Japan is like a communist society, and this is obviously the case. You only have to look into the previous careers of Japan's top businessmen to find that almost all of them are former company bureaucrats.

In this way Japan's private sector bureaucratic system became a 'self-perfecting' bureaucratic system. By self-perfecting, I do not mean a bureaucracy in the service of a ruler, but a total bureaucratic system in the sense that bureaucrats serve a president who is himself also a bureaucrat, and that bureaucratic autonomy has been established. Thus each and every company member will have a hope that he or she will eventually be promoted to company president. Though everyone may think that the probability of their achieving this is only less than 1 per cent, to think this way is not regarded as presumptuous.

Moreover, in order to increase industrial capital during the War, limits were placed on dividends, so the influence of capitalists within companies declined. The new kings were, as we have seen, former bureaucrats. They, quite differently from real kings, thought always of their subordinates, and of their successors. Since their own successors would come from amongst their subordinates, they sought to cause as few problems as possible for them. For that reason as little of the profits as possible was distributed to the shareholders, enabling the company to accumulate wealth. The management ethos of the bureaucratic company president resided in his belief that his successor should in the future be able to reap the benefit of any strategy, and the company would thereby prosper. There was a strong continuity with what had happened during the War.

Within this complete bureaucratic structure share dividends were small. If we also examine the situation of the shareholders, we find that even if shareholders did hold shares in such companies, they were not going to get rich. Shareholders sell company shares when the share price is high, and buy other cheap shares. When the price of those shares in turn rises, they then sell those, purchasing a third lot of low-priced shares which they think will rise in the future. The shares held are disposed of when the price is at its peak, and the holding is converted to the cheapest shares considered desirable. It is by this means that a margin of profit is secured. The whole purpose of the holding of shares has become to obtain capital gains. Under these circumstances there will be adequate profit even when the dividend is low. Given this situation the shareholders of the bureaucratic

company would be likely to continue to move from one company to another, just like the workers in a company law type company.

VII

In Britain shareholders are imbued with a sense that the company belongs to them because they are investing in it, but when a company president in Japan talks about his company, he is not thinking of it as his own; instead he thinks that he has just reached the highest point on the bureaucratic ladder of his company. When Japanese graduate and join a company, they soon start to talk about 'my company', but this phrase is not used to denote the fact that they are the owners of the company, but rather to imply that this is where they expect to work for their whole life. This consciousness of 'my company' in this sense is shared by all its members, from the company president down through staff of different ranks to the workers. Hired temporary staff, and those doing casual work, are, however, excluded from this collective sentiment. Such workers are of the company law type, moving from one company to another.

One other difference is that shareholders in Japanese companies do not have any sense of 'my company'. They do not know when they might move to another company. Because that move will be made when there are promising stocks at low prices, if shareholders are asked what companies' shares they are currently holding, the majority will probably not know, being unable to say exactly without asking their stockbrokers what shares they may have disposed of. Shareholders thus have no concept of possession. Japanese shareholders have none of that spirit which might lead them to die a heroic death in defence of their companies.

Thus in the company-law type company shareholders are identified with the company, and everyone else has the freedom to change company, while in the Japanese company it is the workers and management staff who do not move, since they are bureaucrats, and the shareholders who are constantly on the move. It is this kind of Japanese company that Dore has referred to as being of the community-type, but in this community the crucial shareholders are excluded. By calling it a community type company, we may tend to assume that it is a family-type enterprise, with extremely warm feelings between shareholders and president, and employees treated like children, but the sense of community in actual Japanese enterprises has only been achieved by excluding shareholders from it and letting them move from one company to another. In the same way, a middle- or high-school class eventually becomes free of the teacher who has been in charge of it and the class as a whole becomes in harmony, full of merriment and goodwill. During the postwar years Japanese capitalism has functioned on the basis of this kind of company, and it is important to remember this.

Among the reformed institutions created in postwar Japan, however, there are a great many that are highly ambivalent – for example the emperor who is, and is not, a ruler, and the self-defence force that is, and is not, an army – and the company has a similar ambivalence. While legally of the company law type, the Japanese company is a vague substitute, a company which is, and is not, a company. Lack of stability among shareholders is something that is extremely serious for a company. Should the shares fall into the hands of a hostile party, the legal founding of the company in company law means that it can be taken over and the management team dismissed. In order to avert this danger, the company needs to be supported by a stable group of shareholders who bear goodwill towards the existing bureaucratic senior management and who will never let the shares pass out of their hands. While there may normally be movement among shareholders, there needs to be one substantial group among them willing to forgo any thought of capital gains, and in which there will be no movement.

This poses something of a dilemma. It is a problem which afflicts all self-perfecting bureaucratic companies where the bureaucrats have become pseudo-kings. This has led to the pseudo-kings asking other pseudo-kings with whom they are friendly, and whom they can trust, to allow their companies to become major shareholders in the initial company. Of course, all the pseudo-kings have themselves come from the ranks of the bureaucracy, so they are not rich, and they get their companies to buy the shares. This does not really matter; it is still they who represent those companies. At shareholders' meetings, those pseudo-kings act just like large shareholders in defending the interests of the pseudo-kings who are their friends. In exchange for this help, the pseudo-kings whose interests have been protected by their friends have to reciprocate by doing likewise. Such a relationship is often referred to as 'a relationship of trust'. Mutual shareholding between companies has been widespread during the postwar years, and marks the culmination of the process whereby the bureaucratic system in the private sector has perfected itself. Those private enterprise bureaucrats who have had successful careers, rising to company president, have effectively come together to form a new class; the mutual assistance that they give to each other perpetuates the bureaucratic system of private enterprise and sustains the advantage accruing to themselves as presidents, and hence to such presidents as a class.

VIII

In the community type company, workers do not tend to move. Once they have joined company A, they tend to stick with it. Once they have started work, the vast majority of workers are unlikely to enter the labour market for a second time. Their contracts tend to be renewed automatically. Once

they have been on the labour market, there is no question of the threat of moving elsewhere being used to lever up existing wages. These workers enter the labour market only once, at the time when they first join a company. This market is a competitive labour market, where any company that is unable to pay a good salary will not find appropriate employees, so each company pays a competitive rate. It is particularly difficult for medium-sized and small enterprises to secure employees unless they raise their wages, so there is a general tendency for wages in such firms to be high at this point, and those in large enterprises to remain relatively low.

Since medium-sized and small enterprises tend to be short of capital, they have to compensate in some way for the fact that they are paying high wages to secure new employees, and end up having to cut back on the wages of older workers. The rate of increase in seniority wages for workers in the smaller companies is far lower than in larger firms. This means that while there is hardly any difference in wage levels among the new entrants – indeed levels may sometimes even be higher in small and medium-sized firms – seniority brings with it growing wage differentials between larger and smaller enterprises. It is often said by Japanese economists that wage differentials have ceased to exist in Japan, but while this might be true for new entrants, it cannot be said to be true for older workers. Where these workers are concerned, the differentials are extremely wide. This is especially true for two particular group of older worker: women, and those who are educated only to high school level.

Moreover, as mentioned earlier, under the bureaucratized labour system the concept of the marginal productivity of the individual becomes totally irrelevant. There is no alternative to wages being largely determined by indicators such as the year of entry into the company, or the age of the worker, which have no bearing whatsoever on the abilities or achievements of the individual worker or employee. There is, of course, some assessment of the achievements of the individual, but in the case of work where the marginal productivity of the individual is irrelevant there can be no rigorous assessment of the achievements of the individual, so the results of that assessment are little more than a reflection of the worker's influence within the company or the labour union. It is true that when it comes to the determination of wages social factors such as power have a large influence, much more than in the case of determination of the price of the product, but the distortion of the wage structure by this kind of power factor must be said to be far greater in a private bureaucracy type company than in a company law type company. In the latter case it is possible by changing one's company to move to where one can be more appreciated, but in the former, where it is difficult to move, and where the interests of the élite bureaucrats are entrenched, those who for reasons such as sex and education are not deemed to be part of that élite are fated to a twilight career. Even in a world which is not founded on the marginal productivity of the

individual, the establishment of an open labour market, where workers and employees of all ages and group are given the freedom to choose companies and permitted to change employer, must be regarded as an essential condition for their fair treatment.

In this respect, the bureaucratic system of private enterprise in Japan is in need of modification. At least in this respect, the company law systems of the United States and Britain are superior. However, supporters of the company-law type companies, for example, former Prime Minister Thatcher and neo-liberal economists, made the mistake of forcing through their policies of privatization to an unreasonable degree. There exists a bureaucratic type organization in Britain as well, but Mrs Thatcher sought to change every organization, lock, stock and barrel, along the lines of a company law type enterprise. For example, British universities are almost all private enterprises in the Japanese sense; unlike in the United States, once teachers have been employed by a university they tend not to move. Of course, there are some staff who move, but the vast majority do not. Unless by moving they increase their rank, there will be no difference in salary. This means that while British universities may formally be of the company law type, in terms of their actual operation they are of the community type. The Thatcher government attempted to make universities more like enterprises, but universities can still be thought of as being for the most part run according to a seniority promotion system. Mrs Thatcher's idea was to introduce the principle of individual achievements into the universities, hoping to advance British scholarship by encouraging academics to compete with each other. How might we expect university teachers to respond to such a strategy? Those teachers who are unhappy because they cannot produce results cease to tackle difficult problems, instead researching questions to which they can rapidly find a solution, allowing them to produce a quantity of publications. It is not just the universities; there are many other areas of society where it is impossible to achieve 'efficiency' in any crude sense of the word. If those involved in the arts were to compete on the basis of income, the value of the arts would be likely to fall, while if company law principles were applied to the world of monks and priests, resulting in their thinking purely of the interests of rich families who could bring in substantial amounts of financial support, religion would disappear. Moreover, if the salaries of the police force were to be totally dependent on results, then they might try to improve those results by arresting people in cases where there was insufficient evidence, and fabricating evidence for that purpose. Thus even in this kind of capitalist era there remain parts of society in which the profit principle must not be allowed to operate, and society continues to be constructed on the basis of a range of different principles. The belief held by Thatcherites and the economists of the Chicago School that men and women do not work unless they are provided with monetary incentives, is insulting to human beings. I do believe that Japan's

bureaucratic economy and society does have some failings, such as the virtual absence of any opportunity to move company and the exploitation of older workers in medium-sized and small enterprises, and that the great task facing Japan in the future is to do something about these failings. Even so, the fact that Japan has been able to sustain a high rate of economic growth over a fairly long period demonstrates that given the right conditions it is possible for a capitalist economy to operate within the framework of a bureaucratic system.

IX

There are weaknesses inseparably, however, in this system as well. Since bureaucrats are motivated by the thought of career advancement, they are highly sensitive to gradations in rank. Level in the hierarchy is determined by the organization of work within the government office or the company, but where the rank is the same, that individual with the greater number of subordinates will be deemed the more important, and for that reason there is a tendency for the bureaucratic structure to proliferate. One precondition for the preservation of the private sector bureaucratic structure is a steady expansion of the company. Should this condition fail to be satisfied, many older employees will have no place in any company, and lifetime employment within the same company will become in practical terms impossible. Those employees regarded as surplus to requirements will either be thrown out of the company or will remain within it without substantial work, resulting in the failure of the company as a whole. It is in order to avoid this situation that companies are reorganized, with parts spun off to form new subsidiaries. However, the new subcontracting companies formed as a result of this will start to proliferate their own bureaucracies if they, too, are private bureaucracy type companies. Nevertheless, it is possible that the growth of this subcontracting bureaucracy may be impeded by the appearance of competitive subcontracting companies.

Thus the original office or company's entrusting of certain functions to outsiders, and the resultant appearance of a competitive market between the numerous subcontracting companies, may eventually bring a halt to the proliferation of the company bureaucratic system. Moreover many of the subcontractors can be regarded as company law type enterprises. My own view is that prolonged recession continuing into the latter part of the 1990s is likely to have the effect of applying the brakes to the bureaucratic system that prevails in Japan's private sector, leading to greater involvement of the market than hitherto in dealings between the various bureaucracies, and Japan's economy moving further in the direction of becoming a more competitive bureaucratic system. As long as seniority-based promotion and lifetime employment remain in their purest form, competitiveness cannot increase, so under a competitive bureaucratic system mobility of

employees is likely to become much more marked than at present, as one company purchases labour on the basis of actual achievement in another company's bureaucracy.

There is thus a considerable possibility that we shall see in Japan's economic world a reversion to the world of the company-law type company that existed in prewar Japan. However, because, fortunately or otherwise, the actual number of new workers in Japan is continuing to decline, many of the older employees who are surplus to requirements are likely to be able to remain within their companies so as to compensate for the shortage of new workers. Despite this, the current recession is bound to prove a serious ordeal for company organization of the Japanese type. Whatever happens, there exist within Japanese enterprises both strengths and weaknesses in an inseparable way, as I have explained above. It is essential, of course, to try to modify some of its darker aspects, but that means changing some of the brighter aspects as well. The result will be an across-the-board change, something which could leave us without any brighter aspects at all. It is possible, however, that the transformation could result in the birth of something quite different. This kind of renovation and regeneration in an organization is the very source of life of that organization. History has shown us that the Japanese are outstanding in the field of organization innovation, and what is now being demanded of contemporary Japan, 50 years after the War, is that it demonstrates once more that same ability. Postwar Japan has had a single track type education system, with a direct path from primary and middle-school education through to university, producing uniform employees for large companies. However, large companies experiencing difficulties and having to make changes, increasingly unable to offer lifetime employment to bureaucratic employees, Japan needs to educate for a wider range of talents and revise once more the education system to produce a structure that will train individuals of the kind who, in the feudal period, might have enjoyed the status of an artisan.

6

Polarization under Capitalism from Above

I

It is natural that where capitalism is promoted under the initiative and the guidance of the state, those enterprises that are compatible with the aims of the state should receive favourable treatment, while those which are not should be discriminated against in a variety of ways. It is important to know the actual nature of the state's pattern of favouritism towards enterprises, and it is with that purpose in mind that I have chosen to consider here the problem of wage differentials between enterprises. In Japan the problem of wage differentials was first and foremost a problem of wage differentials between state enterprises and private sector enterprises, and not a phenomenon related to the scale of enterprises. Since the government itself established and operated industries which it regarded as essential for the nation, the extent to which state enterprises were made to flourish was very much up to the state. Initially, therefore, wages in state enterprises were considerably higher than those in private firms, due to the state's will to keeping its prestige. In fact in 1905 the wages of male employees in state enterprises were 27 per cent higher than the wages of their counterparts in large private enterprises with more than a thousand employees. Nine years later, in 1914, the relationship between the two had been reversed. Around this time the status of state enterprises rapidly declined, and by 1920 the state enterprises were on a par with the middling private enterprises, and the differential between state and private enterprise had ceased to be regarded as a problem. The state enterprises had even ceased to hold much attraction as a destination for employment.

At the same time wage differentials within the private sector between large enterprises and small and medium-sized ones had become problem. Over the course of the twentieth century the Japanese economy experienced twists and turns of fortune, passing from depression to war, then postwar devastation, recovery, high speed growth and finally advance into foreign markets, but throughout these periods wage differentials remained

consistently large. Although around 1960 they seemed to be contracting, the Japanese economy proved unable to rid itself of its dual structure, that is, the division between those sectors that received the protection of the state and those that were autonomous and self-supporting (or, as it is popularly called, between the large, and the small-medium enterprise sectors). My feeling is that if it was possible to promote fiercer competition between workers, then it might still be possible for these differentials to get smaller. In fact, as will be shown later, differentials for female employees do seem to have begun to diminish from around 1990, and while the statistics do not make it absolutely clear what is happening in the case of male employees, it is possible to take the view that there are some faint signs of a turn for the better.

That large wage differentials became a chronic disease of the Japanese economy was the result of so-called Japanese-style practices such as the lifetime employment system, enterprise labour unions and the system of seniority wages. Such practices are commonly interpreted as Japanese virtues, and credited with being the cause of the country's great success. There is, of course, some truth in this. However, there is also another side to these practices. The problem is that once Japanese workers have taken up employment it is almost impossible for them to change jobs. There is virtually no competition within the enterprise, and it is taken for granted that workers will be promoted over time. The internal labour markets of enterprises are thus segregated from each other, so within each enterprise the labour market is an isolated market with both sides having a monopoly, management on one side, the labour union on the other. Labour problems within this kind of structure are more appropriately analysed sociologically, using theories of power, than through the theories of economics.

First of all, the lifetime employment system goes hand in hand with a system where moving jobs is disadvantageous (i.e. a system where moving jobs brings about a sharp decrease in wages), and these two are inseparable. By this I mean that if workers were to suffer almost no wage reduction if they moved, then we would get workers moving in search of better conditions. Under these circumstances enterprises would have to fill their vacancies, and in order to do that they would have to abolish the seniority system, and give equivalent treatment to those who had worked for a number of years for another firm. Those who wished to move would do so, from their own firm to another, and the lifetime employment system would cease to obtain. In essence, therefore, the system whereby it is disadvantageous to move jobs sustains the lifetime employment system.

Then we have the system of enterprise unions. This system is extremely effective in distorting the pressures of the market. Before labour unions enter into wage negotiations with management, they discuss among themselves the strategy to be adopted, but the representatives of female workers tend to lose out at these kinds of meeting. Moreover, within female

workers, middle-aged and older workers are forced to make major concessions within the union, with the result that they have had to accept particularly large wage differentials. Analysis of wage differentials by age and sex show these differentials to be a reflection not of the laws of the market, but of the distribution of power in society. In Japan the laws of the market only dictate results in the case of new school and university graduates seeking jobs for the first time, where there is an external labour market consisting of enterprises and new entrants. In the internal labour market wages are determined according to the distribution of power between the different groups of workers. It is in the internal market that we find the conspicuous appearance of the exploitation of workers by workers.

Finally we have the seniority system. Even in the case of Japan, remuneration is not determined solely on the basis of number of years worked. Increments are determined by converting a worker's various contributions into years of service. Rather than this conversion being based purely on market principles, it is frequently determined by power relations. Although the years of service may increase in a straight line, the remuneration corresponding to them increases only in a non-linear fashion; while a worker's age may increase, the increments in pay become smaller year by year, and eventually come up against a ceiling. Remuneration is an *S* function of years of service. Not just that, we even find cases where remuneration eventually comes up against a ceiling and then declines with age. We also find that the *S* shape function varies tremendously between firms. In the case of large enterprises the *S* shape is likely to have considerable height, while in the case of small enterprises it will be compressed from the top, resulting in an *S* shape flattened sideways. In addition we may find that even within large enterprises there may be a situation where male workers do not experience a ceiling on pay, while female employees in the same enterprise come up against the ceiling in middle age, and then see their pay fall subsequently year by year. The period of increase in the middle of the *S* shape is a short one, and soon reaches its apex, and this phenomenon is particularly apparent in small enterprises. A surplus can be generated for the payment of male workers in proportion to the extent to which the pay of female workers can be held down. In small enterprises, therefore, the middle-aged and older women are exploited by the male employees of the same labour union. That young female employees are treated relatively well is due to the external labour market's determining starting salaries for new entrants. Market principles have the role of maintaining fairness in relation to salaries, and the distribution of power between different groups of workers enables the exploitation of one group of workers by another. And it is 'Japanese-style practices' that make all this possible.

Such phenomena are characteristic of capitalism from above, and where Confucian ethics are dominant they are easily accepted by workers. For this kind of phenomenon to appear in the first place, there must exist a

sufficient amount of excess supply of labour over the total number of workers needed by large enterprises, but not an excessively large supply. Should this become small, wages in small and medium-sized enterprises will rise, resulting in only a very small differential in the wages of large and small enterprises. Thus once the large enterprise sector becomes large in relation to the potential pool of workers, one might consider that the dual structure will be headed for disappearance. However, once this labour constraint appears, the wages in large enterprises will also rise, and the expansion of large enterprises will either be impeded, or they will move their factories overseas, where labour is cheaper. In either case, the large enterprise sector will absorb less labour, and the 'excess supply of labour over the demand for labour by large enterprises' will continue to exist. In this way, Japanese-style practices, too, have continued.

There has been more than one occasion on which it was expected that these wage differentials would disappear. One was around 1965, some 15 years after the start of high speed growth in Japan. It looked at that time as though wage differentials between large and medium/small enterprises would shrink, but they widened again soon after, and the dual structure continued. The next time was at the start of the 1990s, when the so-called 'bubble' burst, and Japanese enterprises were forced to contract and restructure. In a book co-authored with Fukada Yusuke, entitled *What Will Japan Be Without Japanese – Type Capitalism?* (Kobunsha, 1993), Ronald Dore encouraged the continuation of Japanese-style practices. On this occasion, too, though, there was no need for it. Since the Japanese-style practices that punished workers for changing company did not collapse, the lifetime employment system, too, failed to break down. As outlined above, behind these virtuous Japanese-style practices, there existed Japanese-style practices that constituted a vice, namely the system of disadvantage attached to changing companies, the practice of exploitation within the union, and the seniority system resting on unjust evaluation of achievement. The virtuous side has been sustained by the evil side, and this duality theorem has never been recognized by the supporters of Japanese-style practices. We may then say: since 1990 the dual structure has looked as though it may be breaking down as far as women are concerned, but it is not as yet clear whether or not this will lead to its breakdown in the case of men as well.

II

Since it was recognized relatively early on that the dual structure was a weak point of the Japanese economy, we have abundant statistics on wage differentials. The earliest data are provided by the factory statistics (*Kojo Tokei Hyo*) of 1909 and 1914, which were extremely detailed for the time. However, in as far as can be inferred from the indices calculated from these tables (see Table 6.1a), wage differentials do not seem to have been that

Table 6.1a Wage disparities (wage per worker in plants of 1000 or more = 100)

Scale of plant (no. of workers)	1908 ²		1909 ¹		1914 ¹			1930 ²	1932 ³	1951 ⁴	1955 ⁴	1958 ⁴	
	Male	Male	Female	Total	Male	Female	Total	Total	Total	Total	Total	Total	
5-9		80	76	100	73	72	92		33				
10-19	-	}	86	79	97	77	75	86	38	38	41	44	
20-29	80								50				45
30-49	85	89	86	92	79	81	80	72	54	}	56	53	55
50-99	87	92	93	94	83	87	82	72	68				
100-199	94	}	94	94	97	85	90	83	88	78	75	69	70
200-499	100								100					88
500-999		92	103	99	88	101	91		84				
1000-		100	100	100	100	100	100		100	100 ⁵	100 ⁵	100 ⁵	

Sources:

1. Archive of Secretariat of Minister of Agriculture and Commerce: Kōgyō Tōkei Hyō (Statistical tables of factories) for 1909 and 1914.
2. Hazama, (1997): 43).
3. Obtained by converting Umemura figures in Ando (1975).
4. Ministry of Labour, *Maigetsu Kinro Tokei Chosa*, (Monthly Survey of Employment Statistics).
5. Wage per worker in plants of 500 or more = 100.

great. We may therefore conclude that this period was, in a sense, the incubation period for the problem of wage differentials. Of course, even at this time there existed considerable differentials between the wages of men and women. However, at this time, the influential large enterprises were the silk reeling and cotton spinning factories, which employed large numbers of women. The small enterprises, moreover, were family businesses in various sectors of manufacturing, in which sons were employed by their fathers. Thus the small enterprises can be characterized as male enterprises, and the large ones as female enterprises. This kind of situation, and the large wage differentials that existed between women and men lowered the average wage in large enterprises, and raised that in small enterprises. Under these circumstances the wage differentials between large and medium/small enterprises were statistically concealed. The period can therefore be called the incubation period.

However, apart from these data, the only data on differentials we have for the prewar period are Hazama Hiroshi's materials for the period 1908 to 1930, and Umemura Mataji's 1932 data. These data are not strictly comparable to the 1909 and 1914 estimates for all industries based on the factory statistics mentioned above. Hazama takes representative large-scale, medium-scale and small-scale industries measured by the number of employees, and calculates differentials on the basis of average wages. (But as will be seen soon, Umemura classifies industries according to the amounts of their capital.) Taking Hazama's figures first, since differentials in 1908 were not that different from those in 1909 based on the factory statistics, we can regard 1908, too, as falling within the incubation period. By contrast 1930 shows figures that are clearly far worse than those of 1914.

The other available evidence we have is Professor Umemura's estimates for 1932, according to which the wages offered by companies with capital of 5–10,000 yen were no more than 33 per cent of average wages in large companies with capital of 5 million yen or more, while those in companies with capital of 10–20,000 yen, 50–100,000 yen, 500,000–1 million yen and 1–5 million yen respectively, were 38, 45, 54, 68, 78, and 84 per cent of the wages in the largest companies. Umemura obtained these figures from a survey of industry in Japan's six largest cities: Tokyo, Osaka, Kyoto, Nagoya, Yokohama and Kobe. However, Umemura's figures are also rather difficult to compare with other statistics on wage differentials, because firms are classified according to the amount of capital, while firms are more normally graded according to the number of employees of firms. We have therefore converted the Umemura estimates into the standard format, as listed in the 1932 column of Table 6.1a, by estimating the number of employees of firms in each capital range. Hazama's and Umemura's figures do not just demonstrate how wage differentials had worsened in the 1930s. They also show that they remained almost unchanged after the Second World War through to around 1960. These conclusions have been confirmed by many Japanese

scholars. Wage differentials in Japan first appeared after the first World War, and persisted through the postwar years. Since the China mainland market was throughout this period very important for Japanese industry, small and medium enterprises in Japan had no choice but to stick to low wages in order to compete with low wages in China.

We must not forget, moreover, that this worsening of the dual structure from around 1930 was the background against which both the right-wing and left-wing movements were operating at that time. Even after the war improving this situation was no easy matter. Only around 1960 did there begin to appear some signs of an improvement in the situation, and in 1965 people were rejoicing at the remarkable upturn that seemed to have been occurring. However, this upward tendency did not last for long. With the occurrence of the oil crisis soon after, the motive power for improving the wage structure exhausted and the situation reverted to what it had been around 1962–63. Through the 1980s it continued little by little to deteriorate, 1990 proved to be the nadir. The deterioration halted, and wage differentials continued to diminish thereafter, although only at a very slow rate. In particular if we look just at female employees, we see from Table 6.1c that differentials have been decreasing markedly. The categorization by scale of enterprise used in Table 6.1c, however, is different from that used in Table 6.1b. Moreover, although bonuses and other payments are included in the wage figures in Table 6.1b, they are not included in the Table 6.1c, which only gives differentials in average monthly contract cash earnings. Table 6.1b naturally shows larger differentials than Table 6.1c. Table 6.1c shows a particularly conspicuous improvement in differentials as far as female workers are concerned. This was largely due to a recognition in the recession period after the collapse of the bubble that male–female wage differentials could be exploited, with female workers being hired to reduce production costs. The result was a tendency to employ larger numbers of female workers instead of males, especially in small and medium-sized enterprises. This phenomenon of substitution was not conspicuous in large enterprises. Thus in the case of women, wages in medium and small enterprises rose at a faster rate than wages in large enterprises, with the result that there has been a perceptible reduction in differentials. At the same time the segmentation between large, medium and small enterprises in the female labour market has weakened, which probably means that the labour market has become all the more competitive.

That this should have happened is perfectly understandable. Many more female workers are inclined to leave their jobs, usually when they marry or have children. The lifetime employment system is therefore nothing like as well-established as it is for men. The internal labour market for females is much more open to the outside than the male labour market. That is why it is in the male labour market that these Japanese-style practices are so strong. If the dual structure is going to collapse, therefore, it is likely to

Table 6.1b Wage disparities (wage per worker in plants of 500 or more = 100)

Scale of plant (no. of workers)	1960			1965			1968			1973			1977			1978	1979	1980
	m	f	Total	Total	m	f	Total	m	f	Total	m	f	Total	Total	Total	Total		
5-29	54	62	46	63	69	69	63	70	63	61	70	63	60	61	60	58		
30-99	71	77	59	71	76	73	69	81	72	71	77	69	66	68	66	65		
100-499	83	86	71	81	86	85	80	90	83	82	90	83	83	83	81	81		
500-	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100		

Scale of plant (no. of workers)	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
5-29	57	57	57	57	55	57	54	56	55	55	56	57	57	57	56	56
30-99	65	64	64	63	63	65	63	65	62	60	64	65	63	63	62	64
100-499	80	79	79	80	77	78	75	77	77	77	78	79	78	80	80	78
500-	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Ministry of Labour, *Maigetsu Kinro Tokei Chosa* (Monthly Survey of Employment Statistics).

Table 6.1c Wage disparities (wage per worker in plants of 500 or more = 100)

Scale of plant (no. of workers)	1980		1981		1982		1983		1984		1985		1986		1987		1988	
	m	f	m	f	m	f	m	f	m	f	m	f	m	f	m	f	m	f
10-99	78	78	79	77	78	77	77	76	77	76	74	75	75	74	75	74	75	73
100-999	86	84	86	84	85	82	85	82	85	83	83	82	84	82	84	81	83	80
1000-	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Scale of plant (no. of workers)	1989		1990		1991		1992		1993		1994		1995		1996	
	m	f	m	f	m	f	m	f	m	f	m	f	m	f	m	f
10-99	74	73	75	75	76	77	78	79	77	80	78	81	77	81	76	81
100-999	83	80	83	82	84	86	84	86	85	88	85	89	85	89	83	90
1000-	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Ministry of Labour, *Nippon Tokei Nenkan* (Yearbook of Japanese Statistics).

have to come from female workers. Can we not regard the figures for female workers in Table 6.1c as providing support for a conjecture of this kind? And surely the fact that the collapse of Japanese type capitalism is starting with the labour market shows that the year 1990 can be seen as marking the start of the transition from capitalism from above to capitalism from below.

It is not just competition from the industries of developing countries that puts pressure on wages in small and medium enterprises; they are subject to competition from large enterprises as well. Small and medium enterprises are not just in a *keiretsu* relationship with large enterprises, receiving financial help from those large enterprises and also managerial guidance, they also deliver products to the parent company. These are not finished products, but mostly components for the products of the parent company. In order to prevent the prices of its own products from being too high, the parent company requires its subsidiary to keep its prices down. This results in the subsidiary having to keep its wages very low, so even when large companies are doing well there have to be victims to sustain them. In this way the development of the dual structure has been integrally related to the structure of industry that is found in Japan. Thus these Japanese characteristics have on the one hand brought prosperity to large enterprises; in parallel with this, however, they have on the other also produced an increasing number of victims.

Over the years from about 1975 to 1984 there was a tendency for small and medium enterprises to become separated from *keiretsu*, and for them to show more defiance towards their parent companies. However, even when large companies could no longer control their subsidiaries, the only way these subsidiaries could stand on their own feet was by forcing their workers to accept low wages. The only exceptions to this were those companies who produced components required by a number of large companies. Thus the wage differentials that had decreased somewhat in the 1970s and early 1980s increased again through this pressure on workers in small and medium enterprises. Even though Japan had reached the stage of being a first rank industrial economy, the dual structure did not disappear.

At the stage where a country makes the transition to capitalism from below, there have to be major changes both in the ethics related to work and in the structure of the labour market. Lifelong loyalty towards a single company ceases to be a virtue that brings happiness to those who demonstrate it. Workers work for a number of different companies, and the issue when they move from one company to another is not how long they have worked for one company, but the extent of the experience that the workers have acquired from their previous employment. Workers have to have a range of experience. The question is therefore the extent of the knowledge workers may have gained from their previous employment; their experience must be versatile. That is to say, it is important from the point of view

of the new employer what the workers have learnt from their previous job and how they have educated themselves on the basis of his past experiences. The economic transition from the 'above' to the 'below' type, therefore, is not completed with a simple structural change, but creates repercussions upon workers' attitudes to work as well.

III

Tables 6.1a–c show that there exist serious problems in relation to the issue of differentials. These tables include years for which the differentials for men and women as a whole are shown, and also years for which the differentials for men and women are given separately. The latter years can be divided into those for which the differentials across the board are greater than those for men and women separately (for example small enterprises in 1909 and 1914, and medium enterprises in 1909), and those where these differentials are smaller (1960, 1968, 1973, 1977). Of course, since the differentials as a whole can be regarded as some kind of 'average' of the differentials for men and women separately – although it is not an average in the strict sense – this kind of result goes against common sense. As with other cases, this is because the true average has to exist midway between 'men' and 'women'.

By the existence of wage differentials, I mean those between one man and another, and between one woman and another. It is important to see that the differential that can be applied to one set of men and women as a whole in relation to another such group is not necessarily equal to the weighted average of the differential for men and that for women. For example, estimates of wage differentials in 1909 show wages in very small firms to have been 100 per cent of wages in large firms, that is to say, 'no differential existed', but if we take just men we get a figure of 80 per cent, and for women 76 per cent. The fact that despite differentials existing for both men and women there is no differential overall seems to suggest that someone apart from men and women reduced the differential for the overall figure. In fact, it is due to nothing other than a sleight of hand in the way in which the indices have been calculated, but that is the crux of the differential issue.

Let w_{1S} be the wage per male worker and w_{2S} that for female workers in the small firms sector. Similarly, let w_{1L} and w_{2L} be male and female workers' wages in the large firm sector. Then the wage per worker for all workers in the small firms will be:

$$w_S = (w_{1S} a_{1S} + w_{2S} a_{2S}) / (a_{1S} + a_{2S}),$$

where a_{1S} denotes the number of male workers, and a_{2S} the number of female workers, employed by small firms. Similarly, for large firms we have:

$$w_L = (w_{1L} a_{1L} + w_{2L} a_{2L}) / (a_{1L} + a_{2L}).$$

The wage differential, which ignores the division of workers into male and female subgroups, is given by w_S/w_L , and not by either w_{1S}/w_{1L} or w_{2S}/w_{2L} .

In the light of these two equations it can easily be shown that the aggregate wage differential between small and large firms, w_S/w_L , is associated with disaggregated differentials, w_{1S}/w_{1L} and w_{2S}/w_{2L} , through the following formula:

$$\frac{w_S}{w_L} = \frac{w_{1S}}{w_{1L}} \frac{(1-b_S)}{A} + \frac{w_{2S}}{w_{2L}} \frac{w_{2L}}{w_{1L}} \frac{b_S}{A}, \quad (1)$$

where

$$A = (1-b_L) + \frac{w_{2L}}{w_{1L}} b_L$$

$$b_S = a_{2S}/(a_{1S} + a_{2S}), \quad b_L = a_{2L}/(a_{1L} + a_{2L}).$$

By definition, both b_S and b_L are positive and less than 1. Obviously, w_{1S}/w_{1L} designates the wage differential between male workers in small and large firms, while w_{2S}/w_{2L} stands for that relating to female workers.

Let us now show that:

$$w_S/w_L > w_{1S}/w_{1L} > w_{2S}/w_{1L}$$

in the case of $b_S = 0$. It follows in this case from (1) that:

$$\frac{w_S}{w_L} = \frac{w_{1S}}{w_{1L}} \frac{1}{A} \quad \text{and} \quad A = 1 + \left(\frac{w_{2L}}{w_{1L}} - 1 \right) b_L.$$

As we assume $w_{2L}/w_{1L} < 1$, we have $A < 1$. Hence $w_S/w_L > w_{1S}/w_{1L}$. On the other hand, we may put $w_{2S} = 0$ because small enterprises do not employ female workers; therefore:

$$w_S/w_L > w_{1S}/w_{1L} > w_{2S}/w_{1L} = 0,$$

when $b_S > 0$ but sufficiently close to 1, we get a similar result though $w_{2S}/w_{1L} > 0$. Thus we obtain a case that the aggregate wage differential between small and large firms is greater than either of the wage differential of male workers or that of female workers.

Next we deal with the case that b_S is sufficiently near to 1 and b_L is zero. Then $A = 1$ and (1) is written as:

$$\frac{w_S}{w_L} = \frac{w_{1S}}{w_{1L}} + \left(\frac{w_{2S}}{w_{2L}} \frac{w_{2L}}{w_{1L}} - \frac{w_{1S}}{w_{1L}} \right) b_S.$$

Suppose the wages for the female workers in the large firm sector is very small in comparison with the wages for male workers of the same sector; then the part in the parentheses of the above formula takes on a negative value, so that:

$$\frac{w_S}{w_L} < \frac{w_{1S}}{w_{1L}}.$$

As b_S is very near to 1, we also obtain:

$$\frac{w_S}{w_L} < \frac{w_{2S}}{w_{2L}}$$

because $w_{2L}/w_{1L} < 1$ and $b_S < 1$. Hence we find that the aggregate wage differential, w_S and w_L , is smaller than the wage differential of female workers between the L and S sectors as well as that of male workers.

Thus we can see that there is a situation when both male and female wage differentials are smaller than the average differential. This is because the overall differential does not just depend on the differential for men and the differential for women, but also on the ratio of men to women, within both large enterprises (b_L) and small enterprises (b_S) separately, and taken together. The overall differential can thus be regarded as a reflection of the composition of the workforce by sex within the large and small enterprise sectors, and the composition by sex overall.

This recognition is fundamental to the issue of differentials. It does not stop with the position of men and women workers in relation to the whole. As long as differentials are discussed more or less as statistical values for sectors that are aggregated in some way, we will go on simply closing our eyes to this recognition. For example, the 1909 and 1914 Factory Statistics (*Kojo Tokei Hyo*) categorizes manufacturing into five sectors: (1) food and drink, (2) paper, ceramic and chemicals, (3) machinery and tools, (4) dyeing and weaving, and (5) miscellaneous. Thus the male wage differentials in large and small manufacturing enterprises have already taken on statistical values in relation to the total aggregate of these five sectors, and those values depend on the relative weight that each of these five sectors has in the whole. These values are, moreover, likely to be independent of the differentials within each sector. Therefore even at this level we already have errors of aggregation. Moreover wage differentials between large and small enterprises in the food and drink sector will depend on the relative weights of the food sub-sector and the drink sub-sector. That is to say, there already exist errors of aggregation at the level of dealing with the sector and its sub-sectors. If we engage in an exhaustive process of disaggregation we will eventually arrive at the elementary sector of industrial classification, but the

elementary sector itself will consist of sub-sectors based on the educational background of employees, and even that classification will have to be subject to further subdivision on the basis of classification by age. Thus we must recognize that whatever the level at which the differential statistics are considered they already incorporate complex errors from various other levels.

IV

If we accept that the statistics are a collection of a very large number of errors, it is apparent that wage differentials have to be approached with a degree of modesty. It is therefore possible only to make very broad assertions; even to do so we must realize that there is a strong likelihood that those assertions may not be correct. Such things as international comparisons of wage differentials, moreover, are hardly the kind of work that can be undertaken with confidence. Even where the observed values for country *A* may be greater than those for country *B*, if the statistical errors in the case of country *B* are less than those in the case of country *A*, it cannot necessarily be said that the true value for *A* exceeds the true value for *B*. Since we do not normally know much about these errors, we have to be prudent when it comes to making assertions about true values.

Notwithstanding these problems, Professor Koike insists in his *Nippon no Jukuren* (Japan's Skill) that wage differentials between medium and small firms and large firms in Japan are not too bad by comparison with EC countries.¹ From *EC Structure of Earnings in Industry, 1971* and Japan's *Wage Structure Survey, 1976*, Koike derives the following four observations. First, wage differentials by scale of establishment for male manual (or blue collar) workers are greater in Japan than in West Germany and the Netherlands, but less than in Italy and Belgium, and very close to those in France. Secondly, where male, non-manual or white-collar workers are concerned, Japan is clearly worse than most of the EC countries, except for Italy, which is worse than Japan in the case of small firms with fewer than 200 workers. However, even here Japan's absolute wage differentials are fairly low; that is, white-collar workers in medium and small firms earn wages which are around 85 per cent of the average wage of white-collar workers in large enterprises. This figure is viewed by Koike as being very high, leading him to conclude that there is no substantial wage differential for male white-collar workers in Japan. Thirdly, for female blue-collar workers, the observations are similar to those for male manual workers, except that differentials in Japan are slightly worse than those in France for female workers, while the reverse order between Japan and France is true for males. Finally, for female non-manual (white collar) workers, he finds that Japan is more or less comparable with West Germany and France and Japanese differentials are less than those in the Netherlands, Belgium and Italy.

On the basis of these figures Koike says that in the context of the EC countries, Japan does not have particularly wide wage disparities, and, moreover, his own observations are not in line with the generally accepted view that in Japan workers in small firms earn only 40–50 per cent of the wages of workers in large firms. He then emphatically concludes that if there is a country to which this conventional view applies, it is not Japan but Italy, and the only country which can be considered as possessing what might be called a dual industrial structure is Italy, and not Japan.

This unambiguous conclusion reached by Koike must be subject to the reservations relating to statistical calculations outlined above. There is one more thing, too. Koike makes no attempt to analyse the structural characteristics resulting from each country's labour market, comparing only the magnitude of his statistical results. In the case of Japan the characteristics of the employment system are absolutely fundamental to the statistical values, but Koike gives virtually no explanation of the role played by these Japanese-style characteristics. I have attempted to provide such an analysis in an earlier section, and since the issue of why these Japanese-style characteristics gave rise to the dual structure is an important one, some scrutiny will again be given to it here.

Even under the so-called permanent employment system, it remains true that Japan has an enormous, highly competitive labour market. This labour market is geared to recent school, college or university leavers, and even these people can use it only once during their lives. The labour market for the unemployed, and for movers from one firm to another, is quite distinct from this first labour market, both undeveloped and badly organized. These persons usually find their new jobs through individual personal connections, and are employed on a more or less supplementary basis.

We have already outlined this system. However, the blockaded nature of these internal labour markets has prevented them from being open to movers from other employment. Unless people have some sort of personal connection, they are not able to move. This has made enterprises predisposed to nepotism. Sometimes this is nepotism as a result of family relationships or business dealings, but in many cases connections between government bodies and enterprises are important routes for the achievement of senior positions, what has been referred to as *amakudari* (descent from heaven). This link between officials and enterprises helped to make up one aspect of the trinity of politicians, bureaucrats and industry which was part of what was termed Japan Inc. By contrast, if there had been no system of lifetime employment, and if the internal labour markets had always been opened up to the external one, then even where government officials who had reached the statutory age of retirement did take up senior posts in enterprises, they would have to obtain those posts through competing successfully with other retired officials as well as those who wished

to move from other parts of the private sector. The tainting of enterprises through the process of *amakudari* would be very limited.

Moreover under the system of lifetime employment enterprises satisfy most of their labour demand through the internal market, and where enterprises make up any shortfall through new school or university graduates, they keep their hands off the internal markets of other enterprises. This results in the internal markets of individual enterprises being isolated from each other, and there is no single level of competitive wage valid on all these internal markets. Wage levels may differ considerably from one firm to another. This is particularly because most firms have their own independent company unions, and even in the case of the unions belonging to some nationwide or industry-wide organization, each enterprise union has very considerable autonomy concerning wage negotiation. Each union is well acquainted with the company's position, so that wage negotiation produces agreement at a wage level which the employer also finds to be reasonable and agreeable. Reflecting the variation in profitability between firms, wages tend to vary widely between one firm and another. In addition, there is a wide range that can be influenced by social considerations and desires outside the realm of economic laws. On the other hand, in the open labour market, where new school leavers are allocated to firms, all firms – small, medium and large – compete with each other, so that wage levels are more or less equalized. Sometimes, more often at a time of labour shortage, small and medium firms have to offer higher wages than large firms, in order to attract school leavers. Thus for workers in the 18–19 and 20–24 age brackets, wages paid by medium and small firms are as high as, or even higher than, those paid by large firms. For workers over 30, however, the situation is completely different. Wage differentials are conspicuous and often extreme, especially in the case of female workers. The period between the ages of 25 and 29 years old is one of transition from competitive wages to wages adapted to firms' conditions. In his work entitled *Analysis of the Labour Market*, K. Odaka investigated wage differentials in Japan for workers in this age group. Not surprisingly, he obtained a lukewarm, half-way result.²

Wage differentials with respect to other characteristics trace out a similar age pattern. Every year, all firms compete for new school leavers in the open labour market. Male and female graduates are taken by them as substitutes, though there is no perfect substitutability. The index of wage differentials between the sexes, w_F/w_M , therefore tends to be close to 100 per cent for young workers in the age groups 18–19 and 20–24, but it decreases to something like 50 per cent with age, reflecting sex discrimination against female workers. (In earlier years, such as 1958 and 1962, it even went down below 40 per cent for older workers.) This ratio must be calculated for workers in the same type of occupation and with the same educational background; otherwise the sort of aggregation errors criticized above will not be minimized.

Similarly, new leavers from junior and senior high schools appear more or less as substitutes in the open market, but the same age pattern as can be seen above may be expected to be revealed in wage differentials between workers with junior high school education and those with senior high school education or above. In this case too, in order to ascertain wage disparities due solely to differences in educational background, we must compare workers who are identical with respect to all other characteristics. Ignoring some of these, e.g. firm size and occupation, Koike has calculated wage differentials between male workers with different educational backgrounds in Japan in 1971.³ From a comparison of his result with ours we may conclude that the true differentials may well be smaller than those he believes to exist, which he even so claims to be of a small magnitude by international comparison. In this case the neglect of other characteristics seems to have created errors opposite to those resulting in the estimation of wage differentials according to firm scale.

Finally, a remark on the treatment of the bonus system is in order. The bonus system has a long history in Japan. Early on it was mainly for white-collar staff members; it was introduced to stimulate initiative, special effort and innovative conduct. At this stage, bonuses could not be regarded as part of the regular income of staff members; we can regard it as a kind of prize money. When the system was later applied to blue-collar workers, it was used in an attempt to persuade workers to stay longer in a particular firm. It became a prize for diligence. After the war the system lost its character of a prize, and the bonus became a part of regular wage payments. The amount of the bonus became an important item in wage bargaining. Even now, some firms have two types of bonus existing together: the bonus as a part of regular wages and the bonus as a kind of prize. In the following, however, we include the total amount of the bonus in wages.

V

In order for this kind of analysis to be possible, we have to itemize the factors that determine wages. There can be regarded as being six of these: (1) sex, (2) occupation, (3) size of firm, (4) education, (5) experience and (6) age. Let us assume that an individual receives a wage a_f either above or below the average wage purely on the grounds of being a woman, and that the amount of wages received by the same person above or below the average for doing non-manual work is b_n . If we now ignore other factors, the wage received by that worker as a result of being a woman and doing non-manual work will be:

$$u + a_f + b_n.$$

Here u is the average wage. If the individual is male, then we would expect him to receive wages of $u + a_m + b_n$. Thus $a_m - a_f$ is the male-female wage

differential for non-manual workers. If this is the case, then the male-female wage differential for manual employees will also be $a_m - a_f$, and we can say that wage differentials are the same both for non-manual and for manual workers. This, however, is contrary to fact, therefore we must recognize that the combination or interaction of the factors of being a woman and being a non-manual worker constitutes in itself an additional factor. In general, of the six factors listed above, excluding the interaction of each factor with itself, there are fifteen secondary interactions. Apart from the combination of experience-age, the 14 interactions which may exert an influence are as follows: (i) sex-occupation, (ii) sex-firm size, (iii) sex-education, (iv) sex-experience, (v) sex-age, (vi) occupation-firm size, (vii) occupation-education, (viii) occupation-experience, (ix) occupation-age, (x) firm size-education, (xi) firm size-experience, (xii) firm size-age, (xiii) education-experience, and (xiv) education-age. The exclusion of the experience-age combination is due to the fact that in the period at which I have looked (1958-1985), it was exceptional for employees to change companies, and so the correlation between age and experience was extremely high.

The coefficients of these various factors, $a_f, b_m, \dots, a_{fm}, \dots$, etc., are estimated, using the methods of the analysis of variance,⁴ so as to minimise errors in wage estimates due to these factors.

In this chapter I estimate several sets of wage differentials existing in Japan in the period 1958-85, following Tachibanaki's analysis of variance relating to wage determination in Japanese manufacturing industries.⁵ Using the data provided in the Japanese Ministry of Labour's *Wage Structure Survey*, Tachibanaki's original analysis was made for the four years 1958, 1962, 1966 and 1970 only, but I asked him to extend this analysis so as to include the additional five-year period, 1981-85; Professor Tachibanaki was kind enough to compute the coefficients of the factor analysis for these years for me. The following sections are based on his results obtained for the nine years mentioned above; however, we concentrate our attention particularly upon the two years 1981 and 1985.

VI

As will be seen later, the seniority payment scheme plays a significant role in studies on wage differentials. Of course, this is not a scheme exclusive to Japan. In the West, too, it is adopted by many organizations, including government, police, military forces, schools and universities. It is understandable that large firms should tend to give some consideration to seniority elements in the determination of wages, especially because such a scheme is very easily implemented. Conversely, in Japan, too, there are many elements other than seniority, which are taken into account in determining wages. In some types of company and for some types of labour,

seniority is a predominant principle, but in other areas its significance may well vary to a substantial degree.

In pre-modern Japan, there were three types of economic organization, from which Japan's modern companies have emerged in a sophisticated synthesis. They were enterprises (munitions factories, shipyards, mines, trading houses, etc.) established by a clan or by the Tokugawa government; private merchant houses; and handicraft workshops. The history of labour management in these organizations may be summarized as follows.⁶ First, in the clan or Tokugawa government enterprises, samurai managed work carried out by lower-class samurai or non-samurai workers, and loyalty was the basic principle of the work ethic. Most of these state enterprises in the feudal period were taken over by the new Meiji government and strengthened by adoption of Western technology. They were given favourable treatment as model factories by the government. However, many of them were later privatized, and played a core role in the growth of Japanese capitalism. In this way the spirit of loyalty was implanted in private enterprises. However, no paternalism along the lines of that cultivated in merchant houses prevailed in these feudal state enterprises.

Secondly, the merchant houses of the Tokugawa period, many of which were later transformed into modern companies and became the foundation of various zaibatsu, had been accustomed to treat shop assistants and apprentices as members of the master's family. They lived in his house and dined together with his children. Some eventually even married his daughters. Such permanent employment was regarded as the ideal form of labour relationship, and in return for this lifetime commitment the master increased wages and promoted his workers to higher positions in the course of time. In this way the seniority system was established as a time-honoured custom in the merchant houses. Thus the seniority payment scheme on the employers' side, and the long time commitment on the workers' side, were parallel outgrowth of feudalistic paternalism, and may be regarded as two faces of the same coin.

In artisan society, the relationship between the master and his apprentices was less restrictive than in the merchant houses. They would learn techniques from the master, until they reached the time of graduation, when they received certificates or diplomas and were freed from him. Afterwards they would become independent and start their own businesses. Although they often advertised themselves having been taught by such and such a master, and used his crest as their trade mark, the relationship between them was not close. Disciples of the same master frequently competed with each other, despite an occasional meeting for example, at the time of retirement of their master or the marriage ceremony of his son, they remained rivals throughout their lives. Consequently, we may say that no deep paternalism prevailed in artisan society.

In view of these characteristics it is not surprising to find that modern Japanese enterprises first applied the seniority wage payment scheme to

male, non-manual employees with higher education, especially staff officials or future executives. It was then extended to less educated, non-manual workers, then to male manual workers and finally to female workers. It also spread from large to medium-sized enterprises, and finally to small firms. Modern white-collar workers may be regarded as the successors of Tokugawa merchant house employees, and factory blue-collar workers as the modern version of the Tokugawa artisan, so it is not surprising that we should be able to find close similarities between them in as far as they are regarded by employers. Paternalism prevails among white-collar workers, while mobility from one company to another is relatively high among blue-collar workers, who have a spirit of independence.

These workers believe in the skills they have acquired, instead of relying on paternalistic treatment by their bosses. In fact, as will be seen below, the results of the Tachibanaki factor analysis show that seniority considerations are minimal among female manual workers with only a junior high school education, and greatest among male non-manual workers with higher education backgrounds working in the large firm sector. It can also be seen that the seniority system remains weak among female manual workers possessing a junior high school education. From the point of view of seniority treatment it can be observed that male manual workers with only a junior high school education, particularly those in small firms, are also dealt with harshly.

Let us first examine male, non-manual workers with senior high school education or above, whose wages are most responsive to the seniority rule. We normalize their wages calculated such that they take on a value of 100 for workers of 30–34 years of age. (See Table 6.2.) Taking age along the horizontal axis and wage index along the vertical axis, we may draw wage curves for large, medium and small firms, respectively. The curve for large firms is steeper than that for medium-sized firms which is, in turn, steeper than that for small firms reflecting the fact that seniority rule is most operative in the large firm sector and least operative in the small firm sector. From 1958 to 1962 firms in each scale group strengthened their seniority practice but afterwards became more reluctant to pay higher wages to senior workers, so that the wage curves for 1981 and 1985 are rather flat for each group of firms. Also, as far as each of these two years are concerned, the wage curves of the three groups are almost identical. This means that by the first half of the 1980s medium and small firms had almost caught up large firms in the application of the seniority rule. Reflecting the movement in the figures in Table 6.2, Figure 6.1 shows that in the period, 1958–85, the wage curves are rotated around the point P, at which wages are 100 for the age group 30–34.

The fact that in 1958 a pair of scissors having two wage curves as blades, one for large, and the other for medium or small firms, was wide open, implies that the index of relative wages, w_{IS}/w_{IL} , or w_{IM}/w_{IL} , declines as the

Table 6.2 Estimated wages for male, non-manual workers with senior high school education or more (%)

Age Experience	18-19 0-1	20-24 1-2	25-29 3-5	30-34 6-9	35-39 10-14	40-44 15-19	45-49 20-29	50-54 20-29	55-59 20-29
Small firms									
1958	37	48	64	100	126	161 ¹			177 ²
1962	26	53	76	100	145	163 ¹			183 ²
1966	29	45	62	100	114	127 ¹			136 ²
1970	34	48	72	100	139	122 ¹			136 ²
1981	33	52	79	100	116	130	136	136	128
1985	49	61	83	100	121	139	148	148	144
Medium firms									
1958	20	43	65	100	133	170 ¹			187 ²
1962	23	43	73	100	147	177 ¹			204 ²
1966	28	41	62	100	115	132 ¹			147 ²
1970	34	47	70	100	126	127 ¹			143 ²
1981	33	50	78	100	116	130	136	135	128
1985	40	59	81	100	121	141	154	155	150
Large firms									
1958	25	43	62	100	134	179 ¹			196 ²
1962	24	40	67	100	150	186 ¹			219 ²
1966	30	43	59	100	118	140 ¹			158 ²
1970	38	49	72	100	126	124 ¹			147 ²
1981	29	45	79	100	115	127	135	132	122
1985	28	53	75	100	116	139	149	149	144

Notes:

1. For the age group 40-49, with experience of 15-19 years.
2. For the age group 50-59, with experience of 20-29 years.

age t of the worker becomes higher, provided $t > (30-34)$, where w_{IS} represents the wages of the small firm's worker of age t , while w_{IM} and w_{IL} are those of the medium-sized and large firms. Thus, as he gets older, a worker in a small firm obtains relatively lower wages by comparison with the corresponding worker in a large firm. That is to say, in medium and small firms, workers were more and more harshly treated by comparison with large firms, as they became more senior. The scissors were, however, closing in 1966 and 1970, and were almost completely shut, in 1981 and 1985, reflecting the fact that wages for older workers had been greatly improved in medium and small firms during these years. For the last two years we cannot discern any substantial change in firm-size-based wage differentials between workers on the standard wage (aged 30-34) and their older fellow workers. On the other hand, it should be pointed out that in these years of workers became informed of how they were paid in other firms. The internal labour market of each firm has thus become less isolated, and more interconnected with those of other firms. This is consistent with the observed homogenization of the seniority wage payment system through all classes of firm.

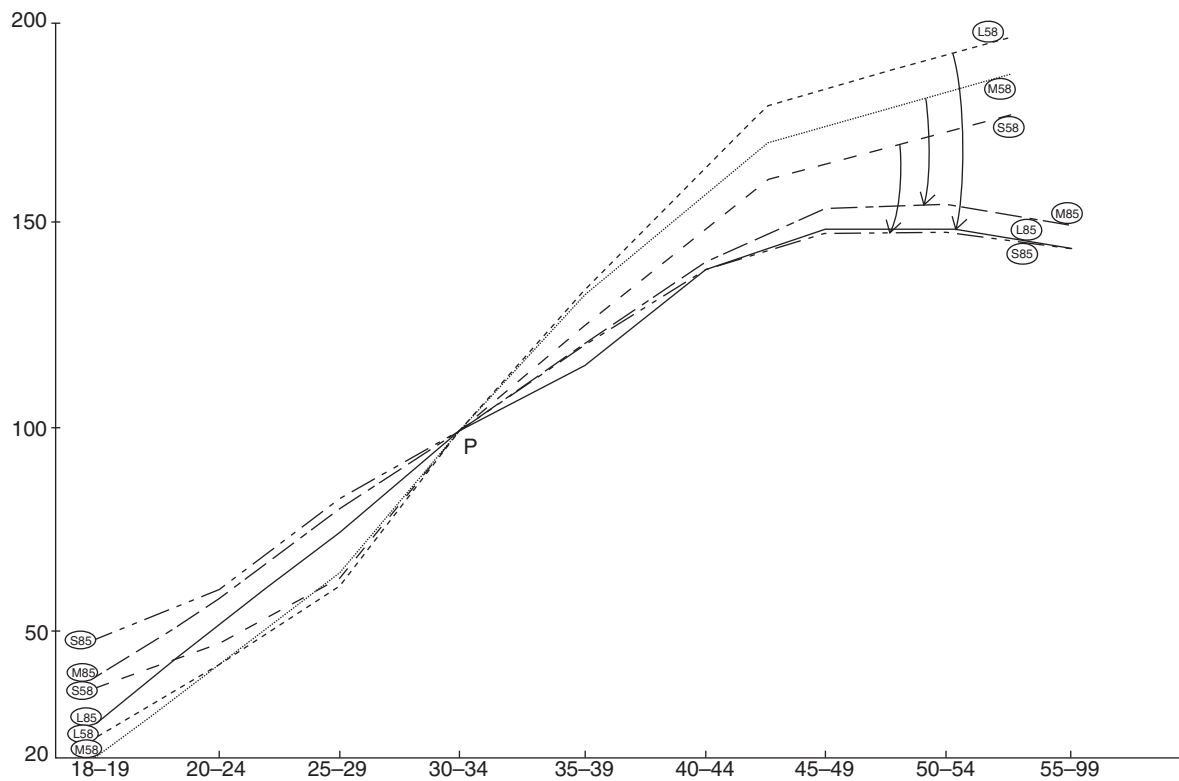


Figure 6.1 Wages in small, medium and large firms, 1958–85: male, non-manual workers with senior high school education or more

More or less similar trends can be observed in the wages of male workers in the other three groups: (1) non-manual workers with junior high school education only, (2) manual workers with senior high school education or above, and (3) manual workers with junior high school education only. For these groups too, in particular for the first two, the following three types of movement are clearly discernible:

- 1 The practice of seniority wage payment prevails in all of the three groups of firm, large, medium and small, to varying degrees. During the period under investigation it was strongest in large firms, and weakest in small firms.
- 2 The seniority payment scheme has become progressively weaker during the period.
- 3 The scheme lost its influence more rapidly in large firms than in medium-sized firms, but more rapidly in medium-sized than in small firms.

As a result of these differences in the rate of change, small and medium-sized firms almost caught up to large firms in 1981 and 1985, and all three groups' schemes are now very homogeneous with respect to the annual increments given to workers.

As a consequence of these trends for each of the three groups, the long standing fact that older workers in small and medium-sized firms in terms of the ratio of their wages to the corresponding wages in the large firm sector, are especially bad compared with similar ratios for the workers of the standard age, 30–34, had almost completely disappeared by the beginning of the 1980s.

Only manual workers in small firms with just a junior high school education may be regarded as deviating from this broad tendency. Small firms have never been rich enough to be able to extend the seniority principle to this group of workers. For them age-related increases in wages have always been small. The process of catching up has been almost completed in the 1980s; now the rate of wage increases according to the seniority principle in medium and large firms has finally come down almost to the level of small firms, though we may still say that in the first group it is slightly higher than in the last one. In any case it remains true that the position of older workers in the small and medium firm sectors in terms of the ratio of their wages to wages in the large firm sector, has been improved for the most recent two years, 1981 and 1985. Alternatively, we may say that it is only in recent years that older workers in larger firms have begun to lose the advantages they gained over those in small and medium firms under the seniority system.

For female workers the situation is more dramatic. A factor analysis shows that employers treat female non-manual workers, regardless of the

level of their education, in a more or less similar fashion to that in which they treat male workers. We can observe the same three movements in their wages we have seen above for male workers. As for female manual workers with junior high school education only, the seniority system does not work except in large firms; this is especially true for the early years (1958, 1962, 1966). (See Table 6.3.) In recent years, with the decline of the system, it is female workers in large firms who seem to have been the major casualties. In 1981, in medium-sized as well as large firms, older workers were not treated more favourably than those were in the standard age group, although they were treated slightly more favourably in 1985. The system remained foreign to small firms throughout the period, 1958–1985.

Between this group and the two groups of non-manual workers with junior and senior high school education, we find the remaining group of female manual workers educated at senior high school. For this type of worker the seniority system already prevailed in the large and medium-firm sectors in 1958, and this continued in later years. Small firms seem to have

Table 6.3 Estimated wages for female, manual workers with junior high school education only (%)

Age Experience	18–19 0–1	20–24 1–2	25–29 3–5	30–34 6–9	35–39 10–14	40–44 15–19	45–49 20–29	50–54 20–29	55–59 20–29
Small firms									
1958	66	67	90	100	72		54 ¹		35 ²
1962	82	91	101	100	91		72 ¹		31 ²
1966	77	88	101	100	99		90 ¹		80 ²
1970	83	87	97	100	112		82 ¹		61 ²
1981	124	126	110	100	96	86	85	88	76
1985	122	120	102	100	102	95	92	86	87
Medium firms									
1958	45	51	82	100	99		83 ¹		85 ²
1962	57	72	93	100	123		122 ¹		119 ²
1966	60	73	93	100	106		105 ¹		113 ²
1970	69	75	94	100	119		97 ¹		81 ²
1981	92	101	106	100	101	99	99	104	91
1985	94	104	99	100	109	110	112	105	105
Large firms									
1958	38	43	77	100	124		120 ¹		130 ²
1962	42	55	85	100	156		159 ¹		169 ²
1966	50	62	81	100	120		120 ¹		141 ²
1970	65	74	92	100	116		96 ¹		105 ²
1981	68	79	96	100	104	103	108	98	91
1985	81	94	100	100	121	123	124	118	116

Notes:

1. For the age group, 40–49, with experience of 20–29 years.
2. For the age group, 50–59, with experience of 20–29 years.

taken little account of the system. In the case of workers in this group, as for those in the group possessing junior high school education only, small firms are still very far behind large firms in the treatment of older workers, whereas medium-sized firms have virtually caught up with large firms.

Finally, although this is not a result of our factor analysis, as I have already mentioned, it is recognized that the market for female workers has been changing since 1990. This change can be regarded as reflecting both the better results achieved by female students at high school and university compared to men, and the recognition at last by employers of the inappropriateness of sex discrimination in the context of rationalisation policies to combat recession.

VII

Size of the firm. If we look at younger workers below the standard age, Figure 6.1 shows that in 1958 the wage curve of small firms was above that of large firms at 18–19, and at the same age for large firms was above that of medium-sized firms. Let w_s^* and w_M^* and w_L^* be the wages of small-medium and large firms at the standard age, 30–34, while w_s , w_M and w_L are those at the starting age of 18–19. Finally, I_s , I_M and I_L are the wage indices for the three groups of firms respectively. As:

$$100 w_s = I_s w_s^*, \quad 100 w_M = I_M w_M^*, \quad 100 w_L = I_L w_L^*,$$

we obtain:

$$\frac{w_s}{w_L} = \frac{I_s w_s^*}{I_L w_L^*}, \quad \frac{w_M}{w_L} = \frac{I_M w_M^*}{I_L w_L^*}.$$

It then follows that the rate of increase in relative wages between the starting age and the standard age, that is, $(w_s^*/w_L^*)/(w_s/w_L) - 1$ for the small firms or $(w_M^*/w_M^*)/(w_M/w_L) - 1$ for the medium sized firms, is given by

$$I_L/I_s - 1 \quad \text{or} \quad I_L/I_M - 1$$

respectively. We define the wage differentials between small and large firms at the initial age as

$$(w_L - w_s)/w_L = 1 - w_s/w_L$$

and that between medium and large firms as:

$$1 - w_M/w_L.$$

Similarly for differentials at the standard age. Therefore, the following propositions concerning relative wages can be immediately translated into propositions in terms of wage differentials.

It is apparent that the above-mentioned facts concerning wage curves in the year 1958, that is $I_S > I_L$ and $I_M < I_L$, imply that for small firms relative wages at the standard age, w^*_S/w^*_L , were smaller than those at the initial age w_S/w_L , while in the case of medium firms the reverse relationship was true:

$$w^*_M/w^*_L > w_M/w_L.$$

Beginners were relatively (i.e. in terms of relative wages w_S/w_L) more favourably treated than 'standard' workers in small firms, whereas they were treated less favourably in medium firms. Anyway, in both cases standard relative wages were less than 1, while initial relative wages (w_S/w_L or w_M/w_L) were sufficiently small. In fact, initial relative wages were not much greater than 1 for small firms and well below 1 for medium firms; hence standard relative wages were less than 1 for both sizes of firm in 1958, at 78 per cent and 86 per cent, respectively.

In 1985, we see from Table 6.2 that wage indices satisfy $I_S > I_M > I_L$, so that small firms' and medium firms' relative wages in terms of large firms' wages were decreasing between the initial and standard ages. Whereas both w_S/w_L and w_M/w_L at the starting age were greater than one, standard relative wages in small and medium firms were both less than 1 for both sizes of the firm in 1985, at 79 per cent and 86 per cent, respectively, since I_S/I_L and I_M/I_L are sufficiently large. Table 6.4 shows that except for 1966 and 1981 standard relative wages of small firms, w^*_S/w^*_L , were all between 77 per cent and 79 per cent, while those of medium firms were between 86 per cent and 88 per cent. The figures for 1966 are exceptionally high; Table 6.4 shows them as 87 per cent for small firms and 94 per cent for the medium firms, compared with the exceptionally low figures of 70 per cent and 80 per cent respectively, for 1981. With these exceptions it is observed that standard relative wages and, hence, standard wage differentials, do not exhibit any upwards or downwards trend.

Other observations which may be derived from Table 6.4 are as follows. First, for the first four years, 1958, 1962, 1966 and 1970, relative wages for older workers (except one) are lower than the corresponding standard wages for small and medium firms, while for the last two years, 1981 and 1985, such a decline in relative wages can no longer be seen. This implies that for each age group relative wages improved during the period, 1958–1985. That is to say, for each age group senior to the standard one we can observe an upwards trend in relative wages, notwithstanding some ups and downs. We may conclude that as far as male, non-manual workers with higher education are concerned, the problem of senior workers' low

Table 6.4 Relative wages of male, non-manual workers with senior high school education or more (%)

Age	18-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	
Experience	0-1	1-2	3-5	6-9	10-14	15-19	20-29	20-29	20-29	
w_S/w_L	1958	118	86	81	78	73	70 ¹		70 ²	
	1962	82	87	88	77	74	67 ¹		64 ²	
	1966	85	97	90	87	84	79 ¹		74 ²	
	1970	71	78	78	79	79	78 ¹		73 ²	
	1981	85	76	70	70	73	71	71	72	73
	1985	136	92	88	79	83	80	79	79	80
w_M/w_L	1958	69	86	89	86	85	82 ¹		82 ²	
	1962	83	94	96	88	87	84 ¹		82 ²	
	1966	87	97	97	94	92	89 ¹		87 ²	
	1970	77	84	85	87	87	90 ¹		85 ²	
	1981	85	84	79	80	84	82	83	84	85
	1985	114	95	92	86	89	87	89	89	89

Notes:

1. For the age group, 40-49, with experience of 15-19 years.
2. For the age group, 50-59, with experience of 20-29 years.

relative wages was finally solved in the 1980s; these workers have at last in comparative terms, become as equally paid as are 'standard' workers.

As for the remaining three groups of male workers, i.e. (1) manual or (2) non-manual workers, both with junior high school education only, and (3) manual workers with senior high school education or more, small firms have been particularly behind large firms in effecting seniority wage payment schemes. In the case of manual workers with compulsory (junior high school) education only, the scheme was barely operative even in 1985.

But as in large firms the scheme became very weak in the 1980s and virtually ineffective. In 1981 and 1985, older workers in this group working in small firms are now treated almost equally with workers in the standard age group, at least in terms of any comparison with corresponding workers in large firms. For the first four dates of our period, the wages paid to workers in the age group, 50-59, were only 49-66 per cent of those paid to corresponding workers in large firms. In view of the relative wages of workers in the standard age group, i.e. 65-84 per cent, it must be said that older workers have been subject to especially bad treatment. In the two years in the 1980s, as said above, they were receiving more or less equal treatment with standard workers, but remained poorly paid by comparison with corresponding workers in large firms, receiving only 64-71 per cent of the wages of their large firm counterparts at age 50-54, as against 66-74 per cent at the standard age (see Table 6.5). These results can be regarded as a reflection of the fact that older workers have little influence within the labour union.

Table 6.5 Relative wages of male, manual workers with junior high school education only (%)

Age	18-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	
Experience	0-1	1-2	3-5	6-9	10-14	15-19	20-29	20-29	20-29	
w_S/w_L	1958	81	84	72	65	56	55 ¹		50 ²	
	1962	110	97	81	72	61	56 ¹		49 ²	
	1966	113	104	96	84	79	77 ¹		66 ²	
	1970	76	78	76	74	74	73 ¹		63 ²	
	1981	90	81	68	66	66	65	63	64	65
	1985	100	87	77	74	73	72	71	71	70
w_M/w_L	1958	101	102	93	89	81	77 ¹		74 ²	
	1962	108	106	95	90	81	80 ¹		78 ²	
	1966	106	104	102	94	87	89 ¹		84 ²	
	1970	80	84	84	85	87	87 ¹		77 ²	
	1981	97	93	81	82	82	83	81	83	85
	1985	92	87	84	81	82	82	83	83	83

Notes:

1. For the age group, 40-49, with experience of 20-29 years.
2. For the age group, 50-59, with experience of 20-29 years.

For female workers similar findings may be observed, but on an enlarged scale. First, the workers for whom wage differentials between small and medium firms and large firms are the smallest, are non-manual workers with senior high school education or more, while the largest wage differentials are found among manual workers with compulsory education only. Between them we find manual workers with higher education and non-manual workers with compulsory education, of whom the former are less well treated than the latter. This ordering of the degree of wage differentials among the four groups of female workers is identical to that for male workers.

Reflecting traditional discrimination against women workers and manual work, both of which still prevail in contemporary Japan. The figures for relative wages of female workers in their forties and fifties are, regardless of their educational background, miserable. (See Tables 6.6 and 6.7.) In the case of manual workers with compulsory education only, relative wages of small firms (in terms of wages in large firms) sometimes take values below 50 per cent, or even 40 per cent, for workers more than 40 years of age. Even for the years 1981 and 1985, when they were best paid, the figures remain below 60 per cent. For workers with a senior high school education relative wages were slightly higher, but these changes can hardly be regarded as a significant improvement.

However cruel and shameful it may be, it is not surprising that such a degree of discrimination persists in Japan despite its becoming one of the world's major industrial countries, especially so in view of the fact that

Table 6.6 Relative wages of female, manual workers with junior high school education only (%)

Age	18-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	
Experience	0-1	1-2	3-5	6-9	10-14	15-19	20-29	20-29	20-29	
w_S/w_L	1958	94	86	64	55	32	25 ¹		15 ²	
	1962	142	121	90	73	42	33 ¹		13 ²	
	1966	120	111	97	78	65	59 ¹		44 ²	
	1970	81	75	70	63	61	54 ¹		36 ²	
	1981	109	96	69	60	55	50	47	54	50
	1985	109	93	74	73	62	56	55	53	55
w_M/w_L	1958	96	99	88	82	65	57 ¹		54 ²	
	1962	121	119	99	90	71	69 ¹		63 ²	
	1966	107	106	103	90	80	79 ¹		72 ²	
	1970	82	78	79	77	79	78 ¹		59 ²	
	1981	100	95	82	75	72	72	69	79	74
	1985	91	86	78	78	71	70	71	70	70

Notes

1. For the age group, 40-49, with experience of 20-29 years.
2. For the age group, 50-59, with experience of 20-29 years.

Table 6.7 Relative wages of female, manual workers with senior high school education only (%)

Age	18-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	
Experience	0-1	1-2	3-5	6-9	10-14	15-19	20-29	20-29	20-29	
w_S/w_L	1958	143	77	63	58	45	37 ¹		28 ²	
	1962	113	105	95	67	53	38 ¹		21 ²	
	1966	88	69	87	75	70	58 ¹		46 ²	
	1970	74	77	69	65	61	63 ¹		51 ²	
	1981	110	88	70	60	58	53	50	52	57
	1985	104	87	80	64	67	59	56	57	58
w_M/w_L	1958	39	63	71	59	66	59 ¹		55 ²	
	1962	93	101	101	80	75	69 ¹		64 ²	
	1966	86	66	97	87	84	77 ¹		71 ²	
	1970	76	82	81	78	76	83 ¹		69 ²	
	1981	96	87	75	68	73	68	68	71	75
	1985	107	81	79	69	73	68	72	72	72

Notes

1. For the age group, 40-49, with experience of 15-19 years.
2. For the age group, 50-59, with experience of 20-29 years.

Japan is a Confucian country. I myself have referred to its economy as a type of Confucian capitalism. The work ethic in such an economy accords with Confucian social philosophy. It is a strongly male-chauvinistic philosophy developed for feudalism advocating intellectualism and élitism.

Situated between non-manual workers with higher education and manual workers with junior high school education only, we find manual workers with higher education and non-manual workers with compulsory education only. Of these the former are less favourably treated than the latter. In these two groups 1970 relative wages for the age group 50–59 were as low as 68–71 per cent of the corresponding large firm workers, while 76–79 per cent of the wages of large firm workers were paid to standard age group workers. Such discriminatory treatment of older persons, a typical and longstanding phenomenon in Japan, was more obvious in the earlier years, 1958 and 1962, particularly for manual workers with a higher education, for whom the relative wages of senior workers of age 40 or above often took on values below 60 per cent. Such workers were treated almost as badly as senior manual workers possessing only compulsory education. In the 1980s, senior workers were finally more favourably dealt with. This kind of change, too, can probably also be seen as a reflection of the distribution of power within the labour union.

In such a context it is natural that females should be subject to discrimination, and non-manual desk work is put above manual productive work. This circumstance conforms with the Confucian preconception that those who have been educated are the upper class, while those who have not belong to the lower class. As a Confucian capitalist country, Japan allocates labour between manual and non-manual workers, mainly according to the level of education a person has received. That is to say, those with elementary education usually only become manual workers, while most of those with senior high school education or above are employed as non-manual workers.

Once a person becomes a manual worker, regardless of his/her higher education he/she is a manual worker, and is treated almost as unfavourably as other manual workers who have only received an elementary education. Where such disdain persists, it is natural that it is female manual workers who receive the least protection from labour unions. Employers do not extend paternalistic policies to them, and no seniority payment scheme is applicable to them. This is especially true of small firms, where financial conditions are usually very difficult. Therefore, older, female workers in small firms are extremely poorly paid by comparison with those working in large firms.

Koike, as I have already pointed out, tends to disregard this kind of phenomenon, despite its being easily observable in Japan, even in the 1980s. He states: 'For female blue collar workers, wage differentials based on a difference in firm-scale are confined to within about 15–25 per cent for most EC countries. Differentials in Japan, too, are within the same range. For female blue collar workers too, Japan is not by any means an exception, such workers' differentials falling in the lower part of the EC range... . In any case, apart from male white-collar workers, it generally follows from comparison with EC countries that Japan is not a country with big wage

differentials.⁷ A comment of this kind, which fails to mention the extraordinary discrimination which exists against older female workers, is at very least somewhat misleading. It comes from not estimating the wages of workers according to their various characteristics by applying an appropriate factor analysis, but rather through a comparison of aggregate statistics incorporating young, middle-aged and older workers. As indicated above, such statistics are associated with errors stemming from the different ratios obtained for these age groups according to whether large enterprises are included or whether small enterprises are included.

VIII

Manual and Non-manual Labour, and Education. It is true, as has been pointed out by Koike, that wage differentials between manual and non-manual labour are small in Japan, as long as they are obtained from given crude statistics. However, in order to get a more accurate view of occupational wage differentials, the effects of education have to be removed. Koike views this small differential as evidence of the super-advanced nature of Japanese firms compared with firms in EC countries,⁸ though I must confess that I am unclear why an egalitarian wage payment to manual and non-manual labour – a disincentive to the latter, though welcomed by the former – should be advanced, or super-advanced.

Koike also points out that wage differentials based on differences in the level of education are low in Japan (at least in comparison with the USA).⁹ It should be noted that his indices for representing these differentials are aggregate indices, each including both manual and non-manual workers. They therefore do not reflect wage differentials due to education alone, but include those due to occupation. Broadly speaking, this is because of the following. Where junior high school graduates can only be manual labourers and those with at least a senior high school education can become non-manual workers, Koike's index for relative wages based on different education levels will be identical to that for the relative wages of manual and non-manual workers. They are no more than different names for the same thing. As long as we stick to this method of comparing wage differentials, we cannot identify in the total index that element which is solely due to educational background and that which is solely due to occupation.

It is, of course, true that all junior high school leavers do not become manual workers; some work in offices. It is also true that those with further or higher education do necessarily become white-collar workers. It is, however, highly probable that school leavers from junior high school will become manual workers, while those with further or higher education will find themselves in the white-collar class. It would seem to be important and of interest to identify that part of the observed wage differentials purely due to education, and that purely due to occupation, by comparing,

say, male, manual workers with only compulsory education with male, non-manual workers with senior high school experience.

Let w_{MJS}^m be the per capita wages of male, manual workers with junior high school education working in the small firm sector, and w_{NSS}^m those of male, non-manual workers with senior high school education working in the small firm sector. The comparison is of workers belonging to the same age group and having the same work experience. Total wage differentials are given by:

$$A_S = 1 - w_{MJS}^m/w_{NSS}^m,$$

where the S applied to A refers to the fact that the measurement of A is based on workers in the S (small firm) sector. On the other hand, differentials purely due to education may be given students

$$B_S = 1 - w_{MJS}^m/w_{MSS}^m$$

and those purely due to occupation by

$$C_S = 1 - w_{MSS}^m/w_{NSS}^m,$$

where the notation is evident: w_{MSS}^m refers to per capita wages of male, manual workers with further or higher education working in the S sector. We can show that the sum of the last two approximates the first, namely:¹⁰

$$A_S = B_S + C_S.$$

Neglecting error of the approximation we may call C_S the differential due to occupation. We must note that in this approximation the measurement of wage differentials due to education is based on male, manual workers in small firms.

Alternatively, we may measure it on the basis of male, non-manual workers in the same group of firms. We then have:

$$B'_S = 1 - w_{NJS}^m/w_{NSS}^m.$$

In this case we have to measure wage differentials due to occupation, on the basis of small firm workers with elementary education only, as

$$C'_S = 1 - w_{MJS}^m/w_{NJS}^m.$$

We get another equation of approximation

$$A_S = B'_S + C'_S.$$

Of course B_S generally differs from B'_S and C_S from C'_S .

Similarly, we may define A_M, B_M, C_M , etc., or A_L, B_L, C_L , etc. on the basis of workers working in medium and large firms, respectively. The results of the numerical analysis of A_L and B_L and C_L or B'_L and C'_L , together with the results of similar analysis of A_M and A_S , are shown in Table 6.8, from which we find that the effect of occupation upon wage differentials between uneducated manual and educated non-manual workers is surprisingly small. A large part of the differential can be explained by the extent of education.

Table 6.8 Effects of education and occupation upon the wage differentials between manual workers with junior high school (J.H.) education only and non-manual workers with senior high school (S.H.) education or more; the case of male workers (%)

Age	40-49				50-59			
Experience	20-29				20-29			
J.H. education	15-19				20-29			
S.H. education								
Small firms	B_S/A_S	C_S/A_S	B'_S/A_S	C'_S/A_S	B_S/A_S	C_S/A_S	B'_S/A_S	C'_S/A_S
1958	82	30	91	16	*	*	87	24
1962	80	33	93	13	*	*	90	18
1966	68	39	93	11	89	22	89	16
1970	72	36	104	-4	51	59	81	27
1981	66 ¹	41 ¹	79 ¹	28 ¹	69 ²	40 ²	69 ²	43 ²
1985	82 ¹	23 ¹	73 ¹	32 ¹	70 ²	37 ²	60 ²	47 ²
Medium firms	B_M/A_M	C_M/A_M	B'_M/A_M	C'_M/A_M	B_M/A_M	C_M/A_M	B'_M/A_M	C'_M/A_M
1958	94	9	100	3	81	29	88	20
1962	93	11	104	-4	81	28	86	19
1966	90	10	105	-10	81	25	88	19
1970	76	29	110	-14	53	59	82	26
1981	73 ¹	32 ¹	86 ¹	18 ¹	72 ²	34 ²	66 ²	41 ²
1985	94 ¹	6 ¹	83 ¹	22 ¹	69 ²	38 ²	58 ²	50 ²
Large firms	B_L/A_L	C_L/A_L	B'_L/A_L	C'_L/A_L	B_L/A_L	C_L/A_L	B'_L/A_L	C'_L/A_L
1958	100	0	104	-4	71	37	80	29
1962	105	-5	115	-15	76	33	82	24
1966	94	6	106	-11	72	34	79	24
1970	127	-36	*	*	50	57	79	29
1981	64 ¹	41 ¹	68 ¹	36 ¹	67 ²	41 ²	63 ²	48 ²
1985	79 ¹	21 ¹	64 ¹	43 ¹	57 ²	48 ²	48 ²	62 ²

Notes

* The estimate is not listed because the rate of error is large, i.e. 13% or more.

1. For the age group, 40-44, with experience of 20-29 and 15-19 years, respectively, for junior and senior high school graduates.
2. For the age group, 50-54, with experience of 20-29 years for both junior and senior high school graduates.

Through 1958–1985 the effects of education were diminishing, but even in 1985 around 80 per cent of the differential resulted from differences in education. In the pre-war period the entrance examinations for high schools were very competitive, but since the Second World War they have been replaced as the most difficult and important examinations in the life of a Japanese by university entrance examinations. As these examinations are so competitive, a significant proportion of candidates have to repeat, often several times. During these retrial years, not only the candidates themselves but also their parents, sisters and brothers too, have to live in a state of anxiety, and forget to smile.

Despite this, boys in particular – but girls as well – rush to universities. This is true not only for those from the middle class but also for most working-class children. It is obvious that Japanese students do not just have to cope with this examination ordeal; their examination preparation also means they have to pay out extra sums to crammers and in payment to home tutors. Judged from this perspective of extra cost, they can probably be criticized for pursuing to such an extent the profit from extra educational spending. If we widen the scope, however, and take the non-pecuniary, sociological aspects of education into account, it is possible to understand the reasonableness of the hectic kind of competition among students in Japan.

Under the influence of Confucianism, Japanese, like Chinese, classify people into ‘illiterates’ and ‘literati’. This classification, like the occidental one of ‘poor’ and ‘rich’ is decided by both heredity and competition, although the benefits received are in the form of nature or character in the case of oriental societies, whereas they come as wealth in the Occident. These two types of societies differ in that oriental competition is carried on mainly during people’s period at school, while in the west it occurs mainly in their time at work. Those who are successful in entrance examinations are recognized as a member of the ‘literati’ classes, which opens wide opportunities to them. Not only is a white-collar job likely to be provided but he/she is also likely to be able to find a spouse from the same educational class. Senior high school education (or perhaps university education) is the minimum condition for being a member of the ‘middle’ class in contemporary Japan. This is true to some degree even if a person with such an educational background becomes a manual worker: he/she will be regarded as belonging to the fringe of the middle class or the semi-middle class. In any case, without consideration of these social elements, it is very difficult, if not impossible, to explain Japan’s high rate of investment in education.

The results for female workers are given in Table 6.9. It can be seen that the effects of occupation upon wage differentials are negative. In many cases, especially while workers are young; even where they are positive, it is usually less than 40 per cent, and the effects of education are much more dominant. In spite of this we may conclude that the economic inducement for sending girls to senior high school in Japan should still be low, because

Table 6.9 Effects of education and occupation upon the wage differentials between manual workers with junior high school education only and non-manual workers with senior high school education or more: the case of female workers (%)

Age	30-34		35-39		40-49	
Experience						
J.H. education	10-14		15-19		20-29	
S.H. education	6-9		10-14		15-19	
Small firms	B_S/A_S	C_S/A_S	B_S/A_S	C_S/A_S	B_S/A_S	C_S/A_S
1958	*	*	*	*	*	*
1962	135	-45	80	29	*	*
1966	121	-26	75	33	*	*
1970	100	0	103	-6	*	*
1981	114	-10	97	3	79 ¹	33 ¹
1985	109	-9	84	22	81 ¹	29 ¹
Medium firms	B_M/A_M	C_M/A_M	B_M/A_M	C_M/A_M	B_M/A_M	C_M/A_M
1958	*	*	119	-30	*	*
1962	*	*	103	-6	*	*
1966	115	-20	81	28	94	6
1970	105	-10	117	-21	*	*
1981	*	*	115	-20	90 ¹	13 ¹
1985	110	-10	92	8	91 ¹	12 ¹
Large firms	B_L/A_L	C_L/A_L	B_L/A_L	C_L/A_L	B_L/A_L	C_L/A_L
1958	*	*	*	*	83	23
1962	100	-4	127	-33	88	15
1966	100	0	88	16	96	4
1970	121	-21	105	-5	75	29
1981	131	-31	125	-31	76 ¹	34 ¹
1985	55	55	108	-8	79 ¹	29 ¹

Notes

* The estimate is not listed because the rate of error is large, i.e. 13% or more.

1. For the age group 40-44.

female workers' wages are much lower than those of male workers. Women's higher education is still a part of their bridal wear.¹¹

The first half of Table 6.10 shows the ratios of wages of female manual workers with junior high school education only (w_{MJ}^f) to the corresponding wages of senior high school graduates (w_{MS}^f) for the most recent three years of the selected period, 1970, 1981 and 1985. The second half gives similar relative wages for female non-manual workers, that is to say, w_{NJ}^f/w_{NS}^f . It can be seen from Table 6.10 that the rate of return on investment in sending a girl to senior high school is certainly negative for a girl who is assumed to become a manual worker after graduation and to retire from

Table 6.10 The educational wage differentials among female workers (%)

Age	18–19	20–24	26–29	30–34	35–39	40–44	45–49	50–54	55–59	
Experience: J.H. Education	1–2	2–3	6–9	10–14	15–19	20–29	20–29	20–29	20–29	
S.H. Education	0–1	1–2	3–5	6–9	10–14	15–19	20–29	20–29	20–29	
w_{MJ}^f/w_{MJ}^f										
Small firms	1970	127	114	119	107	80		61 ¹		53 ²
	1981	114	124	104	104	99	86	85	85	69
	1985	135	119	97	102	93	88	87	81	82
Medium firms	1970	127	116	113	110	87		70 ¹		62 ²
	1981	120	125	115	113	104	96	91	90	78
	1985	*	*	*	*	*	*	*	*	*
Large firms	1970	116	120	143	105	104		78 ¹		75 ²
	1981	114	113	105	104	105	90	90	81	79
	1985	*	*	*	*	*	*	*	*	*
w_{NS}^f/w_{NS}^f										
Small firms	1970	165	146	138	123	112		104 ¹		99 ²
	1981	113	107	104	96	91	92	84	83	84
	1985	*	*	*	*	*	*	*	*	*
Medium firms	1970	164	145	136	123	112		102 ¹		98 ²
	1981	121	108	107	104	96	98	87	87	87
	1985	129	94	94	93	97	90	85	83	83
Large firms	1970	146	146	131	117	112		102 ¹		99 ²
	1981	113	99	105	99	94	93	87	87	87
	1985	*	*	*	*	*	*	*	*	*

Notes

* This estimate is not available

1 Age, 40–49, with experience, 20–29, for J.H. and 15–19, for S.H. graduates.

2 Age, 50–59, with experience, 20–29, for both J.H. and S.H. graduates.

the job before the age of 40, as female workers usually do in Japan. The same is true for non-manual workers for the years 1970 and 1981. In 1985, however, the rate of return in the case of non-manual workers is just positive, but small in magnitude, probably too small, in fact, to compensate for the investment in higher education. We may consequently conclude that existing wage differentials between uneducated and educated workers provide no economic incentive to education beyond the compulsory period. Nevertheless, if it is the case that further education develops individuals' abilities and talents and their productivity is therefore higher than that of less educated workers, most of the additional production gained by employing workers with a senior high school education or above would remain in the hands of employers. If this was so, they would pay more to workers with a senior high school education in order to employ more of them. This did not actually happen, though it may be expected to do so in the near future.

A move towards equilibrium is prevented in an economy where relative wages tend to adhere to those traditionally considered as reasonable, as is the case in Japan. In 1985 female senior high school graduates still could not persuade employers of their ability. After 1990, however, these abilities were beginning to be recognized. As indicated above, the rate of female wages is rising in relation to those of men.

In the case of male workers, the table of relative wages, w^m_{MJ}/w^m_{MS} or w^m_{NJ}/w^m_{NS} , is not significantly different from Table 6.10, although educated workers are more favourably treated compared with uneducated workers than is the case for female workers. In view of the fact that most male workers, unlike females, continue to work until the age of 59 or more, and given that wages for the age groups 40–49 and 50–59 are, in general, much higher than those for workers aged 30–39, we may say that investment in higher education for boys may well be economically justifiable. In the case of women, however, a senior high school education may be taken as unnecessary, or superfluous, for both manual and non-manual workers, at least in as far as any decision to take such education is not based solely on economic calculation. This was true even in 1985. Japanese parents decide to send their daughters to institutions of higher education, not because of economic calculations, but on the basis of socio-cultural considerations, or because they appreciate the intrinsic value of education. This anti-Chicago motive is, or has been, quite strong in a Confucian country like Japan.

IX

Sex discrimination. The age profile of relative wages between female and male workers may be examined by dividing it into four phases: (1) the first two age groups, 18–19 and 20–24, (2) the second half of the twenties, 25–29, (3) the two groups of the thirties, 30–34 and 34–39, (4) the four

remaining age groups of the forties and fifties, 40–44, 45–49, 50–54, 55–59. In the first phase, both male and female school leavers get a job through the open, competitive labour market. If there is excess demand for male workers their wages will be high, so that employers will shift their demand for labour from male to female workers, and the latter's wages will tend to rise. Female workers' relative wages in terms of the wages of male workers do not deviate far from 100 per cent in this phase. They are still high, around 70 per cent, in the second phase, which is a transition period between the first and third phases. In 1981 and 1985 this was generally true for all types of workers: manual or non-manual workers with junior or senior high school education.

In the second phase, though many female workers are still employed, the greater part of them retire for a while. They start to work again during the third phase. (See Table 6.11.) That the wage differentials should be very unfavourable to female workers in this third phase, therefore, is a serious problem. A simple average of the three relative wages of small, medium and large firms for the age groups 30–34 and 35–39, is 57 per cent for 1981 and as low as 56.5 per cent for 1985. The same averages for the fourth phase for 1981 and 1985 are 49 and 49.5 per cent, respectively. These are the figures for manual workers with junior high school education only. The results for those with some kind of further or higher education are more or less similar, being 54 and 52 per cent for the third and fourth phases in 1981, and 58 and 52 per cent in 1985.

These figures suggest that Japan in the 1980s was still worse than Britain at the beginning of the 1970s, when Britain was the most notorious of the EC countries in the degree of discrimination against female workers. As wages in the third and fourth phases are determined mainly in the internal labour market of each firm, the big wage differentials between the sexes may be considered as a reflection of the fact that they are unfavourably treated by both employers and labour unions. This is not a surprising phenomenon at all in a Confucian country like Japan, where traditionally 'women and small men' have been looked down upon and discriminated against because of their alleged (by Confucius) 'senselessness'.

This conclusion regarding manual workers is confirmed as a general conclusion which holds true for non-manual workers too. As far as non-manual workers with a junior high school education only are concerned, the simple average of relative wages during the third phase is 61 per cent in 1981 and 64 per cent in 1985. Similar averages for the fourth phase are 59 per cent in 1981 and 58 per cent in 1985. There is no substantial change in the results if we average the figures for non-manual workers with senior high school education or above. These statistics enable us to conclude that, in the case of non-manual workers, wage differentials according to sex in Japan in the 1980s are at least as bad as those obtaining in Britain in the early 1970s.

Table 6.11 The educational wage differentials between female and male workers (%)

Age	18–19	20–24	26–29	30–34	35–39	40–44	45–49	50–54	55–59	
Experience: J.H. Education	1–2	2–3	6–9	10–14	15–19	20–29	20–29	20–29	20–29	
S.H. Education	0–1	1–2	3–5	6–9	10–14	15–19	20–29	20–29	20–29	
w_{MJ}^f/w_{MS}^m										
Small firms	1970	94	76	58	51	43		35 ¹		31 ²
	1981	138	113	77	59	49	44	43	45	42
	1985	95	94	69	58	52	44	44	42	45
Medium firms	1970	90	75	60	56	50		45 ¹		41 ²
	1981	118	99	76	59	52	49	49	51	48
	1985	86	87	66	56	54	48	48	47	49
Large firms	1970	89	77	64	60	60		55 ¹		54 ²
	1981	114	96	75	65	60	57	57	53	55
	1985	87	88	71	58	62	57	57	56	57
w_{NJ}^f/w_{NS}^m										
Small firms	1970	142	115	91	74	69		69 ¹		67 ²
	1981	159	113	76	63	56	55	56	57	56
	1985	98	98	73	64	62	56	55	54	57
Medium firms	1970	140	115	92	78	73		73 ¹		69 ²
	1981	115	94	69	61	56	57	57	58	57
	1985	87	90	69	62	61	57	57	57	
Large firms	1970	123	114	92	77	83		76 ¹		74 ²
	1981	116	95	75	68	63	63	64	65	63
	1985	86	90	72	67	67	62	62	61	64

Notes

1. Age, 40–49, with experience, 20–29, for J.H. and 15–19, for S.H. graduates.
2. Age, 50–59, with experience, 20–29, for both J.H. and S.H. graduates.

Professor Koike has made very similar observations,¹² but he seems reluctant to characterise Japan as a Confucian country. He tries to explain the big wage differentials between the sexes in Japan by factors such as operate in any Western economy. He points out that many female workers retire from their jobs for a while to take care of their children in their late twenties, and return to work in the course of their thirties. There is, therefore, says Koike, a substantial difference in experience found between female and male workers of the same age after they reach 30 years of age. He then concludes his argument by conjecturing that wage differentials between the sexes can reasonably be explained by the clearly observable insufficiency of experience of female workers.

Unfortunately this conjecture does not apply to the wage differentials discussed above, where wage comparisons are between members of the two sexes in the same age group with the same number of years of experience. Moreover, long service is not well appreciated in the case of female workers, so that, contrary to Koike's conjecture, wage differentials due to sex will not be diminished and might even be adversely influenced if female workers stay on at their jobs throughout their late twenties. In the worst cases, even allowing for some exaggeration, female workers' wages are determined in Japan in pretty much the same way as bunny girls are priced in night clubs. This has been true, and may still be true, to varying degrees of Western countries too. In my view, however, it is impossible to account for this characteristic in Japan without recognizing that Japan is a Confucian country, where female workers are looked down on.

In as far as can be judged from raw statistical data on which factor analysis has not been carried out, male–female wage differentials remained almost unchanged between 1985 and 1990. During the 1990s, however, differentials first started to shrink in the small enterprise sector, and then, a year later, in the medium-sized enterprise sector. In the large enterprise sector this movement had still not commenced by 1996, although it is fully expected to do so in the future. (See Table 6.12.)

Supposing that during the 1990s small, and then medium enterprises felt the influence of the recession, it appears that in these enterprises attempts were made as part of rationalization policies to use as many cheaper female workers as possible. This resulted in women's wages rising rather more than men's wages, leading in turn to a reduction in differentials. The trend in differentials shown in Table 6.12 is therefore very reasonable. However, if we compare these figures with the 1985 figures for workers in the standard age group 30–34 shown in Table 6.11, which show for manual labour male–female wage differentials of 58 in small firms, 56 in medium firms and 58 in large firms, and for non-manual workers equivalent figures of 64, 62 and 67; then, taking into account the fact that the figures in Table 6.12 are for manual and non-manual workers as a whole, a failure to do factor analysis can make it look as though wage differentials are fairly large. Here,

Table 6.12 Wages of female employees as percentage of wages of male employees

Scale of plant (no. of workers)	10–99	100–999	1000–
1985	58	56	57
1986	58	57	59
1987	59	58	60
1988	58	57	60
1989	58	57	59
1990	58	58	58
1991	60	58	59
1992	60	60	59
1993	61	61	59
1994	61	61	59
1995	62	62	59
1996	63	63	58

Source: Ministry of Labour, *Maigetsu Kinro Tokei Chosa* (Monthly Survey of Employment Statistics).

too, it is possible to confirm the clear criticisms of Koike's work that have been made at various points in this chapter.

7

Agony towards Capitalism from Below

I

Up until now I have used the concepts of capitalism from above and capitalism from below without defining them clearly, but we have now reached the stage where they have to be explained carefully. Before reaching the capitalist stage, countries tend to experience what can loosely be called feudalism, and their capitalism will be of the 'from above' or 'from below' kind, depending on whether they have transformed from feudalism to capitalism, or whether their capitalism has grown out a situation where there is no feudalism. Prussia is the archetypal former case, and the United States the latter. The conspicuous exception is Britain. As explained earlier, Meiji Japan can be regarded as having been born from the transition from Tokugawa feudalism to the capitalism from above of the Meiji period.

Let us first look at the case of Prussia. For a long period the regions of Germany had been divided up into a large number of diverse states, large and small. The Emperor of the Holy Roman Empire was chosen from among the kings of these sovereign states, but neither Emperor nor Empire had the power to achieve unified control within the territories under their jurisdiction. Only the rulers of the separate states could command the loyalty of the people, and it was only within some of those states that absolutism was possible. From the late seventeenth century and into the eighteenth Prussia made itself prominent as an absolutist state, and strongly asserted its own interests in its dealings with the other states. A country of this kind was bound to be militaristic and mercantilist, constraining the autonomy and freedom of its people. It was this kind of absolutist state that before long brought about the unification of the German states and built up a strong German empire. In the case of Japan we find a strong resemblance to this situation, in that with the weakening of the central Tokugawa government in the closing days of the Tokugawa period, it was Satsuma and Choshu, absolutist regimes at the domain level, who were 'awake to the times' and who reunified the country.

In Prussia the class of nobility called the *Junker* had enhanced their dominance within their own lands by making political concessions to the king. This resulted in the peasants' being deprived of their landholdings and being compelled to undertake forced labour. The purpose of the king was to create a powerful army and to increase as far as possible the extent of his own control. For this to be achieved the state also had to be provided with administrative machinery. The king had to raise the finance necessary to sustain and strengthen the army and the bureaucracy, which in turn required the economy to be prosperous. However, the agricultural sector, under the management of the *Junker*, was only a source of food products. Through the income obtained from exporting these to Holland and Britain, the country sought to enhance its military preparedness, strengthen its political influence and increase its influence in international affairs. It was Bismarck who, as Chancellor, made a major contribution to the rise of Prussia; he himself was a member of the *Junker* nobility, and created in Prussia a state whose core was the army and the bureaucracy, and whose structure was expansionist, militaristic and mercantilist.

However, the agricultural sector produced only food, and as long as the manufacturing sector was weak expansionism was no more than a dream. The manufacturing sector had to be strengthened. The king encouraged agriculture to shift towards livestock farming in an attempt to promote the woollen industry, and at the time of Louis XIV's suppression of the French Protestants (Huguenots) in the late seventeenth century the King of Brandenburg-Prussia declared his willingness to accept them. The new immigrants were skilled craftsmen, hardworking, and full of the spirit of enterprise. Admittedly there was some friction between them and the people of northern Germany, but they provided a stimulus at the same time. These immigrants played a major role in developing modern business activity in Germany. Prussia thus ceased to be a purely agricultural country.

A further contribution was made by Friedrich List (1841). List advocated (1) the unification of the many fragmented states into a united Germany (unity brings power); (2) the abolition of internal customs in all the states becoming part of the united Germany, and the creation of a protective customs federation with the aim of encouraging infant industries; and (3) the construction of an internal railway network. This was the infrastructure whose purpose was to form a strong industrial sector. Since it was List's belief that if political power could be used to create such an infrastructure, then the manufacturing sector would come into being of its own accord, he was essentially a believer in 'capitalism from below' – and, as will be discussed later, he in fact extolled the virtues of American capitalism from below – and with the realisation of German unity at Paris in 1871, the new German empire began to march forward along List's lines as well as Bismarck's, so that it naturally aimed at an ambitious synthesis of the two kinds of capitalism from below and from above. At all events, however,

under capitalism from above the motive force that leads the economy rests in the state, and the driving force is the nationalist spirit. It is, of course, impossible for the whole country to be permeated with nationalism from top to bottom, and if the country is to reach above a certain level this will take the form of needing participants from below, who will cooperate with the activities of the state while being at the same time driven by the profit motive. The success or failure of capitalism from above is closely tied to whether it can achieve or not smooth relations of cooperation with the capitalism from below. The bad side, however, is that the realisation of such relations renders the state all the more greedy, and it ends up rushing into an absurdly ambitious programme of foreign expansion – i.e. foreign aggression. In fact, even List, too, recommended in his work (1841), the establishment of agricultural colonies in Hungary, and beyond Hungary expanded colonisation in northern Turkey and the western shores of the Black Sea. This had a dangerous side, reminiscent of the Nazi concept of *Lebensraum*. Past experience shows in both Germany and Japan such attempts ultimately and tragically led to self-destruction.

In most countries with a long history the inhabitants prior to capitalism were ranked in several classes, and people were not equal. The ruler attempted to become absolutist, while the great landowners sought to exploit the agricultural population. Under these circumstances it was those who had gained wealth under the old regime who were able to become capitalists, and so it was impossible for them to respond to the challenge of free competition. Only in countries unsullied by history is it easy to establish capitalism from below.

II

The archetypal country of capitalism from below is America. European immigrants poured into undeveloped territories sparsely populated with indigenous peoples in possession of vast tracts of land. America lacked, of course, both an established class society and the concepts of feudalism. There was admittedly discrimination between the colonists according to their European family background and which country they came from, but it was in most respects insignificant. Both land and people could be turned into capital, but since the supply of land was unlimited, its price was minimal; America was a new world where the only real capital was human capital. It was natural for manufacturing production to be monopolized by the mother country from which the colonists came, and this was one reason why the new world left its mother country to go its own way.

It was also possible for America not to be a country of manufacturing industry at all, but to specialize in agriculture. This is because, had there been free trade with Europe, with European manufactures exchanged freely for America's own agricultural products, this might well have been capable

of delivering the same results as the creation of an industrial belt along the Atlantic coast, and sending manufactured products from there into the hinterland. In fact, Adam Smith said that America ought to become a purely agricultural country like Poland. However, this would have meant that if war had broken out with the European mother country (which did, as is well known, actually happen), the supply of manufactured products would at least for a time have been cut off, even to the point of jeopardizing the country's defence. It was therefore appropriate that America should maintain an industrial sector on the Atlantic coast. Initially these were, of course, infant industries, and they had to be protected through the imposition of high tariffs. For a while, therefore, protection was implemented, but not on such a scale as to make elements of capitalism from above significant in the American economy. This industrial sector was a factor in attracting as emigrants to America those people possessing a range of skills, and of a considerable level of education.

The agricultural sector was developed in the hinterland of the country, where necessary commodities were brought in from the industrial belt on the eastern seaboard. The advent of the railway era was a time of good fortune for America. Less than 30 years after Britain first had the railway, the Chicago–New York line was opened to traffic, and 17 years later, in 1869, the transcontinental railway link was completed. Demand for rails in America was, of course, enormous, and around 62 per cent of this demand was met by Britain, America's mother country. At the same time this flourishing demand for steel stimulated America's own steel industry. Steel processing developed in the central part of America, and as the railway extended further, the agriculture of the hinterland developed and prospered. This meant that in these hinterland areas even those people who had lacked large amounts of initial capital were now able to start work. These people were motivated by profit, and competed with a view to securing profit. The competition had to be fair, and it was the market that decided who won the competition, and who lost. Agricultural enterprises thus made their choice of agricultural products so as to maximize their profits. For this kind of capitalism from below, neither monarchy, nor the military, nor the bureaucracy came into the limelight, although they co-operated backstage in maintaining the stage.

The conduct of the economy in America was not theoretical, but pragmatic. This was because America was a late developing country in economics, and did not need to take account of the economic theory. The result of this was that it was America that developed closest to the line advocated by Friedrich List. While the industrial sector remained at an infant industry stage, it was protected and nurtured by tariff policies, but the protection was withdrawn once it was able to stand alone, and America's capitalism from below took root through their being buffeted in the rough seas offered by markets. Had all protectionist policies been rejected, and the

country attempted to implement a pure form of capitalism from below, then it is highly likely that the American economy would have ended up like Poland, as List and Adam Smith had stated. In this respect America departed from the pure ideal type. By the same token, Prussia's capitalism from above, as indicated earlier, was not pure in this respect either, because in the German case of the contribution of List. After German unification had been achieved under the leadership of Prussia, German's manufacturing industries were nurtured through a customs union along Listian lines. This resulted in Germany ceasing to have a pure capitalism from above controlled by the *Junker* nobility, having instead an 'impure' model containing elements of the 'from below' pattern, including a modern entrepreneurial class whose activities were motivated by profit.

III

After passing through the period of feudalism, Britain moved into the era of modern society. This process took a long time, starting with the changing status of knights at the end of the twelfth century, when some of the members of this class were given exemption from military service in return for tax payment. This group achieved a status for which the designation of 'knight' was no longer suitable; they became provincial gentlemen, the so-called gentry. This vertical structure of monarch, feudal nobility and gentry resembled the hierarchy of German Emperor, King of Prussia, and *Junker*, and might have been expected to be closely associated with capitalism from above. In the case of Germany, moreover, the German Emperor existed in little more than name, whereas in Britain subsequent monarchs sought to be absolutist rulers; this would appear to have made even more likely the appearance of capitalism from above on an even larger scale.

Since the British Industrial Revolution from below started in the latter part of the eighteenth century, the process of overcoming the feudal era was a long one, stretching to some six centuries. During these centuries liberalization and democratization were achieved little by little. First of all the Magna Carta was agreed to by the king at the start of the thirteenth century. The Magna Carta compelled the king to recognize the customary privileges of the feudal nobility, and this recognition by the king of demands from below constituted a significant event. Two hundred and seventy years later, however, the king (Henry VII) began to fight back. The feudal nobility became progressively weaker, and the king closer to the commercial bourgeoisie. International trade was carried on under the protection of the state, but, unlike in France, the state did not initiate manufacturing from above through itself engaging directly in the setting up of companies. The state's intervention was more indirect, with merchants establishing companies of their own initiative, and being protected and encouraged through the award of charters.

During the period of the Yorkist monarchs immediately prior to the accession of Henry VII, enclosures of agricultural land increased. This resulted in British farming becoming larger scale, and the growth of sheep farming. Agriculture supplied the raw material for the woollen weaving industry. Although the *Junker* of Germany had developed farming purely as cereal production, the English gentry developed farming as an industry whose purpose was to supply raw materials for manufacturing. The younger sons of the gentry would leave for towns to work as apprentices to merchants. The merchants in turn would accumulate money which was then used to purchase land so they could carry on farming in the countryside. Agriculture and commerce thus formed an integrated whole, playing a fundamental role in Henry VII's mercantilism. However, with the establishment of an absolutist monarchy, the throne seized monopoly power over foreign trade, establishing monopolistic enterprises in trade, from the the Eastland Company through to the East India Company. There were in addition many areas of manufacturing where monopoly rights were granted to members of the nobility, the bureaucracy and the merchant class. It was hardly surprising that during the period of the absolutist monarchy the economy should be very strongly characterized by elements of capitalism from above.

In the case of Britain, however, the course of history was determined by three major forces. The first was the royal prerogative, the second the church, and the third parliament. Parliament continued to exist even during the period of the absolutist monarchy. When, shortly afterwards, James I used the divine right of kings to justify all manner of actions, his people asserted the rule of common law, and parliament and king clashed. Eventually the parliamentary faction ended up at war with the royalist faction. The parliamentary faction consisted of the gentry, progressive nobility, independent farmers, merchants, craftsmen and industrial capitalists of southeastern England, while the royalists found most of their backing in the west and the north, from the feudal nobility and conservative gentry, and from farmers. This is normally called the Puritan Revolution, and the long struggle that was initiated was also a conflict between capitalism from below and capitalism from above. After many twists and turns the royal prerogative survived, political parties were set up in parliament, and a number of parties came to compete for power. The new structure established after the upheaval was at the worst the product of compromise, and at best a dialectical synthesis that brought together the strong points of opposing camps. The royal prerogative survived in the form of a constitutional ruler, with the sovereignty of parliament and the rule of common law clearly laid down.

A democratic country usually means a country that has a parliament. That is to say, the government and members of parliament are chosen by the people at an election, and the laws and policies proposed by the government are scrutinized, revised and approved by the parliament. The shareholders' meeting of a public company is not dissimilar, in that it pos-

sesses similar functions to a parliament, and is also conducted democratically. As explained above, each share carries with it the right to express an opinion. That is, it is not one person one vote, but one share one vote that counts at the shareholders meeting. An analogy would be if in the case of national policy people holding shares in the state (*Staatsaktie*) were able to cast votes in proportion to the number of shares in their possession. If the country's land is regarded as giving entitlement to state shares, then the number of shares in the state a person possesses will be determined according to the extent of the land he holds. For that reason, if a general election were to be held according to the principle of one share one vote, as is a company shareholders meeting, it is highly likely that national policy will be driven by the large landholders – and hence by the king or emperor who is the biggest landholder of all. The 'democracy' of this kind that would obviously be most undemocratic in the nature of things might have prevailed in Japan if the Charter Oath in the unpublished original version discussed later had been accepted and carried into effect.

It is mistaken, however, to regard land as a form of share in the state. Under a capitalist system it is not just land that is the source of income, but also labour and capital, and people pay taxes on the basis of their income. Taxes are a contribution to the nation, and it is the taxpayers who hold shares in the state. This is the basis of saying that those who pay tax should be granted the right to vote. However, in this case as well, if people were to be granted electoral rights in proportion to every pound paid in tax, national policy would end up being dictated by the wealthy classes, and there could be no hope of any sort of truly democratic politics. Thus basing the right to vote on the concept of one man one vote became one of the fundamental principles of democracy. This is the point at which parliament has parted company from a shareholders' meeting.

However, even to limit possession of the vote to those who pay tax is aimed at restricting the right to participate in national policy to those who have power in the country – the rich. It is of course obvious that such a system does not give the right to vote to the non-wealthy, whose tax payments fail to reach that lower limit. Democracy movements have therefore demanded first the lowering, and then the abolition of that lower limit. In many countries now the lower limit has been reduced to zero, and whether or not an individual has a vote is determined by whether or not he or she has reached another lower limit, this time relating to the natural characteristic of age. Democracy has thus ended up quite different from the 'democracy' of the shareholders' meeting, becoming a natural expression of will by the population collectively, untainted by the pattern of society. This means that the very natural inclination of those in power to treat favourably those who have contributed to the nation is excluded by the natural power of the masses. (In fact, those monarchies that have a two-chamber parliament use one of the chambers [the upper chamber] to preserve in the

state the principle of shareholders treating people with discrimination.) It goes without saying, therefore that in this kind of democratic era it is impossible or very difficult for 'capitalism from above under the leadership of the state' to function. It also shows that political democracy is a necessary condition for the existence of a system of capitalism from below or *laissez-faire*, in which each individual acts according to his or her own ideas, and on his or her own responsibility.

The first prime minister under Britain's new system of parliamentary politics was Robert Walpole. At that time Britain was embarking on a search for foreign markets, and for that reason persisted in the use of military force. Victorious in wars against Holland and France, Britain built up a great empire with a wide expanse of colonial territories. Capital was accumulated as a result of colonial trade, and the industrial revolution subsequently occurred. The industrial revolution came about in the wake of numerous British-made technological inventions. These inventors, however, were not men of scientific knowledge who had received a university education. They had acquired their knowledge at the workplace, and were people who thought of themselves as 'technicians from the town, popular scientists'. Using their new techniques, productivity in the textile industry was dramatically improved, the iron and steel industry was able to produce high grade products, and productivity in the coalmining industry, too, made rapid progress. A transport revolution came about with the construction of a network of canals and the construction of railways in the late eighteenth and the first part of the nineteenth centuries.

Parallel with the industrial revolution there was a second enclosures movement. This resulted in a growth in the scale of farming, and as food prices rose in connection with the Napoleonic Wars there was pressure to increase the scale of farming for the increasing production of foodstuffs. At the time of the first enclosure movement sheep farming had been expanded, bringing the development of the woollen cloth industry, but the second enclosure movement led to the rationalization and modernization of farming as a food producing industry. During this period there was the establishment of agricultural enterprises that were clearly subdivided into landlords, farm managers and agricultural workers. Landlords owned substantial areas of land, and loaned them to farm managers. This was the pattern according to which large-scale agriculture was carried out in Britain. This contrasts with the situation in both Prussia and Japan, where there was no capitalistic agriculture, and it was the landlords themselves who managed the farms. Since technological advance in agriculture favoured large scale farms, in Britain the yeoman, the small scale, self-cultivating owner-farmer, virtually disappeared. At the same time there was also modernization in different branches of industry. Technological advances were made by the people, with absolutely no government involvement, and new enterprises using that technology sprang up and grew rapidly.

In 1776 Adam Smith published his *Wealth of Nations*, advocating the principles of *laissez-faire*. Considerable wealth, it was believed, would be produced through fair competition being carried on by individual enterprises without any intervention on the part of the government. It was widely advocated that free trade would generate far greater results than monopolistic trade, and in 1833 the monopolistic trading rights of the East India Company were abolished. The system of control of the landowning gentry in rural areas also broke down, and Britain entered the era of capitalism from below, of competitive capitalism. In British society, therefore, the time when reputation established locally alone could bring dominance in the whole nation had passed.

IV

As we have seen already, even in the case of America, regarded as the archetypal case of 'capitalism from below', the construction of the industrial belt on the eastern seaboard was very dependent on Britain, and had these ties with Britain been cut, the country would probably have ended up as a purely agricultural economy. At the time of American independence Britain had already gone through the Puritan Revolution, becoming a constitutional monarchy with a system of responsible cabinets, and so the period of absolutist monarchy had already ended. Britain's economy in this period, however, should be regarded as the remnants of its capitalism from above in the past. Thus it is hardly conceivable that America could establish itself as an industrial country; this means that most economies of the type of capitalism from below had been helped in the past by some kind of capitalism from above. Britain took a relatively long period to complete the shift from 'above' to 'below', but it must be said that in America the same shift was carried out very rapidly and almost immediately, making it look as though the country had experienced 'capitalism from below' from the very beginning. This particular characteristic of American development resulted from the availability of large amounts of land, meaning that it was very easy for people to take up agriculture. As a general proposition capitalism begins in the 'from above' form, and subsequently shifts to the 'from below' form, with considerable amounts of resistance and disturbance except for very special cases.

In the light of this proposition, how this capitalism from above which acts as the point of departure can actually come about, relates to the theory of accumulation at the earliest periods. It requires the power of a strong national government, and in the British case this power was confirmed by the shift in the feudal period towards absolute power for the monarch. At the same time, since Britain remained throughout a country that fostered forces of opposition, the seeds of parliamentary opposition were also sown. The fact that these opposing influences were fostered so early was the

reason why it was possible for Britain to be the first country in the world to pass through the transition from 'above' to 'below'. However, if we generalize from the British experience, and advance as a general proposition the concept that 'capitalism from above is sooner or later transformed into capitalism from below', then we also have to consider whether or not this proposition may be expected to hold good for other countries.

V

We have already seen how Japan's transition from feudalism to a modern unified country was brought about by the Meiji Restoration, and this in turn brought the formation in Japan of capitalism from above. This being the case, when might an economy of this kind start to move into this second stage, that is, towards capitalism from below? Table 3.6. in Chapter 3 showed the origins and educational levels of Japanese business leaders for different years in the Meiji and Taisho periods. From Group G onwards, feudal forces (the group consisting of samurai and quasi-samurai) ceased to account for more than half of total business leaders (stopping at 46 per cent). However, 71 per cent of this group had been in receipt of higher education. It must be acknowledged that, rather than blood connections, it was education that had helped them to success as businessmen. For the following group, Group H, the figure for samurai and quasi-samurai has fallen to 36 per cent, and the higher education rate remains at 71 per cent. Since those in Group G had made their debut as top businessmen in the period 1913–20, and those in Group H in 1921–26, we can say that the period of the first World War had provided opportunities, and during these years circumstances in Japan were such as to encourage business success among groups other than the samurai and quasi-samurai. At this time wage differentials between government enterprises and private enterprises were in the process of being reversed, and government enterprises were ceasing to be such attractive destinations for university graduates.

This was a time when the countries of Europe were withdrawing from the China market, making it easy for Japan to advance into it. Anyone with just a little capital could make advances here without government protection and assistance. This was the period of *laissez-faire* in Japan. There was, of course, the setting up and expansion of new enterprises associated with the zaibatsu. However, in the excessive numbers of small and medium enterprises, they tried to achieve profits by keeping wages as low as possible and exporting inferior products, so that employees would seek to move to another company for a wage that was only marginally higher. There was also fierce competition to recruit female operatives. In the large enterprises associated with the zaibatsu bonuses were paid and welfare facilities were being provided, but the overall situation, if we include the small and medium enterprises, was very far from the Japanese industry of the postwar

years. This situation was regarded as chaotic, and the right wing hated chaos.

Japan's continental advance was later accompanied by a military advance. In 1931 Japan gained control over Manchuria, and Japan's aggression subsequently extended into China as a whole. This resulted in Japan's international isolation, and this isolation required greater efficiency of the Japanese economy. Many of the enterprises that had sprung up from below were shaken out, and compelled to change their activities, merge or cease operations in the name of enterprise retrenchment. No longer could enterprises compete in the search for profit. The economy was said to have entered the era of the control economy, the planned economy, but it was, in fact, a period of capitalism from above with an even lower level of freedom than these terms imply, one in which capitalist enterprises danced to the orders of the state. Even at this time, however, free will was revealed in the existence of a black market. For economic control to be effective, there had to be retained some knowledge of the rules dictating the movement of the free economy, and in that sense Japan was able during the Second World War to train outstanding economic administrators. Postwar Japan removed controls as far as possible, with the intention of reverting to a normal economy, but such was the state of the economy that for the time being capitalism from above was the only conceivable possibility. The young economic bureaucrats of the wartime years, and the young managers of the major enterprises together created the postwar Japanese economic system known as Japan Inc..

The Japanese economy of the postwar period had been devastated by war damage, so the shared aspiration of all Japanese was first and foremost economic recovery. With the end of the War Japan of course entered on a period of democracy, and the government ceased to be the emperor's government. Nevertheless, the majority of the population wished the government to conduct itself in a nationalist manner. After the War, just as before the government therefore continued to intervene in and guide the economy. One might have expected this mode of operation to come to an end in the 1960s, when recovery was effectively completed. However, as a result of the totally unforeseen Oil Crisis – which in Japan was an event of major importance that served to unify public opinion – support for government intervention in the economy persisted, and capitalism from above retained its vitality through from the 1970s to the mid-1980s. The people thus became very much accustomed to not voicing their opinions.

VI

From the above overview of the process whereby capitalism was established in Germany, America and Britain, it is clear that liberalism, democracy and the concept of popular rights are absolutely indispensable elements for the

establishment of capitalism from below. Except for countries that have very particular natural and historical circumstances – and such countries no longer exist in the world – the most that can be achieved in countries where ideas of freedom and popular rights are weak is capitalism from above. But concepts of freedom and popular rights cannot be suppressed. Before long these ideas will gain strength, and it will no longer be possible to obstruct the demands of the people below for free competition. The top must give way, ideologically and politically, to those below. But will the resulting ‘capitalism from below’ be superior to the previous ‘capitalism from above’ in terms of the structure of material production? If we compare the total quantity of products produced by the economy, and the growth rate of the volume of production, will we genuinely be able to say that capitalism from below, with its system of free competition, is better than the capitalism from above led by the government? As far as this problem is concerned, we can at least probably say that the following third proposition, namely ‘that capitalism from above brings higher growth rates than capitalism from below’, is supported by empirical evidence. In the remainder of this chapter I will give an overview of the Japanese experience since the Meiji period (much of which has already been discussed in Chapter 2), which confirms that the Japanese experience does not refute this ‘proposition’.

This was the path followed by the advanced countries of the world during the first half of the twentieth century. If we restrict our considerations to the eight major economic powers of the time, including the Soviet Union, (the so-called G8), it is clear that Germany, Italy and Japan followed an extreme right wing path of ‘capitalism from above’. If we also regard communism as the most conspicuous form of capitalism from above, then the Soviet Union followed the same path as well. At least half of the G8, therefore, did not experience capitalism from below enough.

However, once this kind of high speed growth path had reached a certain point, the gulf between top and bottom within the economy increased, and eventually there was an explosion of dissatisfaction from below, and the government was forced to concede the demands for democracy that came from below. Such a polarization between above and below was articulated rather cynically by Marx, with his scenario that an eruption of discontent from below would bring about the fall of capitalism from above, the monopolistic capitalism of the Marxists. In fact, this turned out not to be a violent process. In Japan, as we shall see in Chapter 8, Japan Inc. ruined itself, and the ‘main bank system’ lost its effectiveness. What we shall see below is that economic achievement nurtures democracy, and democracy in turn brings about major changes in the structure of the economy, and in this sense the process is very Schumpeterian. However, whereas in Schumpeter’s case the economy prior to democracy is capitalism from below, and the economy after democracy is socialism (i.e. democratic socialism but still a kind of capitalism from above), in my case the process

is reversed. I would say that the economy starts off with capitalism from above, and ends up with capitalism from below. My argument can be seen as reversing Schumpeter's process.

It would be wrong, however, to compare his argument with mine in this way. More reasonably we may consider that the economy metamorphoses itself according to the following formula. The national economy after the age of feudalism changes its form from the mode of capitalism from above to the mode of democratic socialism, passing through the period of capitalism from below. This last is not obtained unless democracy sufficiently prevails in the nation. In the case of Britain where there was a strong movement of democracy, the economy was transformed into capitalism from below, so that whether it will further be metamorphosed into some kind of socialistic economy or not is not an empty question as Schumpeter actually tackled the problem.

In the case of Japan on the other hand, democracy has never worked effectively, her economy has lost opportunities to be transformed into capitalism from below, so that the Schumpeterian transformation has never been realized in Japan. Democratic socialism has remained out of sight for the Japanese.

However, democracy at last begins to work in Japan. As was so during the War, at a time when individuals either could not, or would not, speak out, an economy from above was established, but when the development of democracy permitted them to do so, they were not satisfied with that. As we shall see below, as Japan passed through the high speed growth period (normally regarded as being from around the mid-1950s to the early 1970s, but since Japan's results were also far from bad in the ten or so years following the Oil Crisis, I think that it would be appropriate to include the years up to the early 1980s), individual Japanese became affluent. During the mid – to late 1980s, when it became apparent even to the government that it was difficult to enforce economic policies from above in the face of other countries' demands for the liberalization of the economy, Japan was faced with what I have called 'the turning point to capitalism from below'. Thus around the year 1985 there was a critical point of time. The government, however, has lacked the courage to accomplish this transition, and the economy is still in a state of confusion without stepping forward definitely towards the democratic economic regime.

VII

In the following pages I tackle the subject of democracy and development. For this purpose I use an empirical case studies approach, rather than the usual theoretical or axiomatic approach, which logically derives elements of development or deterioration from the assumed set of axioms which defines democracy. I have taken Japan after the Meiji Revolution of 1867–68, and

observe her strong development, both economic and cultural, in the period up to her surrender to the Allied Forces in the Second World War as well as in the postwar period. I shall also observe that the polity and the economic structure which made this development possible was neither purely democratic nor purely undemocratic but a hybrid that was democratic in some aspects and undemocratic in others.

It is true that the first of the five articles of 'Charter Oath', promulgated in 1868, stated:

- 1 An assembly widely convoked shall be established and all matters of the State shall be decided by public discussion.

But this does not mean that the new government promised the establishment of modern parliamentary politics: the Oath in its unpublished original version only conceived the council of feudal lords, who may be considered as the holders of *Staatsaktie* as I have pointed out before. Moreover, the government made every effort to suppress the freedom and people's right movement. The Diet finally established in 1890 was not satisfactory or complete from the point of view of democracy, its power being limited and weak even at its peak during the late Taisho and early Showa period (1924–32).

The Oath, which should be taken as the constitutional manifesto of the new government, stated in the other four articles:

- 2 All classes high and low shall unite in vigorously carrying out matters of the state.
- 3 From civil and military officials down to the common people all of them shall be allowed to fulfil their just aspirations to avoid discontent.
- 4 Base customs of former times shall be abandoned and all actions shall conform to the just and equitable principles of Heaven.
- 5 Knowledge shall be sought throughout the world and thus shall strengthen the foundation of Imperial polity.

It is clear that these articles emphasized the importance of national unity with civil and military officials at the top especially by (2) and (3) and of cultural progressiveness for the sake of strengthening imperial rule by (4) and (5). It is true that some consideration was paid in article (3) to contention among the people, but it should be noted that this was acknowledged by the government because it was a necessary condition for the government to be sustainable. Here it is clear that what was envisaged was a strong government led by civilized, sensible civil and military officials (new samurai), and definitely not a democratic government carrying out the majority party's policies approved by legitimately elected parliamentarians. Therefore, successive Japanese governments, especially those in the early days after the Revolution (perhaps until the end of the Second World War), should possibly be regarded as 'irresponsible' and 'transcendental'. Because

of these characteristics, they took risks and were entrepreneurial at best, but reckless and despotic at worst.

Unfortunately, the Oath was wrongly translated into English. In the authoritative work on the Meiji Revolution, W.G. Beasley (1972) put 'kerin o okonau' in article (2) as 'promoting the economy and welfare of the nation', rather than 'carrying out the matters of the state', and 'tenchi no kodo' of article (4) as 'the principles of international justice', rather than 'the just and equitable principles of Heaven'. Because of these mistranslations, the Oath has been changed into a version which would be much more congenial to western people, giving the impression that the government takes care of the economy and welfare of the people, while the actual version emphasizes the precedence of interest of the state.

Secondly, by replacing the phrase 'the principles of Heaven' by that of 'international justice' the Oath not only lost its Chinese philosophical (or religious) flavour – it was written under strong influence of the Confucianist ethics – but would have given the impression that the new government would adopt an appeasement policy towards foreign powers. This was completely impossible politically in 1868 when the Oath was proclaimed. Although the whole nation was still divided between the joi (expel the barbarians) and kaikoku (open the country) arguments, most Japanese people considered the treaties of amity and commerce which Japan was almost forced to accept by the USA and other western countries as very unfair and disgraceful to Japan. Japan could not decide on the tariff to be imposed on imported goods and had to recognize the extraterritorial rights of these countries. In such circumstances it was utterly impossible for the new government (the members of which had all once belonged to the extreme joi faction) to say that all its actions would conform to the principles of 'international justice'. Many Japanese are still sceptical and cynical about internationalism because of the memory of the unfair treaties concluded at the start of the modern history of Japan. To translate the principles of Heaven as the principles of international justice is not only wrong from a literary point of view, but it also fails to understand the national sentiment of the period. In fact, a militaristic song starting with 'punish injustice on behalf of Heaven' was very popular during the Russo-Japanese War as well as the Second World War.

VIII

Japan's political position after the revolution was nearer to Soviet one-party rule than British parliamentary democracy. Therefore, like the USSR, Japan experienced a series of severe and sanguinary struggles for hegemony among those who had worked together in the revolution. Finally, the ultra-conservative extremely anti-Korean ex-samurai of Satsuma were annihilated in the Satsuma Rebellion, and the ringleaders, including the hero of

the revolution, Takamori Saigo, committed suicide. Another big name, Koin Kido, died of illness in the same year. Even Toshimichi Okubo, the wisest, the most well-balanced of the revolutionaries in making policy decisions and the man who suppressed the Rebellion, was assassinated in 1878 by a discontented ex-samurai. No senior revolutionary won the fight for hegemony but the fight was continued by their successors, especially Hirohumi Ito and Shigenobu Okuma. Japanese bureaucracy had been nurtured and built up by the former in imitation of the Prussian one, while the latter led the freedom and people's rights movement. Okuma was removed from the government as a result of the 1881 political incident and finally Ito established himself as the greatest, most longstanding figure of the political world in the Meiji period; even he was finally assassinated by a Korean nationalist.

Under Ito, the quality of bureaucracy improved greatly, which therefore strengthened its power. When Ito at last conceded to the people's power movement and set a two-house Diet in operation in 1890, the government already had a powerful group of civil and military officials, who were not only able and politically skilful but who were also strong enough to carry out progressive but difficult decisions. Even before that time, the feudal domains had been abolished and completely replaced in 1871 by a modern prefectural system and in 1872 a compulsory education system had been initiated. The modernization of the state progressed at a surprisingly high speed. One of the final touches in the initial period was the establishment as early as 1882 of the Bank of Japan as the central bank, modelled on the Banque Nationale de Belgique. These achievements would have been impossible if bureaucratic services of a high quality had not been available. In fact, as has been pointed out by many authors, Japan's political and administrative systems were already highly bureaucratic even in the Tokugawa period, thanks to the influence of Confucianism.

Therefore, even after parliamentary democracy began to work, most of the successive governments had a bureaucracy-based cabinet, which meant that they were independent of political parties. Of the 42 prime ministers to the end of the Second World War, only 12 were members of a party; six of whom belonged to Seiyukai, which originated from the Rikken Seiyukai led by Ito as a compromise between a bureaucratic cabinet system and party politics.

It is true that in the later years (1924–32) leaders of successive majority parties held the premiership, but each government was short-lived because of assassinations of prime ministers, political scandals and so forth; the average lifetime of cabinets was only one year and four months, and finally parliamentary democracy, as well as party politics, became unworkable in prewar Japan. From 1932 until the end of the War, Japan had 13 prime ministers: one career diplomat, three aristocrats (the same man), one Privy Councillor, four generals and four admirals. Thus, as far as prewar Japan is concerned, she can hardly be said to have been politically democratic.

In spite of this, the prewar system of Japan worked effectively and efficiently to some extent, except for the final 15 war-time years. The government had to resolve such difficult problems as the first China war, the war against Russia, the annexation of Korea, the Tokyo earthquake and so on. In general, it managed successfully, although it failed to establish an amicable relationship between the Korean and Japanese peoples. It was outstandingly brilliant at handling the disastrous aftermath of the Tokyo earthquake, in which 73 per cent of households in Tokyo and 96 per cent of those in Yokohama (then the sixth largest city in Japan) suffered and 77 per cent of the banks in Tokyo were burnt down. This was as severe a test of ability as has ever been applied to the bureaucracy of any country. The Japanese bureaucrats passed it with flying colours.

In Japan, a country of Confucianism, which believed that bureaucrats should play the key role in society as they were strictly and competitively selected, it is not surprising that cabinets were usually formed from the top classes of bureaucrats. It is therefore natural that the Japanese economy of the Meiji period started with state capitalism – an economy directed and driven by government officials. However, the country's leaders were very progressive. As has been stated, they abolished the caste system, which had prevailed throughout the Tokugawa period (1603–1867), and freed the people from feudal obligations. The status of the samurai had brought with it not only an hereditary stipend, but also various fringe benefits; the samurai lost all of these after the Meiji revolution. Moreover, as the new government introduced a system of conscription, the samurai lost their jobs as military officers or soldiers. They were compensated by a lump sum of money in proportion to their feudal stipend, with which they started new businesses. In this way, the samurai, who were in those days the most highly educated, were channelled into the business world where human capital of the high quality was needed.

On the eve of the Meiji revolution, when the country was still closed, several feudal clan governments, as well as the Tokugawa central government, dispatched their able young samurai to western countries to obtain knowledge and information on the ideal modern state. All the information brought back was examined and compared to decide which country was the most advanced in such spheres as defence, police, industry, finance, education and so forth. And then the new government imitated the countries chosen as the best in their respective spheres. The Imperial Japanese Navy was a copy of the British Royal Navy, while the Imperial Army was modelled on the French army. The education system generally followed the line of the French school system, but in higher education that of the American and German universities was preferred. In the sphere of civil engineering Japan was much influenced by Italy and the Netherlands. As has been mentioned, the Bank of Japan was modelled on the Belgian central bank. Thus the Meiji state was a hotchpotch of US, UK and other

European countries. Though the Japanese were, in general, proud of this aggregation of elements selected, inconsistencies and contradictions were unavoidable. It was fatal for the hotchpotch regime that the country later divided into pro-British and pro-German groups.

IX

The classical economic thinking, emphasising freedom and competition, was introduced by Yukichi Fukuzawa, Ukichi Taguchi and others, as early as 1868. At the same time as Japanese industry was taking off, and its business system was being formulated, Taguchi established *The Tokyo Economic Journal*, in 1879, and advocated the economic philosophy of a free enterprise system. Nevertheless it was right that the government rejected it as Utopian, at least for the Japan of that time. Instead the government followed the line of state capitalism and founded state operated industrial enterprises in the key economic sectors for the purpose of nation-building. The management of these enterprises was put in the hands of the intelligentsia, aware of their responsibilities to the nation, in the same way that government was in the hands of like-minded persons. Because all other firms were privately and freely formed, the Japanese economy in the early Meiji period was a mixed economy consisting of both state and private enterprises. However, most private firms were of the traditional family-based type and used traditional and inefficient methods of production. In any case, features of the dual structure were very conspicuous in the economy.

It is no wonder that such a system soon reached a state of deadlock. State enterprises paid far higher wages than did private firms, so that many of them were of low profitability, in spite of their being large-scale and equipped with modern facilities. Moreover, the government had spent a huge amount of money on suppressing the Satsuma Rebellion, and it became difficult for them to sustain such a large number of state enterprises. As a result they were sold and transferred to the hands of those industrial capitalists who had been friendly and obedient to the government since the revolution. As they were closely connected to the state, these privatized companies may be considered as quasi-state firms. In this way numerous state enterprises were privatized and transferred from the state to the quasi-state industrial sector; this resulted in the formation of powerful zaibatsu groups. It was not difficult for the government to control them, as they owed their emergence and prosperity entirely to the government. In any case, it is worth emphasizing that this was the first successful privatization made in the world, and it was, of course, a significant retreat by the government from the business world, which shows the *Sachlichkeit* (realism) (emphasized by Max Weber), of the Meiji samurai bureaucrats. It was decided on and carried out in a very pragmatic manner, without the aid of any dogmatic economic textbook.

This system of quasi-state capitalism from above worked well and performed brilliantly. At the beginning of the Meiji era Japan had virtually no military capacity, but by the end of the 1930s just before the Second World War she was the world's third largest naval power and her army would have been ranked at least in fifth place. The capacity of cotton-yarn production calculated in terms of the number of spindles was about 50,000 in 1884; 350,000 in 1891, 2,660,000 in 1914; and 4,670,000 in 1924. After the First World War, but before the Anglo-Japanese Alliance had ceased to be effective in 1921, the Japanese textile industry was at the top of the world and had overtaken Britain. The five-year average of steel output grew from 28,000 tons in 1900–4 to 671,000 tons in 1920–24. The annual average rates of growth for these series were 32.1 per cent and 5.8 cent for the periods 1884–91 and 1914–24 respectively, for the capacity of cotton-yarn, and 115 per cent per five years for steel output, as calculated in Ando (1975).

Wage differentials between the remaining state firms and private firms were being rapidly eroded. They were still large in 1909, but by 1914 the differentials had already been reversed. In fact, in 1914 the wages of operatives in state enterprises were lower than those in private enterprises with over 1000 employees. Moreover, during the First World War, private Japanese firms made inroads into the Chinese market because Britain, Germany and other western countries had no power to export their products to China. Consequently, the larger Japanese companies greatly expanded in scale, creating a new kind of dual structure within the private industrial sector. Various degrees of differentials were clearly observed in productivity, profitability and wages between large and small private companies. A new class of people emerged – the war-made millionaires – from exploiting innocent workers. It was thought that the polarization into poor and rich was progressing. Moreover, in 1923, the Tokyo area suffered an earthquake of the greatest magnitude. The Marxists did not miss their opportunity. They criticized zaibatsu and denounced their bourgeois lifestyle. At that time, Marxism prevailed among university students and socially motivated workers.

X

During the 1920s and 1930s, the ideas of the left and right wings were not in head-on conflict, at least with respect to certain aspects of their views of society and the economy. It is not surprising that, in the west, Soviet Communism took the form of state socialism, and the Nazi ultra-right wing Dritte Reich was designed according to national socialism; in any case, in this heyday period of nationalism the most important principle of politics was to subjugate the economy to the will of the nation-state. Thus in Japan, too, the right wing which originated from, or could be traced back to, the defeated group of the Satsuma Rebellion, was also highly critical of

the bourgeoisie and aristocracy enjoying a high-class lifestyle. The polarization into poor and rich, which became apparent after the First World War, was ascribed by right-wing ideologues to the 'fact' that the Throne had become rotten because the Emperor was surrounded by cunning and evil statesmen.

Among the right-wing philosophers the most outstanding was Ikki Kita, in the sense that he was the only one who had a clear idea of the kind of society which should be built after the seizure of power. He maintained, in his book (1919), first, that in the new era the Emperor should no longer be considered as the political head of the nation, as in olden times, but should be representative, or the symbol of the unity of the nation. He should therefore set an example by bequeathing to the nation all agricultural land, mountains, forests, stocks and shares and so on, owned by the imperial family. Secondly, the peerage system should be abolished. Thirdly, all males, but not females, over 25 years of age should have the right to elect members to the House of Representatives; in place of the House of Peers which would be abolished, an alternative body would be established to examine the decisions of the House of Representatives. Fourthly, profit-sharing and workers' participation in management should be introduced. Fifthly, all boys and girls between the ages of six and sixteen years should be educated to an equal academic level, as well as being taught the same subjects, at the expense of the state; and school meals should be provided by the state. Sixthly, each Japanese family would be permitted to hold wealth in the form of property up to the value of 1 million yen and private land up to 100 000 yen; as for enterprises, those established privately would be allowed to hold capital up to 10 million yen, but all larger enterprises would be state owned.

Finally, in the last four chapters of his book, Kita discussed workers' rights, the people's rights, the state's rights and the colonial policies Japan should adopt in Korea. Although it is true that he recognized and supported Japan's annexation of Korea, his view of Korean people was far more progressive, conciliatory and respectful to them than any other politician's in those years. He actually wrote: 'Japan should not make Korea her "Ireland".' Although the Korean and Japanese differ in language and may be distinguishable in manners and customs, it is clear that most Japanese, especially those of the upper class, contain Korean blood. The fact that many, mixed marriages were made between Emperors and Korean immigrant girls reveals how highly immigrants were regarded in those days. Kita wrote: After twenty years from now [that is, around 1939], full political rights should have been granted to Koreans. Korea should be ruled in the same way as the mainland of Japan is governed. The limits on private property and private ownership of land and enterprises should be the same for Koreans and Japanese.

Today, after the Second World War, all the items promised the Japanese by Kita, except for the sixth one limiting the extent of private ownership of

wealth and enterprises, have been fully realized as the result of the successful democratization policy for Japan implemented by the Allied Forces. As for the ownership of land, the GHQ carried out a land reform which was much severer than Kita's restriction to the ownership of farming land. In fact, in view of the prices in 1919, the limits set by him against the holding of private property could be taken as surprisingly moderate. Nevertheless, in the prewar period Kita's programme was considered by the establishment of the military and bureaucracy, as well as the Court nobles, as being extremely radical and dangerous. Nevertheless, in 1936, both young army officers and enlisted soldiers attempted a *coup d'état* for the realization of Kita's programme. The coup was unsuccessful, and many of those involved, including Kita himself, who had been detached from the *coup* itself, were arrested and shot or hanged.

Although the Meiji regime was a 'hotchpotch', the Emperor's family, the aristocracy and business circles were under strong British influence. It would not be too unfair to characterize the Japanese economy until the 1936 Incident as a free market system, though it was under the guidance of state and quasi-state enterprises. Nevertheless, we must not forget that anti-Anglo-American feeling was observed even in aristocratic circles. As a late starter member of the nation-state race, Japan had an understandable tendency to subscribe to the German protectionist theory of international trade. Besides, Prince Fumimaro Konoe who formed a cabinet three times after 1936 had expressed his doubts, as early as 1917, about cooperating to support the existing British and American supremacy. He argued that merely to advocate peace, together with these countries, would amount to a recognition of the uneven distribution of natural resources which resulted from past imperialism, and that a war to remove imperialism and racial discrimination between the white and yellow races had to be fought as a prerequisite to the establishment of peace in the true sense; he rejected pacifism along the lines laid down by Britain and America. Under Konoe, the militarization of the economy which resulted in severe exploitation of the poor by the rich progressed at a rapid speed. The dual structure of the economy was strengthened and deepened; the discord between rich and poor would have been more intense than it had been before the 1936 Incident, if the people's eyes had not been directed to the affairs in China. The 15-year war against China had already started in 1931. Konoe was unable to make a successful cease-fire, because the people in Japan were already in a state of jingoistic national hysteria and wanted to get more from China.

XI

In such circumstances it is clear that the economy needed to be more centrally controlled. Although a few sectors of the Japanese economy had

reached world class, they were all in the area of consumer goods industries and mainly produced commodities such as cotton-yarn, cotton fabrics, raw silk, silk fabrics, toys, matches and so on. Most of the factory workers were female. Male workers were mobilized in order to expand the heavy and chemical industries rapidly. For this many new purpose-built factories were needed. How could the nation supply enough money to finance this? However, this had been a familiar problem for the Japanese throughout the post-Meiji Revolution period. The 'promotion of industry' was the slogan of successive Meiji governments. They had had to finance one civil war and two wars against great nations such as China and Russia and, moreover, had to raise the money for earthquake damage rehabilitation. From these experiences, when Japan was suffering from the World Great Depression, she had instinctively known how to minimize suffering. As soon as Korekiyo Takahashi was appointed Minister of Finance in 1931, he carried out a policy which might later be called a Keynesian spending policy. Thanks to this policy Japan had been able to recover from the depression much earlier than the USA, UK, Germany and other countries.

Takahashi made his policy effective by channelling government securities through the central bank to private organizations or individuals, instead of selling them directly to the private sector. According to this method, all government securities issued are immediately bought by the central bank, so that the government instantly obtains the whole amount of money it requires; if the securities are instead sold to the private sector directly, it takes time to sell the securities issued. Therefore, the relationship between government and central bank became closer and tighter under Takahashi; the independence of the central bank was considerably weakened.

In Japan, since its establishment the central bank has had two tasks, one being the monetarist task of stabilizing the value of currency and the other the Keynesian task of supplying enough money for investment to industry. In a country with strong growth orientation like Japan, the weight of the second task is great, whereas in the earliest days of the post-Meiji Revolution era the first would have been paramount. Before the central bank was established, private banks (many called 'national banks' in the sense that they satisfied the conditions of the national law and were therefore recognized by the government) had already been carrying on business. (Upper-class samurai who had received large amounts of money in exchange for the feudal stipends founded banks, with this money as capital.) These banks lent more than the deposits they held, by issuing their own bank notes, which were not convertible into gold or silver; so that it was a most important and urgent task for the central bank to sweep away all these bank notes and replace them by the convertible bank notes that only the central bank was allowed to issue. After having succeeded in stabilizing the value of money by establishing the conversion system, the emphasis shifted from the first to the second task in the business of the Bank of Japan.

Takahashi carried out the spending policy with the purpose of rescuing the peasants and workers who were suffering from the economic slump. Unfortunately, Japan's invasion of China had begun in September 1931, three months before he was appointed finance minister. The so-called Manchurian Incident was in progress. The military naturally wanted financial support from Takahashi, but he wanted to squeeze the scale of the army and navy, so as to maximize the amount of money he could offer to poor peasants and unemployed workers. Unfortunately, therefore, he was one of the major targets of the 1936 *coup*, which was carried out by confused young officers who believed that they themselves were standing up on behalf of these downtrodden people. Takahashi was killed, but his policy survived although it was abused by his successors. The military had enough money and the war did not cease until the final surrender in 1945.

The 15-year war period may be divided into three stages: the first stage, 1931–35, in which money was controlled by Takahashi, the second, 1936–41, which coincided with the European War; and the third, 1941–45, when the war, so far confined within China, escalated into the Second World War. During the second period, preparations for the third stage were completed. The German-Japanese Anti-Comintern Pact was signed in 1936, and later strengthened into a Tripartite Pact signed by Germany, Italy and Japan in 1940. In various sectors of the economy, free markets were replaced by planning or controls by the government. Oil and electricity were put under the control of the government in 1934 and 1936 respectively. The production of rice had been controlled since 1936, while for the distribution of rice, rationing was introduced in 1939 and the power to buy the whole output of rice was granted to the state later in the same year. The production and distribution of important fertilizers were controlled by the state in 1936. The three laws for implementing war-time control (Munitions Industry Mobilization Law; Emergency Provisions Relating to Import and Exports; Law for the Emergency Procurement of Capital) were enforced in 1937. The plan for mobilizing physical resources was inaugurated at the beginning of 1938; later in the same year the most powerful National General Mobilization Law, aimed at the control and management of both human and physical resources for the preparation of war, was enforced. Thus control spread from one sector to another and in each sector it was intensified. The state was empowered to impose wholesale controls over the employment of labour, production and transport of commodities, as well as control of wages and prices. The economy was completely converted from a free market economy guided by state and quasi-state enterprises in peacetime to a war-time controlled economy.

This conversion had to be completed quickly in a short period of time. Although they were greatly helped by the strong war-time or quasi-war-time government, the bureaucrats had learned a lot from these exercises. Of course, they made a number of mistakes and inevitably black markets

appeared. Nevertheless it must be recognized that many able economic bureaucrats emerged from the Cabinet Planning Board, the Board for Development of Asia, the Ministry of Munitions Industry, Greater East Asia Ministry and others; they were still young when the war ceased and contributed greatly to the rehabilitation of industry after the war. On the other hand it must equally be remembered that at the same time the power of individual politicians was becoming weaker and weaker. The Diet became nominal or changed into a 'yes' factory. Finally Konoe formed the Imperial Rule Assistance Association. Unless politicians gained its support, it was extremely difficult for them to be elected to the Diet. Traditional political parties were totally deprived of power; all parties other than the Communist Party had been dissolved in 1940, while even the last ceased to exist in 1942; Japan was thus reduced to a country with one-party rule.

A number of important organizational innovations were made in this period. One of them was the reorganization of industry for the precise purpose of preparing for the war which came into effect in 1942. Small and inefficient firms were ordered to be abolished or combined with others to form bigger enterprises. The number of firms diminished drastically which enabled the government to manage and take care of them. Moreover, the firms were arranged into groups; each group had its own hierarchy, with its members arrayed vertically. Any order that the government gave to the top company of the group was conveyed, through a chain of companies, from one company to another until it finally reached the lowest class of companies in the group. In this way companies were controlled by the companies immediately above them. This was obviously the prototype of the industrial group that was set up in the postwar era. The notorious keiretsu and the subsidiary system peculiar to the postwar Japanese economy originated from this war-time grouping of companies.

Not only manufacturing companies but banks were also reorganized and weeded out by order of the state. Some of the remaining banks were merged into big city banks or provincial banks; the latter were restricted in number so that each prefecture had only one provincial bank. One or a few banks were then assigned to a munitions company, for which they were obliged to supply money when needed. In this way, the lending market was divided between banks by the government. As a result, banks cultivated their own field more deeply by lending more money to the companies for which they had responsibility. Without the government's permission they were not allowed to expand their territory by offering lower interest rates. Thus quantity rather than the price mechanism prevailed in the lending market, and the phenomena of over-lending and over-borrowing were evident throughout the period of the controlled economy.

This system of coupling munitions companies and banks soon spread more widely, because the definition of munitions companies was extended to include war-related businesses such as railways, shipping, warehouses,

construction, building and so on. Although this over-loaning and over-borrowing attained an enormous magnitude, it is also true that because money was enough provided to companies, no investment project was interrupted because of a shortage of money. There was no monetary bottleneck. Of course, such an easy-money policy created a very high rate of inflation, but it also greatly contributed to the transformation of a peacetime economy into a wartime one. The coupling of companies and banks remained and still remains a feature of the 'main bank' system in the postwar Japanese economy.

In any case, there is no doubt that the controlled economy worked extremely well. In fact, during the period 1931–44, real output in the machinery industry grew at an average rate of 14.1 per cent per year, while the growth rate of the iron and steel industry was 12.9 per cent a year, according to our calculations based on *Nihon Keizai Tokei* (1961). However, real output in the chemical and textile industries recorded peak production in 1939 and 1937 respectively, and then declined. The whole manufacturing industry grew at 7.3 per cent a year in the same period. During a period of three years and nine months during the Second World War, Japan's shipyards completed 15 aircraft carriers, 6 cruisers, 126 submarines, 63 destroyers, 70 transport ships, 168 coastal defence ships and up to 662 other naval vessels. In addition to these, 720 cargo ships and 271 oil tankers were built in the same period and about 60 000 military aircraft were produced. It is indeed surprising that they were produced at a time when Japan lacked any reasonable provision of raw materials and suffered a most severe and indiscriminate bombing attack by the Allied Forces¹. These figures suggest that the Japanese postwar miracle was not miraculous at all.

XII

When the war ended in 1945, Japan's real income per capita was estimated at less than 45 per cent of the real peak income in 1939 before the War. Tokyo and almost all the other major towns and cities, to say nothing of Hiroshima and Nagasaki, had been burnt and destroyed by indiscriminate bombing. Those who had lost their houses lived in shelters. Soon the occupation army arrived in Japan to reform the country into a peaceful and democratic one, based on the free-enterprise system, which was entirely different from the pre-war Japanese economy guided by the *zaibatsu* enterprises.

After the Second World War, the democratization policy of the Occupation Forces meant that the *zaibatsu* combinations of enterprises were dissolved, and *zaibatsu* families had to dispose of their shares. The GHQ's order to purge the business world was issued against not only *zaibatsu* family members and directors and executives of the companies in the *zaibatsu* groups but also against the executives of other big companies

and important banks, because they collaborated with the military, so that middle-class managers suddenly found themselves unexpectedly promoted to the top without any preparation. Many of them had little experience in managing companies within a free-market economy even as junior executives; they had been conscripted into the army or navy, where they served for many years after graduating from university, and had already attained the rank of major or captain when the war ended. In particular, in ex-zaibatsu companies, the new top managers had no powerful shareholders to support them, as the zaibatsu family members had done. In this vacuum, these new young executives began securing their positions by making their friends' companies become big shareholders in their own companies so that these persons could support them.

However, these new shareholders were poor because they too had just been promoted from positions of middle management; they, as individuals, had no money with which to help their friends. The only assets they had were their positions as the presidents or chairmen of ex-zaibatsu companies. They exploited the power accompanying these positions to establish a system for the mutual support of these proletarian managers, who at the time were called 'third-class executives' (*santo jyuyaku*) in Japan.

This is how it was done². Suppose bank *B* and companies *C* and *D* belonged to a zaibatsu combination *A*. After *A* was disbanded, its members still kept in contact with each other. *C* asked *B* as a favour for the loan of a certain amount of money in order to buy shares newly issued by *D*. Company *C* then became a shareholder in *D* with the money obtained, and *D* deposited this amount in *B*. Similarly, company *D* borrowed a similar amount of money from *B* and bought newly issued shares in *C*; like *D*, *C* deposited the money it had obtained in bank *B*. Then *B*'s lending increased, and its deposits also increased by the same amount, so that its position did not change in net terms. On the other hand, *C* became a shareholder of *D* and vice versa. Thus neither *B*, *C*, nor *D* were made any worse off as a result of these arrangements, though they could be criticized for insider dealing. The shares held by company *C* were represented by its chairman *c*, while chairman *d* of company *D* would represent the shares *D* held. Where *C* and *D* obtained a sufficient number of shares in *D* and *C* respectively, *c*'s and *d*'s position as chairman or president would also be secured.

In this way, the ex-zaibatsu companies maintained the close relationships that had existed in the period when the zaibatsu combinations were formed. When Japan's independence was restored and the occupation forces had gone home, the ex-zaibatsu groups were also restored to more or less the same size they had been before the war.

Nevertheless, it should be noted that such a drastic change on a huge scale had taken place that it might be called a revolution. The zaibatsu families were never able to come back to the groups they had previously governed. Most of them did not even try to do so. Chairmen and presidents

promoted from among employees nominated their successors from the same company; their proposals were easily approved at their respective shareholders' meetings, because these were dominated by their friends – chairmen and presidents of friendly companies. In postwar Japan, especially in the ex-zaibatsu companies, individual shareholders were made powerless and the governorships of companies were transferred into the hands of top managers, who climbed the ladder of the administration hierarchy. Most of them were of course university graduates. Thus the business world in Japan was transformed from a club of rich men into a circle of successful university graduate businessmen. If this was their aim, we may say, the Allied Forces' democratization policy attained its aim.

On the whole, however, Japan's industrial structure after the War was not very different from that in the period when her economy had been an economy of state or quasi-state capitalism. From this point of view, the policy for democratizing the Japanese economy was a total failure. At the centre of the economy there were big ex-zaibatsu companies forming enterprise groups which maintained close relations with the government. From their war-time experiences of controlling the economy, the bureaucrats had been trained to be more sophisticated and skilful in their handling of private companies. In addition to the six major enterprise groups, four of which were ex-zaibatsu groups while two were newly formed, there were a few other independent groups. Big companies belonging to these groups formed their own subsidiaries, 'daughter firms', which spawned 'grand-daughter firms'. Where companies, large and small, are structured in the form of genealogy, the government can control the whole economy, if it can deal with the top companies of the family trees. This was learned from the practice of controlling the economy during the War. Moreover, the six major enterprise groups were all comprehensive and self-contained. Each of them had a bank, a trading house and manufacturing companies in the various sectors of industry. As parent companies took care of their 'daughter' companies, which in turn looked after the 'grand-daughters', the system worked very well, as long as the government's will was communicated clearly to the top companies. Of course, the post-war economy was not a controlled one, but it is still true that better results were obtained where companies were fully informed of the direction in which the economy was going. The post-war Japanese economy, in the eyes of careful observers, is viewed as a collection of visibly linked companies rather than as companies behaving independently and without direction, though some may say that they are led by an invisible hand.

Another important postwar feature was the main bank system which, as I have said, was introduced during the War and specified, to each and every munitions company, a bank which took responsibility for providing the company with the funds it required in order to increase its output. After the war, the situation remained more or less the same as it had been in

wartime. Industrial companies still needed huge amounts of money, this time for rebuilding and rehabilitation, and, if possible, for further expansion. The coupling of banks and companies was no longer on a one-to-one basis but a company was usually linked to a few banks – the first, the second main bank and so on. These form a consortium of banks which collaborate with each other in providing the company with enough money for vast investment projects. The first main bank in the consortium is understood to have a moral obligation to the company to take the initiative in helping if it gets into financial difficulty. (Because of this special obligation, though it is not written explicitly, the first main bank has a big advantage over the second and the third bank, and therefore its position is very important for bank business.) Where the consortium is unable to satisfy the demand of the company by the member banks, they borrow money from the central bank; thus the tendency towards over-loaning prevailed for a long period after the War.

Insofar as the real economy is concerned, state economic controls disappeared quite quickly; free markets were established and rationing was completely abolished. On the financial side, however, the market was divided according to the network of the main bank relationships. Free competition was either absent or weak among banks; the ministry of finance remained powerful in guiding, or directing them, so that they collaborated in financing investment projects of great national interest and helping important companies when they were in danger of bankruptcy.

In general, we may point out that the transformation of a free-market economy to a controlled one, is, as a rule, rather quick because of the existence of a powerful, or even despotic, central government. However, the reverse conversion from a controlled to a free-market economy might be expected to be slow, because it is a self-contradiction to *enforce* liberalization. In the case of Japan, by virtue of the military power of the occupation army, most commodity markets were liberalized quickly. But after they had gone home, the government officials adhered to the ability or human capital they had acquired during the war, that is, their skills to control the economy, and therefore the liberalization after independence was greatly delayed. This is probably the reason why the financial markets are not yet entirely free.

The powerfulness of such a so-called, 'Japan Inc.' system was confirmed in the 1970s and early 1980s when Japan was considered to suffer greatly from the high prices of oil set by the oil producers. During this period of emergency, successive prime ministers maintained close contact with leading businessmen. They held informal but regular meetings with them and discussed how Japan could export products at competitive prices in spite of the high prices of the oil, which Japanese companies had to import. In addition, they discussed the industries of the future. The information industry, robotization, biotechnology and oceanics were all selected

as possibilities. In this way a consensus of opinion in choosing national projects for innovation was formed, enterprise groups adapted themselves along the lines determined, and the main bank system worked accordingly. Thanks to this clever nationwide application of the Schumpeterian theory of innovation, Japan was able to minimize unemployment throughout the period of oil crises. The government collaborated with industry by expanding the departments of technology at state universities. Japanese-type innovation, unlike that of Schumpeter, has not been the result of secret contemplation by individual intellects, but rather of discussion at gatherings of all competitors, discussion which although supposed to be confidential, has in fact been semi-public. In Japan, therefore, innovations have tended to pour out all at once in a torrent.

XIII

As has been stated, throughout the period of national mobilization of resources for war and the period of reconstruction of the economy after the War, the necessary funds were mostly provided by banks. The business of trading shares and securities was traditionally looked down on in Japan. The securities markets were almost inactive during the War, stock exchanges were virtually closed down. Besides, contrary to the people's expectation, the GHQ did not reopen the exchanges until 1949. Therefore the role played by equity finance in the capital formation of businesses was small until the middle of the 1960s, and it was not until the 1970s that it became a method of raising money that was as significant as a loan from the bank.

In Japan, new shares have traditionally been allocated among current shareholders at the face value of the shares, say 50 yen. Suppose the current price of a share is 1000 yen. Any person who had bought one (old) share would obtain the right to purchase one (new) share at 50 yen. If the price of new and old shares was 900 yen after issuing the new shares. then this person would have shares valued at 1800 yen, by spending 1050 yen. In this case, however, the company issuing the shares would obtain only 50 yen per share. Thus shareholders can acquire a lot, while the company acquires very little. In 1968, Nippon Musical Instruments (Nippon Gakki) issued first-time new shares at their current price, say, 900 yen. Then the company got 900 yen by selling each share at a face value of 50 yen. Suppose the dividend rate was 2 per cent. As it is the ratio of the face value of the share, in the case of the shares having been issued according to the first method, the company had to pay a dividend of 1 yen for every 50 yen it obtained. On the other hand, in the case of the second method, it only paid 1 yen as dividend for each 900 yen raised. Taking the dividend as the prime cost of raising capital by issuing shares, we observe that the rate of prime cost per yen decreased from 2 per cent under the first method to 0.11 per cent with the second. This rate would reduce to a negligible figure

where the current price of the share was, sufficiently high. Raising equity finance by the second method was a method of raising finance more cheaply than borrowing from the bank.

On the other hand, with the second method there was no particular gain to shareholders. Nevertheless, as long as they believed in a future increase in the price of the share, they would buy in order to realize a capital gain. In Japan, where the securities business is highly oligopolistic, it is not difficult for big securities companies such as Nomura, Daiwa and Nikko to manipulate the share price. In fact, if they suggested that the share price of certain companies was going to rise, many people would buy the shares of these companies and their prices would actually rise. Thus in the 1970s, the second method became increasingly popular, because banks lent individuals large amounts of money for purchasing shares, provided that they offered land as security, whose price was also increasing rapidly. On the other hand, the companies that obtained large amounts of money by this method, did not use it for industrial investment, as the outlook for industry was not bright, but instead bought land or shares for speculation.

So far so good, but sooner or later the mechanism would have to seize up, even if the price of loans and shares was still rising. Apart from the demand for shares for speculative motives, the demand would depend on individuals' income positively and the stock of shares negatively, in the same way as investment depends on income positively and on the stock of capital negatively. In the late 1970s and the early 1980s, the rate of growth of income was not high, while the stock of shares was increasing rapidly, thanks to the second method of issuing new shares. When the demand for shares at last began to decrease, their prices also started to decline. Moreover, Prime Minister Tanaka's ambitious development programme was after a while found to be unworkable. Thus companies which had bought land for speculation on the assumption that the Tanaka plan would be carried out, were forced to sell this land. The price of land was reduced generally, and those individuals who had borrowed money on the security of their land in order to buy shares, then had to sell their shares to pay back the money. A further decline in share prices would follow. In the worst case, these individuals even had to sell their land, which stimulated the downward spiral in land prices even further.

This phase of the downfall was actually made more complicated by insider trading, political scandals and the low economic morals of the businessmen involved, and in spite of all this, the external value of the yen remained high because the economic performance of the other major countries was worse than Japan's. I do not consider that Japan will fall from its present high place by virtue of the current financial failure, but I consider that it will be troubled, disturbed and damaged because its population is expected to be nothing else but the wreck of its former self, in quality and will.

In fact in the fifty years since the end of the Second World War the temperament of the Japanese has changed completely. The character of both bureaucrats and of top management in companies has been totally transformed, making them very different from the people responsible for reconstruction after the War. As we shall see in the final chapter of this book, it is my belief that Japan's position will collapse in the next fifty years or so. Japan is now being compelled to go through the transition to capitalism from below, and the provision of capital to enterprises in that kind of an economy has to come not from a main bank system devised for the purposes of an economy from above, but from open financial markets. It is remarkable when we think that the collapse finally happened in Japan during the course of developing her securities markets, which had remained weak for the thirty years from around 1940 to 1970; the Japanese should learn from this experience.

XIV

Finally, this chapter may be concluded in the following way. First we must again ask whether Japan has been and is a democratic country. My answer is that throughout her modern history Japan has, at least on the surface, been a country based on 'legalism and constitutionalism'; in spite of resistance, the Meiji constitution was promulgated in 1889. Though it was clearly influenced by the Prussian constitution and was an 'emperor-given' constitution, it was still true that under the constitution the cabinet and two-house Diet could have operated independently from each other; and in fact, they actually did to some degree, except for a few years in war-time. In more detail, in the early years of enactment of the Meiji constitution, a rather severe property qualification existed for suffrage, but this was gradually reduced and in 1925 universal male suffrage was instituted. After the Second World War, the Meiji constitution was replaced by the New Constitution in 1946. Though it was 'American-given' and was not freely chosen by the Japanese people, it prohibited the country from having armed forces; it also entirely removed any sex discrimination from the suffrage. Based on these facts we must conclude that, yes, Japan has been a legally democratic country throughout most of her modern history, particularly in the postwar period.

Nevertheless, as pointed out earlier, I must stress that Japan was still politically undemocratic in the sense that parliamentary democracy never worked. Successive prime ministers were nominated and chosen by genro (or, later, jyushin) (senior statesmen) who advised the emperor. Even in the most democratic period, 1924–32, when the leader of the majority party became prime minister, genro could have advised the emperor to issue an Imperial mandate to a different person to form a cabinet. Throughout the period of the Meiji Constitution, neither the members of

the House of Representatives nor those of the House of Peers had any power in choosing the prime minister, unless genro respected the result of the general election.

If we think about democracy in relation to trends in the economy, it would be appropriate to introduce the concepts of the 'plutocratic' democracy and 'bureaucratic' democracy. In the case of joint stock companies, shareholders do not enjoy equal power in making a decision at the general meeting of the shareholders. The number of votes a shareholder has is proportional to the number of shares he owns. Thus each share, but not each shareholder, is equally and evenly regarded. This is why it is said that plutocratic democracy prevails within joint stock companies. Under such a system of democracy, however, workers and staff members may not be equally regarded. Nepotistic appointments will be justified if supported by the plutocratic-democratic decision of shareholders. In addition, the views of workers and staff members may be entirely ignored by the company.

On the other hand, bureaucratic democracy is based on the principle that each individual must be treated equally. This presumes a spirit of formalistic impersonality, according to which, as Max Weber said, modern bureaucrats must work: 'The dominant norms are concepts of straightforward duty without regard to personal considerations. Everyone is subject to formal equality of treatment' (Weber, 1956).

Almost all of Japan's large companies annually conduct rigorous tests for those seeking employment at a specified time of year, with the results of the examination determining whether or not candidates are chosen. This can be regarded as due to the belief that it is essential for Japanese companies to respect bureaucratic democracy. Given that all employees are selected in this way on the basis of the same tests, there are few strong feelings of 'them and us', at least among the permanent staff (*shain*) of the company, even when some of them achieve supervisory status.

Of course, in Japan many small businesses were and still are family businesses. Shareholders of these companies are mostly confined to family members, relatives and friends of the founders. *Zaibatsu* companies before the Second World War were more or less of this type. In these companies, however, workers and staff were bureaucratically treated as equals, so that the *zaibatsu* companies may appropriately be called 'quasi-state enterprise' or 'private sector bureaucracy', as I have done. In the same way, workers and staff are now treated with perfect bureaucratic fairness in large companies, although as yet they are less equally treated in small firms.

During the pre-capitalistic Tokugawa period, the Japanese learned their bureaucratic democracy from Confucianism, and throughout recent Japanese history, especially the period after the War, until the middle of the 1980s, the country may be characterized as being essentially bureaucratically democratic. We may also characterize the Japan of the same period as anti-plutocratic in the sense that the people at large did not like and indeed

severely criticized plutocracy. The ethos that supports this kind of bureaucratic democracy, and opposes plutocratic democracy, has been closely compatible with capitalism from above. However, the generation educated after the war has been tolerant of plutocratic democracy. As the relative significance of this generation has increased the people's support for the economy from above has become weaker. As far as Japan since the mid 1980s is concerned, we may assert that the upper stratum of the dual economy, that is, the state or quasi-state sector, or the sector of companies belonging to the major enterprise groups was, and still is, clearly more bureaucratically democratic than family-oriented small businesses. Successive governments have constantly kept a close relationship with this upper stratum, through which the will of the state or the nation has been transmitted to the lowest stratum. Thus the people in this stratum have always felt to be segregated and discriminated from those in the upper one; in this sense Japan is certainly undemocratic, as she is a divided country. I have previously called this type of economy 'Confucianist capitalism'; the Japanese developed an ethos suited to that type of capitalism from their interpretation of Confucianism.³

The actual economy, of course, often deviates from its ideal type. Nepotism prevails within large companies too, and the special favouritism of the government for the zaibatsu or ex-zaibatsu companies, just mentioned above, is a clear example of deviation from the bureaucratic democracy. The idealistic mechanism of the bureaucratic democracy has not worked perfectly; in Japan it is often associated with bribery and inefficiency, and bureaucratic responsibility is not always strictly and bravely borne. In spite of these dilemmas, inconsistencies and contradictions, we may conclude by saying that the Japanese regime – which, on the whole, can be regarded as a type of democracy despite its being very different from what American and British economists recognize as 'democracy' – clearly provides an example of an economy that has succeeded in creating economic growth of the greatest magnitude over the last 120 years. Nevertheless this economy, as we shall see in the final chapter of this volume, has over the last decade been showing signs of a rapid collapse. In Japan, transition from capitalism from above to the one from below is not so easy and smooth as it happened in Britain.

8

A Perspective on Japan in the New Century

I

From the end of the 1980s the Japanese economy has no longer been achieving the good results that it had enjoyed up to that point. We must ask whether this situation will continue, whether the economy will before long recover, or whether this situation is the start of a collapse. In April 1997, I received an invitation from Professor Craig Freedman of Macquarie University to speak at a conference to be held in Sydney in August 1998, on the current situation in Japan, and its future prospects. Professor Freedman's letter also expressed the hope that my analysis and predictions could be developed along the lines of the main points made in my book (*WHJS*) (1982). I agreed to accept his invitation. The remainder of this chapter is a fuller version of the presentation I gave at that conference.

Let me first of all explain the perspective adopted in that book. When the volume was published in 1982, Japan was the object of admiration throughout the world. People were saying things such as 'the twenty-first century will be the century of Japan', or 'Japan as Number One', and the Japanese themselves acknowledged their country's position as an economic superpower. It was in the sense of the volume's discussing why Japan had achieved this so-called success, that the word 'Succeeded' was put in quotation marks. Moreover, in order to make it clear that I myself did not regard Japan as being an unadulterated success story, I wrote the following in the Preface: 'No country is likely to be successful in all respects. Moreover, success in one respect is closely connected to failure in another, and success and failure are often achieved in conjunction with each other.' For that reason my discussion now of Japan's collapse is undertaken with a clear conscience. The basic perspective adopted in that book was a dynamic analysis of Japan, and it sought to analyse how causes become effects and effects become causes. The fact that success brings failure is, of course, within my natural scope.

In explaining this kind of analysis, the concepts of 'economic system' and 'superstructure' can be used to advantage. Marx's view was that the superstructure, that is, extra-economic elements which characterize a society (such as ideology, spiritual matters, culture, education, legal and political systems, etc.), will change in accordance with the development of the economic system, and as a reflection of it. The economic system also evolves, but its development depends exclusively on developments in productive capacity. To avoid circular reasoning he assumed the relationship between the economic system and the superstructure being one-way, so that the two systems are one-sided; the economic system influences the superstructure, but the reverse influence is non-existent, or so small that it can be disregarded. The opposite one-sided view, which ignores materialistic effects upon the superstructure, explains the economic system by the elements of the superstructure such as religion or ethos. The former is a materialistic explanation of the superstructure, and the latter a spiritualistic explanation of the economic system. The former was Marx's explanation, while the latter was, of course, emphasized by G.W.F. Hegel and Max Weber. Weber made it clear that in the case of Western Europe the trend of an economy could be totally altered depending on whether a society was Catholic, or whether it was Protestant. I discussed in *WHJS*, (1982) whether a similar non-material relationship could also exist for non-Christian societies. (For further detail, see pp. 1–19 of that book.)

However, it is when a feudal society is transformed into a modern capitalist society that this kind of role on the part of religion becomes most apparent. In the case of Japan, therefore, it is the Meiji Restoration that can be looked at from this perspective. Just as Max Weber discussed the extent to which a society's economy could move towards 'modern capitalism' in terms of which sect of Christianity was dominant in that society, if we look at East Asian societies, we find that the popular ethos of those societies will differ according to whether they had adopted Chinese-type or Japanese-type Confucianism. At the time of the Meiji Revolution Japan broke free at a stroke from the Chinese-style Japan that had hitherto existed, and changed into a Western-style Japan. In fact even after the revolutionary period the extent to which Confucianism was Chinese style or Japanese style continued to exert a major influence on the fates of Japan and China. As Japan was successful, Japanese-type Confucianism was progressively strengthened, with the result that it eventually went completely out of tune, and destroyed itself by bringing about the Second World War. The object of my earlier book was also to analyse the popular dynamics engendered by this kind of religion – a spiritualistic enquiry into social change.

However, a revolution alone is insufficient to bring about at a stroke a modern capitalist society. Until a fully fledged, modern competitive capitalism can be reached – the kind of society that I have up to now referred to as capitalism from below – there has to have been a transitional period

that I have called capitalism from above. Of course, this sort of period of transition will not be uniform either. The character of capitalism from above will differ depending on the superstructure constructed upon it, in particular according to whether the government is one whose feudalistic aspects are strong, or whether it is more modern in nature. It is impossible to provide theoretical confirmation of any changes in the economic system which follow on from changes in the superstructure. We have no alternative but to satisfy ourselves with an historical account of them, and this was the case in *WHJS* (1982) as well. However, at the end of the transition period marked by capitalism from above there awaits a second major social and economic transformation, the transformation in which capitalism from above has to turn into capitalism from below. This is the point at which Japan has now faltered three times.

The first instance was in the Tokugawa period (1603–1867), the final stage of the medieval period, when Japan was pre-modern, but also relatively modernized. This period has been referred to as the period of coexistence of centralized feudalism and nation state. The daimyo of each domain formed his own semi-autonomous government, and below him existed a triangular combination of government, bureaucracy and finance. The government consisted of the daimyo, his principal retainers and his high-ranking samurai followers. The bureaucracy consisted of middle-ranking samurai. Finance involved the middle and lower-ranking samurai who sold the rice tribute and other commodities received by the domain on the Osaka market, and also the accredited merchants involved in the finances of the domain. This latter group organized the capitalism (or quasi-capitalism) from above of the Tokugawa period, by the support of the first two, and prospered during the first century of the period. This kind of economy prospered both in the domains and the territory of the Tokugawa central government; it was healthy until around the end of the Genroku era (1703), but after that rulers found themselves compelled to undertake retrenchment policies. All the domains encouraged the townspeople in the castle towns to go back to farming. Those who did so brought capitalist practices to agriculture (what might be called commercial agriculture), and started village industries in the countryside. These constituted the origin of capitalism from below in Japan, but failed to develop sufficiently to compensate for the decline in capitalism from above. A major reason for this was that insufficient capital found its way into capitalism from below, since the great merchants were part of the triangle on which the domain economies depended. This triangle of government, bureaucracy and finance, in conjunction with financial problems, impeded the development of the Japanese economy in the middle and latter years of the Tokugawa period.

The second time difficulties appeared was during the process of the development of modern capitalism in Japan after the Meiji Restoration, from the late 1920s through to the middle of the 1930s. This period can be charac-

terized by the phrase 'Showa Restoration', which brought terror to the hearts of Japanese at that time. The phrase 'Showa Restoration' symbolized the strengthening of right-wing tendencies in Japan, and calls for the rejection of capitalism. It led to Japan's failure to achieve a truly competitive capitalism, and its turn towards fascism, and in turn defiance of America, Britain, and almost all the other countries of the world, and finally its own destruction. After the defeat Japan rose up to rebuild itself. So remarkably successful was this, that Japan recovered to become a first-ranking nation in economic terms. What had been built up, however, was a Japan that essentially remained a country of capitalism from above. It was an economy with a dual structure that discriminated against enterprises that had sprung up from below. It was a half-way system that still had to be turned into a single, homogenized economy that did not discriminate between the top and the bottom. My own view is that this critical period was reached during the years from the late 1980s into the early 1990s. The Japanese normally refer to these years as the 'Bubble' period, and it was during the Bubble period that Japan faltered for the third time. This will be discussed in the remainder of this chapter, and it will be questioned, in particular, whether its effects will be rapidly exhausted, leaving Japan relatively unscathed and able to recover, or whether it is a decisive blow that will deprive Japan of her title of economic superpower. In the latter case we must also explore the depth of the abyss into which the country is likely to fall afterwards. This chapter will also discuss the extent of any similarities between this third failure, and the two earlier ones.

Whereas our concern in *WHJS* (1982) was with the transformation from feudalism to capitalism, our concern below is directed towards the transformation in Japan from capitalism from above to capitalism from below, during both the feudal and modern capitalist periods. In the case of this transformation in the feudal period, this was something that had actually taken place, and so what we were looking at had already been confirmed. In the period of modern capitalism, however, it was a transformation that had half way and had not been completed at the first opportunity. At the second opportunity the attempt is still underway, and so we cannot be sure whether or not it will be successful. In this case, therefore, how the transformation may progress can only be conjectured, and the fictitious 'facts' that we have tried to make more compelling in this way can only be subjected to theoretical analysis. For that reason it does not take the form of factual analysis relating to the past or the present, but rather forecast relating to the future.

These predictions can be made in both the quantitative and the qualitative ways. We can predict, for example, roughly what per capita real national income is likely to be in, say, the year 2050. However, because the further into the future the point of prediction lies, the greater will be the statistical confidence interval for such a predicted value, we must acknowledge that the

confidence interval that is appropriate for the case of predicting over such a long period as 2050 is likely to be very great indeed. This means that in judging predictions on Japan's distant future that rest on quantitative analysis it is equally possible to come up with an optimistic view as it is to come up with a pessimistic view.

I am not, therefore, going to attempt below any quantitative predictions of this type. Rather, I shall attempt to depict what circumstances are likely to be in Japan's longer-term future through a qualitative predictive analysis of the kind Schumpeter (1943) used in his *Capitalism, Socialism and Democracy*. For that reason what follows is not a causal and interpretive analysis of a situation that has already arisen, of the kind that Max Weber undertook. It is, rather, an attempt to assign reasons to and delineate the economic and social situation of Japan over the longer term, through a chain of economic and sociological speculations, just as Schumpeter did. The aim is to establish a vision of Japan in the future that is logically defensible. Several portents of what Japan will be like in the future have already appeared. The analysis below has two main aims. The first is to clarify the reasons why the Japanese economy failed three times when it came to the point of transition to capitalism from below. The second is, given that the Japanese economy has already found itself at a loss when faced with this transition, to make apparent the extent of the collapse that Japan is likely to have experienced by 2050.

Since conjectures are essentially subjective, they have to be undertaken with the greatest caution. Who, for example, amidst the great financial crisis of 1930, would have been able to anticipate the flourishing Japan of 1982? The economic situation in 1930 was desperate, and conjectures made in the context of such economic circumstances are likely to be desperate as well. I am not, therefore, going to engage in any predictions relating to the economy. Instead, I am going first to consider what sort of society Japan is likely to have in 2050, and then consider what sort of economy and culture are likely to exist in such a society. I will not use the economy as a starting point for thinking about society, but society as the starting point for considering the economy. This method of developing the analysis has been adopted because it is far easier to predict the future shape of society than it is to predict the future of the economy. The reason for this is that the society we shall have in 2050 has already begun to appear. As we shall see shortly, the older people of 2050 have already been born, making up the younger members of the population today. Thus, if we analyse the existing population bearing in mind that they will grow into the future population, we can to a certain extent extract from such an analysis fairly precise information on the quantity and quality of the population of the future. A considerable part of the society of the future thus already exists within the society of the present. This is because the time lag involved in the formation of a society is very great. So, the more we can

analyse the way in which this generation is brought up now and in the near future, the more likely we are to be able to obtain various reliable information on the nature of society in the more distant future, not through long-term estimates, but through judging the quality of the present population. If we conclude that that quality of society will be poor, then it is difficult to expect the society to be very flourishing in the future. If we conclude that it will be good, then the future society too is unlikely to be in a bad shape. This is the methodology that I have adopted below.

II

In Japan there are at present a number of banks and financial institutions that have found themselves facing bankruptcy, and there is a lot of discussion as to whether they should resign themselves to their fate or should be rescued, and, if they are to be rescued, in what way. It is not this issue, however, that Japan needs to worry about. If the only problem that we had to worry about at the present was these banks and companies facing bankruptcy, then all we would have to do would be to rescue them, and everything would be sorted out. There are, though, a large number of corrupt banks and companies apart from these, and in a situation where even healthy organizations are becoming progressively weaker, finding good rescue policies is not necessarily the key to rebuilding the Japanese economy. Such packages are no more than a stopgap. What Japan really needs now is to understand the reasons why the country allowed such a succession of corrupt banks and companies; the only thing that will rescue Japan will be discussion of what needs to be done to stop Japan from being a country where enterprises become so corrupt. This issue is not so much a question of economics, but of other areas, including history, sociology, education, social psychology, economic morality, criminology, commercial law and company law. It is not a short-term problem, but a long-term one. What we have to discuss, therefore, is whether or not society can over the longer term recover from its current ills.

In order to ascertain the long-term effects of any measures taken to bring about change in society, I propose to make certain hypothetical inferences regarding the situation that might result after a certain passage of time, both where change has taken place, and where it has not. The results of this exercise will constitute a kind of prediction, but it will certainly not necessarily be quantitative prediction. It will be for the most part a qualitative prediction. I will consider below constituent elements in society (the fundamentals of society) that will either not change at all during the period with which I am concerned, or, if they do change, will do so in a well-defined manner. I will then consider the way in which these constituent elements are likely to determine the operation of society at a chosen point in the future (for example, in the year 2050). Since it is, of course, true that

circumstances in society and the economy at that point in time will also depend on other elements, having a clear knowledge of these fundamentals alone does not necessarily mean that we can have an accurate understanding of such economic and social circumstances. Nevertheless, it is probably fair to say that if we can verify the fundamentals the situation in the society and the economy is unlikely to fall outside certain limits, whatever the nature of other factors. That is to say, it will be possible to attempt an argument along the lines of its being impossible for the Japanese economy to prosper as before, given the basic situation of the fundamentals of society.

The elements that I have chosen to consider as fundamentals of society, and which will play a major role in my analysis, are those where, if we know what the present situation is, we can infer reasonably accurately – that is, without depending too much on my own subjective forecasts – what the situation is likely to be in 50 years time. If we think of population, for example, the number of people aged 50 in 50 years time cannot be either more or less than the number born this year, excluding immigration, emigration and deaths. We know from last year's births what the number of people aged 51 will be. The number of people aged 80, around the average age of death, will be the same as those born 29 years ago, of 70 those born 19 years ago, and of 55 those born four years ago. Thus the older members of the actively working population, that is, administrators and middle management, and hence the most senior figures in government, finance and administration in the year 2050, have already been born. This means that as far as this stratum of talented individuals is concerned, the seeds of the Japan of 2050 have already been sown.

The quality of these people, however, will depend on the education that they receive. Of those individuals who will be between 50 and 65 in 50 years time, those who will be 55 or less have yet to receive any schooling, whereas those who will be between 55 and 65 have already started at school. In order to know what kind of senior people Japan will be having to depend on in the year 2050, we need to look at those who are now in primary schools, and up to the first year of high school. It is, of course, likely that both the methods and content of education will undergo considerable changes in the 50 years to come. Nevertheless, we would probably not be grossly mistaken in assuming that there is unlikely to occur over the next 50 years a change in the ideology of education comparable to the change from the education for imperial subjects of the prewar years to the liberalistic education of the postwar period. That means that both the younger and older members of the actively working population will be educated in much the same way, and I think that they will possess more or less the same work ethics. Of course, even if they do receive the same education, it is possible that the population will grow up very differently. However, we are unlikely to see, after 50 years, marked differences between different age groups as we have now.

There is, however, one thing in relation to Japan that requires special mention. In many important respects the prewar system and the postwar system were diametrically opposed to each other. If we look at the date in which those who had been completely educated under the prewar system reached the average age of retirement (65), we find that it was 1998 for those who had stopped at the end of primary school, 1993 for those who had graduated from middle school, 1990 for graduates of higher vocational schools, and 1987 for university graduates. In 1990, which can be seen as a turning point for the Japanese economy from an economy under government tutelage to one guided by the market, the prewar elementary school and middle-school graduates had not yet reached the age of 65. Those educated up to higher vocational school level had just reached 65, while the prewar university graduates had already passed it. However, since many of these university graduates continued to work beyond the age of 65, the older elements of the working population still included some who had received all their education in the prewar years. We must say that this was the beginning of the final few years during which the ethos of prewar Japan remained on the stage. The fact that the period of transition in the economic regime from state-guided to market-guided coincided in this way with the period during which those educated in the prewar period were making their exit, is noteworthy. What is also the case is that this was also a time when Japan's top positions were beginning to be filled by people who possessed a different type of work ethic. This situation made more difficult a smooth transition in the economic regime; it caused the Japanese economy to stumble, and also made its subsequent recovery extremely difficult.

My view is that the value system of Japanese of the prewar period was defined by Confucianism. By contrast, many writers have argued that the Japanese have embraced more than one religion, for example, while they may follow Buddhism, they can at the same time be believers in Shinto. Nevertheless, even though there may be those who belong to religions other than Confucianism, Confucian education was taught in schools, and students were told that when the virtues of an adherent's own religion were in conflict with Confucian virtues it was always the latter that had to take precedence. (It can, of course, be disputed whether or not Confucianism is a religion, but that is immaterial given our current concerns.) Postwar school education, however, emphasized liberalism and individualism as the foundation of moral values; these often conflicted with Confucianism, and were, fundamentally, anti-Confucian. Since in the early postwar years senior employees in all enterprises had all been educated under the prewar system, there was a considerable gap in thinking between them and the new entrants who had received the new postwar education. Companies provided their new employees with a company education which was, in effect, a kind of brainwashing, and those deemed to be unfit either left of their

own accord or were forced to leave. Over time, however, the relative importance in the company of those who had received their education prewar declined, and in the latter half of the 1980s the relative significance of prewar ideas in Japan's bureaucracy, financial circles and educational circles diminished sharply. Simultaneously with this there was a change in work ethics in Japan, which from the Confucian perspective was regarded as progressive degeneration.

What was even worse is that for several years previously corruption had become rampant and deeply rooted among a wide range of individuals. The strength of the Japanese economy is said to lie in the 'iron triangle' of politics, bureaucracy and the business world. That solidarity has been disparaged as being for the purposes of victory in competition with other countries, but it has become apparent that its real purpose has been to protect the individual interests of those involved. To a shocking extent cunning and self-interested innovations have been devised and everywhere the law that 'bad money drives out good' has come to dominate. The so-called 'iron triangle' has become rotten to the core. It has, moreover, become impossible to continue the Japanese style of management, with its three pillars of lifetime employment, the seniority wage system and company unions, in companies whose business has been depressed. In many companies older employees are forced into positions where they are compelled to leave, or, if they remain, to endure humiliating treatment. The seniority system has become a pretence for failing to increase the pay of those who have rendered services in a way that is commensurate with their achievements. Not a single reform of internal company systems into a form more appropriate for enterprises in a market-guided economy has been carried out. When a company as a whole is victorious in its competition with other enterprises in the market, this has come to be regarded not as the achievement of those immediately concerned, but almost exclusively as the achievement of management. If the enterprises are defeated in this competition, the scale of the company is reduced; those who are made redundant are provided with virtually no public mechanisms for helping them move to another company, that is, no labour market, and have to seek new work through their own individual contacts. While there may be a transition to a market-guided economy, there is virtually no provision of the market that must facilitate that transition. Management is locked into an eroding system, and is concerned only to try and take the lion's share of what it has to offer. This is something that I will come back to later.

III

If we first consider the ethos of the Japanese, we can say that the Japanese had a generous attitude towards various religions. They permitted a number of religious groups to be active simultaneously within the country;

for modern Japanese, Shinotism, Buddhism and Confucianism are available as main religious parties, and they have, in addition to these, Christianity and other foreign religions which have become known in modern times. Furthermore, they have new religions formed rather recently. Among these Confucianism is most irreligious and worldly in the sense that it detaches itself from ceremonial occasions such as marriages and funerals and does not confront the problems of birth and death.

In the Tokugawa period (1603–1867) Confucianism was the moral backbone of the samurai class. From the Meiji Revolution to the defeat in the Second World War, moral education at school was strictly along Confucianist lines. Nevertheless, Confucianists in Japan rarely had temples or churches and so it was in the classroom of the school and the sitting room of the family house that Confucian doctrines were taught to children. Those children whose parents were neither from the samurai class nor well-educated had no place other than the classroom in which to learn Confucianist ethics. Many of them found such education intrusive. Therefore they hated the state-education of Confucianism and welcomed the GHQ's prohibition of this type of moral teaching in the school. This means that Confucian asceticism has almost disappeared from contemporary Japan. This is increasingly true as time goes by because memories of prewar life become increasingly less clear in families.

The GHQ ordered the Japanese government to make a number of substantial changes, such as enforcing the New Constitution, complete disarmament, dissolution of the zaibatsu, land reform, educational reform, and so on. Among them the one that has produced the most powerful effect in the long run is the switching of the old education system to the new. They, of course, noticed that those with the old education did not agree with the newly educated young people. But while the former dominated the society, firms could enforce a training course upon school leavers and new graduates who were informally accepted by firms as employees, and the appointments were cancelled for failing the training courses. This selection programme, however, does not work well, when most of those with the old education have retired from their active posts and are replaced by those with the new education. Therefore, in the final part of the 1980s, Japan has at last been converted into a country of a very different nature.

In relation to this, I must mention that the nationalism that has been another important factor in forming the Japanese ethos has also received a deadly blow. When Japan imported Confucianism, China was a mighty and prosperous country. In addition, Korea was also far more advanced and culturally superior to Japan. In such an environment the Japanese have become defensive since ancient times. The spirit of nationalism was already flourishing by the end of the seventh century. Nationalism was then mixed up with Confucianism, and this militant ethos made the Japanese materialistic and hence they maintained a keen interest in the richness of their

secular life. They have learnt how dangerous nationalism is from their experiences in the last war. Finally, the two nuclear bombs completely destroyed nationalism. At the same time, however, they lost confidence and stopped speaking out on international affairs. Behind the most powerful country of the world, they now only pursue their own material gain, even though this attitude may be seriously criticized by other nations.

In the 1990's, Japan has entered a new era in which these new types of people dominated the country for the first time. They face the necessity of converting the economy from the capitalism from above (or the state-guiding capitalism) prevailing so far to the one from below (or the competitive capitalism guided by the market). How successful will they be in this very difficult undertaking? I will set the focus of my investigation on the status of Japan in the year 2050. Nevertheless, in the following I will not be concerned with the working of the Japanese economy in the future. I shall only list a number of convincing premonitions that I consider will lead to a clear-cut image of the future of Japan. Based on these we may safely conclude that the future of the country will not be bright. Japan will not be able to remain in the top group of industrial countries; its international influence will become obscure and insignificant.

IV

The first premonition of the downfall of Japan is a sharp drop in the population; also its age composition will be very unfavourable. The age of Japanese population is expected to increase very quickly. The percentage of people of 65 years old and over was ranked at the bottom of the major 18 countries in 1980 but is expected to be at the top after the year 2010. Moreover, the index of age of the population, that is the ratio of the population of 65 years old and over to that of less than 15 years old, will rise very rapidly in the first half of the next century. It was 96.6 in 1996 but is expected to be 118 in the year 2000, 196 in 2020 and 247 in 2050. This is because in a rich country like Japan, married couples prefer to control birth more severely and minimize the number of their children who are destined to support a very large number of old people. As a matter of fact, the population forecasts for the next century that were made in 1986 have all shifted downwards in the forecasts in 1993; further downward revisions have been made in the 1997 new estimations. According to this most recent forecasts, we may say that the Japanese population will decline from the actual figure of 125,570,000 to the estimated 2050 figure of 100,496,000, so that Japan will lose 20 per cent of the present population in the coming 50 years.

Thus, the forecast of a decreasing population is very unstable. This is because once a pessimistic forecast is announced couples will hesitate to have a new baby; they feel pity for the baby since it has just been confirmed, by the new forecast, that the burden of the babies who have to bear respons-

ibility for maintaining the lives of unproductive senior people at a reasonable level now will become bigger than the one indicated before by the previous forecasts. Where birth control is practised, the population growth is no longer a natural phenomenon but a result of people's decision-making. Consumer behaviour is partly a choice behaviour but also partly a behaviour determined by custom. For young couples, it is most important to decide on how many children they will produce. In fact, according to the forecast made in 1993, the Japanese population in the year 2050 was 111.5 million but has been revised to 100.5 million in the 1997 forecast. The previous 1993 forecast has produced a revision of birth planning which amounts to a decrease in the 2050 population of 11 million.

If this instability hypothesis is correct, stricter birth control measures will be taken henceforth. The present forecast showing that the 2050 population will be only four-fifths of the actual 1996 population may be seen later to be too optimistic.

V

In Confucianist countries, people's social class is determined according to their educational achievements. The period of education at school is not only the period for intellectual training but also the period for children being allocated to various social classes. This is true for Western societies too, more or less, but it is particularly so for Confucianist countries. While higher education was rare, it was certain that those who graduated from a university would be recognized as a member of the literati; but when higher education became universal, universities were classified into a number of classes. Thus the competition for entering a good university is naturally intensified, but the education race does not necessarily produce Confucianist graduates but may have an opposite effect.

As soon as the Occupation Forces came to Japan, their general headquarters (GHQ) ordered the Japanese government to change the aim and policy of education. The government introduced the new education system in 1947, in order to replace the old one that had a strongly ultra-nationalistic bias. The children born in 1941 were the first generation that could climb the ladder of the new education system completely.

We then have three groups of the Japanese people: (a) those born in 1941 and after; these are called the 'postwar' generation, (b) those born in 1924 and before and those who completed their education before the end of the war and are referred to as the 'prewar' generation; and (c) those born between 1925 and 1940 who were transferred from the old to the new education route at some point of development in their education. This last group may be named 'transitional'. The age of the oldest of the post-war generation and that of the youngest of the pre-war are for examples, 19 and 36 years old in 1960 and 49 and 66 years old in 1990.

Then we find that the prewar generation dominated the world of business and politics of Japan in the 1960s and 1970s while it is going to lose power in the 1990s. We may note that my previous book, *Why Has Japan 'Succeeded'?* appeared in 1982, when the prewar generation was still powerful in Japanese society. But towards the end of the 1980s the hegemony handed over to the postwar generation, as it is symbolized by the fact that Toshiaki Kaifu, a graduate of a university according to the new education system, was elected to be Prime Minister for the first time in 1989. The 1980s is the period of transition from the prewar to the transitional group. We may then say that power begins to be further transferred to the postwar generation in the middle of the 1990s. The new education ordered by the GHQ was carried out with the intention of implanting American ideals to Japanese children; it greatly differed from the old education based on Confucianism emphasizing family values and loyalty to the nation.

Moreover, it must be noted that the American or European values taught in Japanese schools after the war were of doubtful character. Individualism was no more than a sophisticated encouragement of egoism; liberalism was taught as a doctrine that could lead to anarchism. The state of confusion is of no wonder because school teachers themselves had no proper understanding of these concepts; they had been, until the end of the War, experts in Confucianist education, teaching children selfless devotion to the Emperor as the first principle of the nation.

Japan is well known as a country where politicians, government officers and businessmen worked well in collaboration with each other, at least until the beginning of the 1980s. However, since the year of 1990 when the so-called 'bubble' burst, the impenetrable solidarity of these three professional groups was ruined. Disclosure of countless wicked acts, such as bribery between businessmen and officials, insider trading, dinner parties at unnecessarily expensive restaurants sponsored by a local government to entertain officials of the central government, and so on, appeared in the newspapers. Such a decline in their work disciplines seems to have been particularly closely related, in the case of those which occurred in the 1990s bubble period, to the fact that the active working lives of politicians, government officials and businessmen differed greatly from each other. Most government officers are less than about 53 years old. In the business world, employees usually work until 58 years old; some of them remain until, say, 63 years old as executives, while those who are selected as presidents, chairmen, or honorary advisers, etc. work for the companies until they become approximately 73 years old. It is not exceptional for politicians to survive the business managers. So in the early years of the 1990s all the government officers had been educated in the postwar way, while many of the top managers of business firms were still of the prewar or transitional generation, and there are still men of outdated ways of thinking in the political arena. These three groups find it really impossible to work together agreeably.

The Japanese political world is even now of the village politics type. Men of a certain political pedigree occupy it. In a general election, the political ideas of the parties the candidates belong to are irrelevant in one's making a decision to vote. Politicians are assessed from the viewpoint of benefits that they will bring to the individual voter. Men of political pedigree are naturally provided with such know-how, by virtue of which they have built their fame. They are very weak in the knowledge of political theory and economics.

In addition to the political world, the business world too has not so far changed much. Most school leavers and university graduates have found their places in the business world. In spite of the great effort of the GHQ, the mentality, social customs and power structure of the adult Japanese did not change much from those they had been used to before and during the war. Newcomers from the education sectors were re-educated and re-taught during the probation period so that they would behave in the manner of the adult Japanese. Those who were found to be unfit for the work place in their manners and human relationships had to lose their jobs. A retraining scheme of this kind worked well until the early years of the 1980s. But in the middle of the decade many of the newcomers were treated as odd members of the society.

It is not surprising that the New Education produced a significant number of confused youngsters. After a series of successively severe student movements in 1968 and 1969, many Japanese families began to send their children to America for education. Also, many Japanese companies expanded overseas business around these years. Those children educated in English are appointed to work at the overseas offices of such companies. In this way Japan was provided with a work force of international quality. I must say, however, that they were a small fraction of the total work force, and they too did not fit in well with the upper, executive, stratum of the prewar generation.

From the viewpoint of the structure of the work force, Japan was quickly changing during the second half of the 1980s. Until 1986, the governing body of the business and political world consisted mostly of the people of the transitory and prewar generations; while in 1990 there were few of the prewar generation who remained as executives on the active stage. As has already been pointed out, after 1994 Japanese society split itself into three major sectors: the government departments consisting of 'newly educated' officers, and the political world behaving in the traditional mode, the 'mixed' business world consisting of the top executive class, still keeping the prewar ethos, and the employee class having completed the postwar education system. It is clear that a great and rapid structural change was happening in the last decade of the twentieth century. The New Education was introduced immediately after the War with the intention of changing the ethos of the Japanese and the character of their society completely. It was important, not only for Americans but also for Japanese,

to remove all the jingoistic and ultra-nationalistic elements from the Old Education enforced during the war. However, as soon as a decision concerning education reform is made, the character of the adult society must be changed, so that it fits the generation educated in the new way.

In fact, any educational reform will produce devastating effects upon society unless it is coupled with an appropriate programme of social reform of the existing society. Usually, a drastic change in education is not complete in the sense that it alone does not necessarily accomplish the role that Durkheim (1922) imposed on education; that is to say, according to him, the education of children aims at adapting them to the social environment within which they are expected to live. It is successful when mother lionesses educate lion cubs to be lions only in the case of conventional practices of the lion society being unchanged. Then we see that where we do not change the working customs of the society of grown-up persons the new education, which we can introduce, is very much limited. We must satisfy ourselves with making the best choice we can from among those which are available to the traditional society. In so far as the postwar educational reform was concerned, there was no intention on the Japanese side to change their adult world. The GHQ, however, disregarded the existing Japanese conventions entirely; they were no more than a target to be destroyed. After the War, they rebuilt the country in a form that was close to the prewar empire as far as possible. In fact, as has been stated, boys and girls were re-educated, after school and before employment of the school leavers was made permanent, such that they would support the traditional way of life in Japan. This was merely a temporary policy, but after the GHQ had gone back home, the Japanese government did nothing concerning the revision or Japanization of the New Education such that it become well connected the Japanese adult world.

In fact, the Japanese did, throughout the postwar period, all they could in order to conserve the traditional character of their society. Those who stood at general and local elections after the war had no distinct political ideas apart from those candidates who were involved in the labour movement. They were merely celebrities representing their constituencies. Japanese politics was and still is a kind of village politics that is mainly concerned with bringing back a share of benefits created by the central or local governments to their constituencies. Although the political structure was westernized superficially in the Meiji period, and just after the Second World War, native customs and conventions as well as local material benefits were still the most powerful factors in the decision-making of politicians. They had neither a political theory, a philosophy, nor an ideology that they consistently adhered to but these politicians were tough negotiators in distributing gains.

Nevertheless, it is true that there were politicians, in the early postwar period, 1946–80, such as Shigeru Yoshida, Tanzan Ishibashi, Hayato Ikeda,

Eisaku Sato, Takao Miki, Takeo Fukuda and Masayoshi Ohira, who were able or at least acceptable, but all these, other than Ishibashi and Miki, had experience as a career government official and joined a political party at some stage of their life before they finally became a prime minister. This monopolization of the top of the political world by ex-bureaucrats was criticized, and trueborn party men were urged to be given more significant positions. There were nine prime ministers in the period, 1988–1997. Kiichi Miyazawa is the only one who started his career as a government official, while all others are solely party men. Their performance is found to be significantly worse than that of the prime ministers who had a career as a government official in the previous period. Therefore, one may say that the morality of the Japanese political circles reverted to that of the pre-modern village politicians.

The ethos of politicians in the 1980s, such as Yasuhiro Nakasone, may at best be said to be still along the lines of the Confucianism which according to Emperor Hongwu (1368–1399) of the Ming dynasty of China, stipulates the following virtues: (1) filial piety; (2) concordance with neighbours; (3) respect for seniors; (4) responsibility of educating and disciplining own posterity; (5) contentment with the calling given; and (6) abstinence from villainy. The Imperial Rescript on Education issued by Emperor Meiji in 1890, which influenced the prewar Japanese immensely, should clearly be based on Hongwu's 'Six Instructions'. It is clear that in comparison with Plato's philosophy, Confucian ethics are rather primitive, so that they permit interpretations which should not be applied to the original text. Many vulgar versions of Confucianism are possible. Politicians who have deteriorated into mere hunters of benefits for their constituencies are regarded as good Confucianists as they are concordant with their own neighbours.

VI

As Hongwu's Six Articles state, Confucianism respects the virtues of inherited qualities as (1), (3) and (4) show. It encourages élitism and, in the worst case, even nepotism. It orients an individuals' behaviour so as to make them interested in the happiness and prosperity of the larger group. It does not emphasize an individual's achievement, and as far as Hongwu's Six Articles and Meiji's Imperial Rescripts are concerned, it has no clear universal principle assessing individuals' achievements. It would oppose itself to the American type of education producing children of self-orientation. In the Confucian society there is no rigorous principle of egalitarianism.

It is then obvious that since the latter part of the 1980s, party politicians in Japan have had great difficulty in dealing with their government officers who had received a postwar education of the American type. Individuals then tend to be appraised according to their achievements performed on

the basis of universalism and egalitarianism. Under these conditions the famous or notorious Japan Inc., has difficulty in functioning. The ethical disagreement has turned out even more seriously, because the business world has another disagreement of a similar nature within itself: Confucian bosses versus employees with new education. Such a divisive society is a natural sequel to the fact that the Japanese resisted changing their society so as to fit the New Education. A disaster will inevitably follow at some point of time in the future from the social malfunction caused by the ideological inconsistency existing between various groups and classes of society. It is a delayed effect set at the time of having introduced the New Education as a consequence of the surrender to America.

The New Education created absence of élitism. The ratio of applicants of boys for admission to universities to the total number of boys born in the same year reached the level of 40 per cent in the year 1975. It kept at more or less the same level until 1996, though there was a short period of slump in the late 1980s. For girls, it was 12.5 per cent in 1975 and reached 24.6 per cent in 1996. If two-year colleges are included the ratio for girls increases to 32.4 per cent in 1975 and 48.3 per cent in 1996. All these figures show that Japan has, like America, a very large higher education sector: Japan's is the second largest in the world.

The New Education was implemented mechanically so as to avoid praising particularity and ascription of any kind. The power of memory of pupils was cultivated, but their ability to make value judgements declined. Although they became very able at memorizing facts, they were weak at reasoning, and, therefore, not good at making decisions. A very high rate of admission to universities results in very noisy lecture rooms. In Japan now, higher education is no longer a base for élitism. The spirit of *noblesse oblige* no longer prevails in any corner of Japanese society. This is crucially damaging to Japan because it is a country of Confucianism, where the nation is formed such that intellectuals should play a leading role of the élite. There is a great danger that Japan will collapse from the top, rather than from the bottom.

Since the middle of the 1970s many Japanese students have been going to America to study for higher degrees and able students bypassed Japanese graduate schools. In this way Japan is entrusting education of the élite to American universities. This will make splits in society wider and deeper.

VII

In those days Japan's economy was in a serious situation. First, Japan's industrial regime, the Japan Inc., was criticized by its foreign competitors; Japan would be isolated in the international trading world if it stuck to the regime. Secondly, it was time to change the way of financing business enterprises from using the loan market to equity finance that enables them to obtain money by issuing stocks. This was due to internal, rather than

external, pressure, because entrepreneurs of successful companies found equity finance much cheaper than loans. These problems brought Japanese businesses to a deadlock.

The idea of the Japanese system of economic administration was formed and carried out after the War when Japan's prewar system was forced to be dismantled. Especially, it was a crucial blow for Japan that all the major groups of zaibatsu were ordered to disband. They were the most important means of the wartime government control of the economy. However, zaibatsu companies were divided up after the War. But the government pretended not to see that they were actually working in collaboration with each other. In order to make this possible, the companies from the same zaibatsu companies helped each other by reciprocating share holding between them. This cooperation in supporting the shares of each other became a basis for natural co-operations in business. Although zaibatsu families were strictly removed from the business world, their business survived the postwar period by forming their own groups of giant enterprises, having their banks and comprehensive trading companies at the centre.

Such a grouping of enterprises is obvious coalition, in opposition to the spirit of fair competition. But the Japanese government officials became proficient, during the period of planning economy, at handling an imperfectly competitive economy that had giant zaibatsu companies at the top of the pyramid, so that they retained this structure as long as possible, by deterring the introduction of a competitive mechanism at the cost of friction with foreign countries supporting the concept of free competition. This guardianship on behalf of big enterprises produced benefits to politicians and government officials as well as businessmen of the big enterprises. First of all, the big business sector would clearly support the policy treating big businesses favourably. Politicians would then naturally expect a large amount of political donation from them. Also, for big enterprises it becomes very important to have talented ex-government officials within them who can exercise their influence upon decisions to be made by the government. By this means high officials of the central (or local) government can find good posts in the business world, so that at least for them the retirement age set for civil servants is, though it is very early, not a substantial disadvantage at all. Moreover, the maintenance of this coalition makes politicians feeble; they are merely country gentlemen without explicit knowledge of politics and economics, but they can keep the posts if they exactly behave in the way their under-secretaries tell them. Under-secretaries support the politicians, because they expect that their bosses will look after them when they retire.

Such a trinity of politics, bureaucracy and business may be a heaven for evil people. Bribery, insider dealing, conspiracies among the persons involved, and even cheating in accounting are not necessarily exceptionally rare; in this way business morals have crumbled since the late 1980s.

The trinity is now in the last moment of its life, unless it is subjected to drastically substantial modification or dissolution.

The above is a description of the real world at the time of the period 1987–1997, but may also be considered as a premonition of what will happen in an early decade of the twenty-first century. Once a nation has broken down on a moral level, it is very difficult for restitution to be made in a short period. Although the old generation will die soon, the ethical gap existing in the present society will only be filled up partially. We cannot place our hope on the coming generation, because they have already learned unsatisfactory work ethics and taken part in the collapse from which society has to recover.

Moreover the Japanese way of finance too is now at a deadlock. During the Second World War the government changed the banking system substantially to make it compatible with the Japanese planning economy. First, an excessive number of the then existing banks were reduced drastically so that each prefecture had one and only one savings bank. Savings they gathered were sent to city banks that allocated them to the industrial companies so as to achieve their production targets specified by the government. Where the savings were less than the amounts required, the gaps were filled up by loans from the central bank to the city banks. Thus, during the War, the industry was financed by means of loans from banks, while equity finance deteriorated and stock exchanges were nominal or closed, throughout most of the years of the war period.

A particular bank (or sometimes banks), which would take responsibility for financing a munition company was nominated and called its main bank. This relationship was not legal but merely understood. But it is true that it gave the industry a big encouragement for an ambitious investment plan. After the War when the reconstruction and expansion of the economy still remained the first priority, the government and the central bank were in favour of the war-time formula. Consequently, the other way of finance, equity finance, never flourished until the late 1970s. In these years, however, there emerged a disequilibrium between the lending–borrowing market and the market of equity finance. Japan already had huge, first rate manufacturing companies which could raise money through the latter market at a rate far cheaper than the market rate of interest.

Then these companies which could obtain money in this way made unnecessary fund raising and spent the money thus obtained on land. Of course, the price of land increased, so that the speculation proved to be correct. Even small landowners borrowed money by offering their land to the bank as a security for borrowing to buy another lot. A reckless spiral of land prices was observed in the land market. The price of land, in terms of the index set at 100 in 1983, reached the level of 350 in Tokyo and 250 in Osaka in 1988. Securities for borrowing in the form of land were accumulated in banks. A similar reckless and greedy attitude of the people was

observed at the start of the oil crisis; housewives rushed to shops and supermarkets to buy rolls of toilet paper as they had heard none would be available because of the oil crisis. This attitude of the Japanese means there is a strong tendency for excessive inflation in Japan.

The rise of the price of land in the Tokyo area was stopped in 1988 and remained stationary afterwards till 1991. However, we observe that a sharp rise of land price continued in other areas. The peak in Osaka and Kyoto was obtained at 450 in 1991. Then it began to decline sharply. It almost reached the level of 150 in both Tokyo and Osaka areas in 1995. After all, those who had obtained loans by offering landed property as security were put in a position of bankruptcy. Also banks were in bankruptcy, because in the hands of banks an enormous amount of land obtained as securities for loans remained. This phenomenon is called a bubble, for which both the Japan Inc. and the main bank system, which the Japanese had been proud of, were considered to be responsible. The authorities could have raised the interest rate to stop a further expansion of the bubble but it was kept low by the pressure of export industries.

This means that the authorities preferred a further expansion of the economy at a low interest rate. They are still very much concerned with economic growth and their understanding of the financial aspects of the economy is almost as poor as it was in the war-time of planning economy.

The last two decades of this century were the age of electronics and computerization. From the latter, banks themselves benefited by reducing the costs of their businesses greatly. The development of electronics enabled them to invent various new financial commodities, and then old commodities became obsolete and were replaced by new ones. The financial markets became very competitive. Sitting in the London office it has now become very easy for banks and security companies to take part in a competition at Tokyo market. Major weapons for this war are the hardware and software of computers. Japan has so far been good at the former territory, but it is now well known that they are less adept at developing software programs. Moreover, reflecting postwar history where Japan treated finance through equity markets lightly and mainly relied on loan-based finance, it was far behind the Anglo-Saxon countries in producing skilful dealers, and this resulted in making it very poor at financial innovation. Hence Japan could not take the leadership in the competition of financial revolution. Japan has so far been content to be a follower, or even a follower of followers. This produced a number of serious results. First of all, the main bank system has become almost useless, because, owing to recent financial innovations, non-financial companies can finance themselves through markets, more efficiently than by obtaining loans from their main banks.

Secondly, by using computers in a more efficient way, companies and banks have examined investment programmes more precisely, so that risks could be reduced considerably. Then financial services have been offered

more cheaply. Of course, this led to a realization of the fact that the mutual holding of shares was an expensive means of conserving the current management in power. By using stock exchanges more effectively, a better way of managing enterprises might be a possibility. The position of banks within the enterprise groups declined. Especially in a crisis such as the bubble in 1991, a company had no surplus that could be used for holding other companies' shares. Therefore, it was forced to sell them. Then a tit-for-tat process, which leads to collapse of the mutual share holding system, would start.

Financial organizations of those countries, which were advanced in software programming, could thus secure an advantage over the Japanese organizations, so that the opening of the financial markets to other countries put them in an unfavourable position in international competition. Furthermore, it became very difficult to put subsidiary companies under the control of their parent companies, because the former could now acquire the necessary amount of money through stock exchanges by issuing new shares. In this way, the Financial Revolution resulted in not only collapse of the Japanese-type of financial system but also that of the Japanese *keiretsu* system.

In the same way as the steam engine industrial revolution completely changed the mode of production, the electronics financial revolution that is now under way will bring about an entirely different mode of finance. Also, this change in the financial structure will give rise to a further change in the industrial and commercial system. This process of repercussions was accelerated when the bubble burst; the permanent employment convention will eventually become very difficult to be maintained, and long-run contracts and obligations between subsidiaries and their parent company will be cancelled. The usefulness of the main bank system will turn out to be its uselessness. In order for the Japanese economy to survive it must be more competitive. Japan in this way has to envisage a transition from a capitalism from above to capitalism from below. This is inevitable, because otherwise Japan would be either internationally isolated or left far behind in the progressing march of advanced countries.

VIII

The Japanese economy is now in the middle of an important transformation period. Journalists say that it is a Japanese version of the big bang. But I predict that Japan has now to transform its state capitalism into a structure where the neoclassical competitive mechanism prevails.

What I have said above is evidence that the economic regime established after Meiji Revolution, i.e. capitalism from above, survived with some modifications four decades after the 1945 surrender to the Allied Forces but it began to collapse in the beginning of the 1990s. Throughout these years,

except for several years during which the liberalism was enhanced in the Meiji period, it remained an economy having a powerful government sector as its principal column. This is mainly because democratic power was still very weak in Japan at that time. But it at last begins to show signs of giving way to the system of competitive capitalism, not because the democratic power that is necessary for this grows up from below within the regime, but it becomes impossible for state capitalism to survive as it has already been rotten in every corner of society.

Moreover, as has been pointed out, those educated after the War, though they believe in individualism and liberalism, were not educated well enough. They lack courage, accept nepotism and easily surrender to the other party's threat. They neither bravely nor coolly accept the outcome of competition. These characteristics of the new generations after the war, which contributed to causing their state capitalism to collapse, will not provide a base for competitive capitalism. The ethical strength of the people that was the essential element of the rise of Western capitalism (from below) cannot be seen among the present-day Japanese.

In my previous book (1982: 194–5), I pointed out that there are three kinds of religion: (1) the rational one which justifies the ruling political forces; (2) the rational religion whose objective is to emancipate the ruled; and (3) the mystical religion. In Japan Confucianism has served as the religion of category (1). Its religions of (2) are all weak, while the Shintoism of (3) serves mainly for the ruler but also for the ruled. The New Education after the War should be classified as being based on a philosophy of class (2). Its principle of competition, however, was reinterpreted in Japan, especially in the postwar period, as one which encourages the people to do their best in catching up and overtaking the advanced countries of the West materialistically. For the contemporary Japanese, secular material life is important, but nationalism has been kept at a distance for a long time after the Second World War.

It is well known that the Japanese have been full of the spirit of catching up and consequently highly greedy in attempting profit-taking sales. This attitude of the people seems to be responsible for the present crisis but, on the other hand, having missed opportunity after opportunity for correction it may be seen as very probable that they finally ask nationalists for help. Already such loud voices begin to be heard in journalism, as well as in corners of the political world. A number of academics are in sympathy with them, and others are too weak to argue. Anyway, a return of right-wing groups is an item on the agenda for the future.

It is then difficult to expect capitalism from below after the collapse of the present state-guiding regime. In the same way as Catholicism prevails mostly among the clergymen, laymen being left to be unaffected by the precepts, the principles of Confucianism were confined to influence mainly the minority samurai class in the Tokugawa period, the rest having been

allowed to enjoy material lives. We now observe various signs that Japan's present society has many common features in culture and the people's way of life with those in the latter half of the Tokugawa period. The economy was at a peak in the Genroku period, 1688–1704, and then it declined and never recovered until the outbreak of the Meiji Revolution, 1867–68. During such a long period, the Japanese ethos, which had been recognized because of their industry and faithfulness, died out and the people indulged in momentary pleasure.

At the time of the Meiji Revolution, the Japanese were lucky, as they had a clear list of things they had to accomplish. They had first to establish a nation state. By gathering information from senior nations and following the formulae obtained, it was easy to complete the work of building New Japan. In the case of the present crisis, however, no similar navigational chart is available. Everything needed for the construction of a progressive nation has already been accomplished. Moreover, Japan lacks capable motivated persons who possess such qualities as bravery, fairness and honesty. They do not all need necessarily to be outstanding, but most of them must fulfil the requirements mentioned above. In what way can we find a large number of such people? Of course this is a matter of education. But we already know that postwar New Education failed in producing the type of persons we now need. It is much more difficult to produce a mass of persons who can shoulder the burden required for the formation of capitalism from below than to get a small number of great men who work for making a nation-state. In relation to the quality of the mass Japan will produce, its position in the future will be decided. If it is low, Japan has to accept a big fall in the ranking of nations.

Let us now point out how difficult it is to transform an economy of state capitalism or capitalism from above to the competitive one from below. They are different in many aspects; as is seen below there are a number of fundamental points on which they differ. First, the ways of raising funds are different between the two economies. In the case of the state capitalism the stock market is not usually well developed. The firms normally borrow money from banks, so that the most important quality for entrepreneurs is trustworthiness. The personal relationships between bankers and entrepreneurs are the greatest asset of the latter. To establish a good relationship they meet each other not only in their offices but also in high-class restaurants, theatres, golf clubs, and so on, often with geisha-girls. Of course, excessive entertaining is regarded as bribery.

Secondly, those firms which retain and accumulate profits within themselves are considered, all other things being equal, as healthy companies by bankers. If the rates of dividends are low, then the prices of their shares are also low. But this is not a matter of concern for the owners of the firms. It is most important that they are in a good relationship with the banks, especially the main banks.

Circumstances are totally different in competitive capitalism, where firms raise funds by issuing stocks. Since newly issued stocks are sold at their current prices, the firms receive more money if the prices are higher. Therefore the owners of the firms want to keep them as high as possible; thus the maximum rate of dividends becomes the goal of the dividend policy of the firms in such an economy, so that the amount of profits accumulated within the firm is minimized.

Thus the guiding principles of the managers of the firms in the two economies are in sharp contrast to each other. Therefore, at the point of transition from one economy to the other, the managers have to change their own approach. However, the Japanese businessmen have not responded quickly enough; they continued to behave as if they were still in the economy of state capitalism. As a result of this, their firms performed very poorly in the competitive world. Many of them have, moreover, been accused of being criminals because of their inept conduct.

IX

Lastly, there are big differences in disposition between those Japanese who took leading positions in the period 1945–1980 and those after 1985. These differences have more or less been taken for granted in our previous discussion. Not only for them but also for other matters these differences in disposition of the Japanese have not explicitly but often insufficiently been taken into account.

The new Japanese are products of the defeat suffered in the War, as I have stated repeatedly. I have emphasized that Japan has risen and fallen accordingly as the old Japanese have been replaced by the new. But the replacement has taken time; in the mean time the proportion of the old and new has been fluctuating from a reasonably good mixture to an unworkable one. When Japan was composed of an efficient mixture of the old and new, it was once said that the twenty-first century would be the age of Japan. But in the future when the old Japanese have totally vanished there will be no going back. Needless to say, there are variations among the new Japanese. Although I do not think they greatly differentiate from each other among themselves, we must accept that the right-wingers or ultra-nationalists may see a revival. In addition to this, it must also be pointed out that anarchism, nihilism and decadence may be evident in the coming years.

A society such as postwar Japan, which is divided into two distinct generation groups having entirely different experiences, is a complex one some people see themselves as having been aggressors during war-time, whereas others see themselves as victims after the war. The former group consists mainly of those who are now over 70 years old, while the latter of those of less than 60 years old.

Each of the two groups is further subdivided into two subgroups. In the first group there are those on the right who believe that there existed justifiable reasons for the assaults they committed, while the left-wing subgroup is ashamed of the nation's conduct. The second group is also similarly divided into those learning towards the right or the left. Its right-wingers are unhappy with and humiliated by the surrender that Japan had to accept, while left-wingers consider the postwar treatment of their country by the occupation forces as fair and appreciate that Japan has recovered status as a member of the democratic countries. The generation of the transition period from war-time to the postwar have had no experience of battle but vividly remember the shameful surrender, so that the ratio of right-wingers to left-wingers may be surprisingly high for the transition generation.

I assume from comments in newspapers and magazines that the ratio of right-wingers in the transition generation is higher than that in the prewar generation and that this in turn is higher than the postwar percentage. I predict, therefore, that the years of the late 1990s and the early 2000s will be most dangerous from the viewpoint of a right-wing revolution, though I, nevertheless, believe that this period will most probably pass calmly. In the first quarter of the next century Japan will be very undynamic because of its peace-at-any-price approach. No voice will be heard from the Japanese about any international disputes. Generally speaking, they are simply hedonistic, mammonistic and self-indulgent. They will have no sense of duty, no religion, no love for their country, and no element of ascription. Japan will be a country where the people are uncommitted with respect to work ethics in the same way as the textbook of the neoclassical economics discusses none.

It is not surprising, however, to see this type of spiritually depressed society in the modern history of Japan. After the Genroku period, it is observed in almost all clans that the population of the capital towns of the feudal clans was declining. It is true that the clan economies suffered greatly after the end in 1704 of the Genroku period, but most of them survived for more than 150 years until the Meiji Revolution. During these years the intellectual class emerged in the capital town of every clan. The culture that flourished in the early years of the Tokugawa era and recorded its peak in Genroku started to spread from big towns to minor ones. In the end, it spread even to provinces and villages.

This is a kind of stationary equilibrium for Japan under the policy of seclusionism. If no 'black ships' had come to Japan and asked for opening ports in order to accommodate foreign trade at the end of the Tokugawa era, the equilibrium would have continued to be maintained. Then the royalists would not have appeared, and even if there had been some, they would not have gained popularity. In the present crisis too, if Japan could keep the country in seclusion, it would settle at an equilibrium, however low it may be. Japan can avoid any right-wing revolution and I consider

that the Japanese would be satisfied with this state, as those in the late Tokugawa period were, because of their political enervation.

Considering this history and the present circumstances, one may conclude that Japan urgently needs patriotic politicians and businessmen. However, it would be difficult and dangerous to obtain such persons in a short period by converting already established ones into that type. Even though we may get a number of such persons, they are not enough for building up the capitalism from below that we now want to establish. Then we only succeed in reviving capitalism from above at best. But even this is very difficult to achieve, because that type of capitalism has now been shown to be unworkable in Japan.

We may then ask what type of religion would be able to provide the ethos to promote the neoclassical competitive system. According to Max Weber (1930) Protestantism was a solution in the West. Another solution may be Confucianism in the East. They are rational religions but the former is more philosophical and sacred than the latter, which is entirely secular and hardly can be said to be concerned with god, soul and other supernatural beings. The Japanese who are by nature irreligious have become more irreligious after the War, because it was prohibited by the order of the Occupation Forces to give any religious education in schools. As a consequence, the spiritual foundations of those secular work ethics that motivate workers, capitalists, and entrepreneurs for neoclassical competition have been eroded. Therefore, the contemporary Japanese are not provided with a proper moral background for the 'neoclassicalism', i.e. the 'spirit of capitalism'. It is, therefore, almost certain that Japan will not recover from the present crisis.

Let us now turn our attention to Vilfredo Pareto's sociology. According to his theory of residues: there are six fundamental residues. (1) the instinct for new combinations; (2) persistence of social groups; (3) the need to show one's sentiments by outward actions; (4) sentiments related to sociability; (5) integrity of the individual and the appurtenances he or she relies on; and (6) the integrity of the species – sex. (See Pareto, 1936).

The first residue may alternatively be referred to as the propensity to make innovations, while the second is concerned with people's social considerations. From the point of view of these two residues the Weberian problem of the spirit of capitalism may be restated as an examination of religious background under which the people's instinct for innovations is stimulated. That is to say, using Pareto's terminology, this means that residue (1) resulting in innovation is stimulated when residue (2) is activated in a group of those individuals who have the Protestant sentiment. On the other hand, Schumpeter's problem of transition from capitalism to socialism discusses how the residue of innovation will lose strength and be replaced by the residue of group persistence. (See Schumpeter, 1943.) It is a problem of how a decline of residue (1) stimulates (2). We may thus see the Schumpeter problem being as a reversed Weberian.

However, the problem of Japan cannot be seen from this Paretian angle of circulation of the regimes of the economy. This is because the present Japan does not have enough of residues (1) and (2). The problem is what happens in the case of absence or near absence of both the residues. Turning our attention to the remaining residues (3)–(6), the Japanese will still have moderate amounts of sentiments (3) and (4) as individuals, but they are now very weak expressing them as a nation in the international world, so that the Japanese cannot rely on these residues in trying to escape from the present depressed phase of history. In this way we are led to the view that residues (5) and (6) are key elements in the examination of sentiments of the contemporary Japanese.

The integrity of the individual and the conservation of the nation or the society are dealt with in residues (5) and (6), respectively. Money and other properties are a means for accomplishing the former, so that the strong desire for riches of the present-day Japanese shows that their residue (5) is still strong. On the other hand, as a result of the development of birth control techniques, the task of preserving the nation is now completely separated from sexual pleasure. The contemporary Japanese are very weak as far as the former is concerned, as we have already seen, whereas their libido is extremely pronounced. It is true that in most advanced countries similar phenomena are observed, but it is said that sexual morals are very lax in Japan, as *Newsweek*, December, 1996 points out. In fact, their high-school girls easily prostitute for their own sexual enjoyment. This shows how strong residues (5) and (6) are among Japanese, and particularly their teenagers. With this initial allocation of residues it is very difficult to achieve the healthy work ethics that would promote a competitive economy.

No ethics which emphasize loyalty to the employer or the company are qualifiable, because workers in such economies should be free to move from one company to another. The loyalty that workers should respect and obey is more abstract. In order for them to have a sense of obligation or responsibility concerning something abstract or transcendental the educational atmosphere of contemporary Japan is entirely out of tune and sterile; they are educated to be too materialistic. There is no religious environment; no serious discussion on logical and philosophical matters is held in family or in school. Since they are educated to be materialist or utilitarian, they have no interest in talking about ethical values, idealistic matters or social obligations even as abstract exercises.

Computerization, mechanization and robotization have been taken up by various industries. As I have seen from their enforcement in banks and other financial companies above, workers' and managers' lives in their offices have been very much simplified. No judgement is needed, work is done by computers, or other kinds of machines, and the workers have to adapt the rhythm of their work to the movement of the machines. They are then not allowed their own choice of movement; they all carry out a

simplified task over and over again. And finally they are alienated from and do not talk to each other; they themselves become another kind of machine.

Then, when the workers return home, they sit in front of the TV set and select a channel by pushing buttons in a more or less random way. This is mainly because all channels put similar programmes on the air. (TV companies decide their programmes so as to get a maximum rating. Their family lives after dinner too become more or less similar, and are again alienated by the machine from other members of the family, because they scarcely talk to each other. Where each family is like this, the economy has no hope for having charismatic entrepreneurs. If we use Marxian terminologies, we may say that corresponding to the mode of production realized in the age of computerization and mechanization, we have such a family life as an element of the superstructure of the society. Based on this type of relationship, Japan has to establish an ethos that can play the role of encouraging a robust spirit of capitalism from below. It is extremely difficult for the Japanese – for those Japanese who have already lost the strong desire to do so – to reform their economy drastically so as to remove bribery, conspiracy, blackmail, etc., in order to establish an economy based on fair competition.

I have often thought that Japan is a country that can be characterized as having no ‘distinguished politicians’ – politicians who are able to map out innovative political schemes. They are those who are capable of devising and implementing new combinations for the sake of society, as those executives who devise new combination for the sake of personal profit have been distinguished as ‘entrepreneurs’ by Schumpeter. For this type of politicians we need people who can combine Pareto’s residue (1) and residue (2), but in the case of Japan residue (1) is tied to personal profit, and there are not people concern themselves with the profit of the people of the nation as a whole. Certainly there are in Japan people who think of their country and of the broader community, but these people are not those who have residue (1) in plenty.

In the case of Japan, there do not seem to be any people who conceive and advocate new strategies for the country as a whole (for example, like the idea of a new Asian Economic Community that I shall mention later). Before the Second World War Japanese politics meant fighting for the interests of the country as a whole, and after the War it has consisted of fighting for the interests of the country’s different classes – the class of the bosses of the village communities, or the working class. As the central arena of politics has more and more become similar to local ones in villages and towns, the people in Japan have lost interest in politics. By contrast in the countries of the West there have been many successful political innovations, for example, the American New Deal policies from 1933, the British postwar policies to build a welfare state, the initiation of the European Common

Market in 1957, Prime Minister Thatcher's policies of privatization, and then Prime Minister Blair's policies under New Labour. At the same time, there were almost as many such innovations that ended in failure. In Japan, even today, politicians are thinking only of minor changes, such as reorganizing factions within parties, which can hardly result in an innovation.

Economics must bear some responsibility for this. In his *Capitalism, Socialism and Democracy* (1943), Schumpeter emphasized the figure of the 'entrepreneur', but disregarded 'politicians' as innovators. This led to his having to reach a quasi-Marxian conclusion that capitalism would eventually give way to socialism. However, had Schumpeter been able to anticipate a 'politician' like Margaret Thatcher, it would be certain that he had to acknowledge the occurrence of a U turn in the tide of socialism – and then perhaps a further a U turn of the previous one. He would probably have had to think about whether or not such a succession of U turns amounted to convergence. Schumpeter's assumption of there being no real politicians, however, simplifies analysis. It justifies his conclusions; also it is true that in a society which actually has no innovative politicians, there will be no U turn once it has started to collapse.

X

We may further point out that an unfavourable international environment is among the most disheartening elements. Throughout the postwar years Japan entered into an alliance with USA. If there is still a need to maintain a security agreement with America, the Asian countries as a whole, rather than a single country such as Japan or China, should enter into a treaty with USA. Then the US would not need to feel very unhappy about the formation of a single Economic Community by Asian countries that will be explained later. The security agreement between Japan and USA was originally formed mainly for the purpose of defending themselves against USSR. But from it Japan was given great economic benefits at the time of the Korean and Vietnam wars. After the collapse of the USSR the alliance shifted the target to China. Most contemporary Japanese believe that if trouble erupts in the region of East Asia, Japan would wage war against China, on the side of USA. I am unable to subscribe to this view.

When Japan invaded China in 1937, the USA remained neutral, at least at the beginning, during which time both Japan and China tried to involve USA in the war. Japan was winning the war, so she could offer the USA better conditions than China could. Nevertheless, China manage to get the USA on her side, because she offered an argument that was more convincing than the one Japan could make. As there is now no serious conflict in the Far East since the collapse of the Soviet Union, the USA can make a rational decision concerning the two options: (1) an alliance with Japan targeting on China, and (2) an alliance with China that isolates Japan. If

leaders of the USA have the view that Japan will decline drastically in the world ranking of nations, whereas China would be a rising star in the first quarter of the coming century, it may be very likely that they will choose option (2), rather than (1), which they now actually take. Because American leaders will soon realize that the form of Chinese 'socialism' is no more than a kind of capitalism from above, they believe that they can collaborate with China in the same way as they did with Japan during the period 1950–90, when her economy was capitalism from above. It is senseless to form an alliance with a weakened Japan against a powerful China; USA would realize, at a much cheaper cost, her aim of Pax Americana in the region of East Asia.

If this speculation turns out to be correct, Japan's position in East Asia will fall to the present level of Taiwan and South Korea. US's Okinawa base will become the one for attacking Japan, in the time of emergency. Of course, Japanese politicians will want to avoid this, but I do not expect that they have such a capacity, as I have speculated above. If this happens many of the Japanese would be angry at this act of 'treachery' by Americans, but no one can stop the running of the new US–China locomotive. Then Japan will not be able to escape from the ruinous position and will stay there for a very long while.

In this sense it may be regarded as a long-run equilibrium position; the Japanese will settle there over a few centuries. This is the entire outcome from her most stupid opening of the war against USA, Britain, China, Holland and many others in 1941. When the war ceased, it was said among Japanese that their country would be reduced to a position no better than that of the Asian countries, which Japan invaded. It is true that America did not implement this policy directly and immediately. But it is also true that the sequence of political, social and economic events which occurred after the war eventually led Japan to the position which it would have been prepared to accept when she surrendered to the Allied Forces.

Of course, there will be many people who are dissatisfied with this low equilibrium position. There will be a number of occasional right-wing movements. But they will not be strong enough to enable Japan to escape from the trap. This is because the existing USA–China alliance works effectively, so that Japan can do nothing, however heavily it arms itself. This is also because the position Japan will settle at will not be so miserable as one may think. The industrial technology Japan now commands is of an extremely high level and varied. It is unbelievable that every one of Japan's industries will suffer, though on the other hand we have to consider that it will be difficult for a nation that is unsuccessful in making its economy competitive to maintain a number of prosperous essential industries. This long-run equilibrium may be compared with the one in Tokugawa era, which followed the defeats in the two Korean wars, 1592 and 1597. Life was quiet and materialistically not too bad, but the people's positive

contribution to the rest of the world was far below the one that they make now.

However, it is almost certain that the population of Japan will decrease drastically in the coming few decades. It is also true, nonetheless, that Japan has adequate housing and office buildings for the present population and for the present economic activity. Japan will then suffer from a huge excess supply of housing and office buildings throughout the sequence of long years of staying at a depressed level. A vast number of people will come into Japan from the poorer places of Asia, because the life in Japan is still very attractive and comfortable to them even though it will be considered to be unsatisfactory in comparison with the present Japanese one. Then, naturally, Japan will become a multi-racial country. This will easily happen because though many of Japanese believe that they are the people of a pure race, they have been very mixed in the past, mainly with the Koreans and especially at the beginning of their history. This is a process of *aufheben* of Japan into a more open, cosmopolitan one.

As a plan for avoiding the expected downfall of Japan I proposed the idea of forming an North-East Asian Economic Community consisting of China, Japan, North and South Korea, and Taiwan in 1995 (See Morishima, 1995). It is not surprising that it was entirely neglected by politicians and opinion leaders in Japan, because many Japanese still have uncomfortable feelings about Chinese and Koreans, although there are some pro-Chinese and pro-Koreans. These Japanese attitudes against the people of these nations are not very different from those in the first decade of the twentieth century, when Ch'ing and Li dynasties of China and Korea were finally collapsing. They looked down on these two nations, generally speaking.

I nevertheless believe an improvement of this situation to be possible. There are many small and medium-sized businesses in the western part of Japan, which are keen on having close relationships with China and Korea. The Tokyo government is too pro-American or pro-Western, and neglects or does not emphasize properly Japanese interest in Asia. This is a biased representation of the real interest of their large and small enterprises spreading all over the country. If the Tokyo government is brave enough to establish a co-government based in Osaka or Fukuoka, dealing with Asian matters, then Japan can, even at this late moment, make a great change of direction.

This is an enormous organizational innovation, giving many new opportunities especially to small and medium-sized enterprises. Big business too will find new frontiers. Moreover, it is most important to see that if the future develops in this way, there would be no need of the alliance with USA for either China or Japan, so that the latter would be able to avoid the worst scenario described above. Then all the three nations, especially USA, could reduce defence costs enormously. Japan, in particular, Okinawa, would be freed from providing air and naval bases for USA. (In the case of

there being the need to keep a security agreement with America, the Community as a whole, rather than a single country such as Japan or China, would enter into a treaty with USA. Then Japan would not feel so unhappy about the formation of a single Community by Asian countries. It must be noted that, after serious financial crises in various parts of the region, Asia is no longer a treasure house for USA, but may turn out to be her burden.) Unexploited resources in China will be activated, while Japan can keep the present level of technology. Other member countries of the community will obtain more or less similar benefits.

In spite of this trump card, the true cause of collapse of Japan still remains. The people, like the Romans at the age of their decline, are entirely selfish, epicurean and undisciplined, and lack true leadership. It has already been said that as long as they remain so, Japan will follow the Romans. Their ability to operate the neoclassical competitive economy is now extremely poor. A significant reform of education is necessary, such that children will be taught the essence and true meaning of individualism and liberalism.

It takes, however, a very long time, more or less in the order of forty or fifty years, to obtain qualified people by this way. Before this is achieved, Japan will experience a very long slump as it had after Genroku. Japan has to bear it. But throughout that period Japan will widely be recognized as a member of a certain class of nations which is regarded as much lower than the one to which it now belongs; we may, however, expect that Japan will at last succeed in establishing democracy. In this way, Japan completes the time-taking consuming work necessary for transforming its state capitalism to a competitive one. Finally, it must be added that the member countries of the North-East Asian Community are physically and culturally similar; so that the Japanese involved in the tasks related to the Community will work more freely in their historically familiar atmosphere. They will adapt themselves appropriately to the circumstances. Therefore, as I have said already, the Japanese will acquire necessary work ethics by doing business together with the colleagues of the Community. If the Japanese could settle for such a state of affairs, they would not be so unhappy to be an internationally insignificant country with a reasonably high standard of living. This is my image of Japan in the middle of the twenty-first century.

XI

There are three things that I want to add in conclusion. The first is that once the collapse begins there will be some change in the people's frame of mind. At the time of the collapse if the Japanese economy polarizes, there will occur in a chaotic manner both organized economic disturbances and disorganized violence, and this chaos will plunge the whole country even further into a state of collapse. This is something that we have known ever since Marx. At the same time there will be a shift towards the right on the

part of 'sincere' people in order to strengthen the people's confidence in the nation. I think that in the Japanese case, under the current situation it is this latter circumstance, rather than the former, that we should be concerned about. Moreover a movement of this kind will have many international repercussions.

Another thing that I would like to add is that I have completely disregarded external influences in my discussion of collapse. Such exogenous factors would include natural disasters, and also man-made disasters, such as war. If, for example, a war were now to break out in Asia, and America needed the power of Japan to sustain the *pax Americana*, then Japan would probably be mobilized into activity. The Japanese economy is one that since 1945 has prospered through war, and this was true also for the prewar years. During a period of collapse, the country would probably cooperate in a war regardless of appearances. It is almost certainly true that without the Korean War or the Vietnam War Japan would not have been able to achieve such outstanding results in such a short period. Since the predicted collapse of Japan stems from her having lost her way, because of lack of a political philosophy, then if there should come a time when Japan can stand behind America and follow America's instructions, then that time will indisputably become 'the era of Japan'. It would be entirely possible for Japan to recover its old vitality. If this should happen, then regardless of everything that I have said in this chapter, the collapse would be no more than a nightmare. However, because a theory of the future is a theory of what is actually the case, discussing whether or not the present system contains within it the logic to produce that kind of a future, then escaping from reality through such exogenous factors cannot be more than an appendix to any theory of the future.

War is, of course, not the only exogenous factor. There is also diplomacy, a form of war that does not use weapons. We have to have some sympathy with Japanese politicians compelled to accept the *pax Americana*, but they, given their current diplomatic incompetence, could well find themselves regarded even by America as the enemy or at least an encumbrance.

I would finally add that a shortcoming in contemporary growth theories – whether neoclassical or anti-neoclassical – is that they discuss only the extent to which an economy will grow, and include no consideration of the extent to which any reserves for growth should be kept. Japan has pursued economic growth right up to the point at which growth reserves have ceased to exist. The result of this is that even at this final stage enterprises were preparing for growth in the future by buying up sites. This was what led to the land boom, and swelled the property bubble. As the bubble burst, this kind of investment in land left a legacy of bad assets. This affected the enterprises which had made the investments, the banks that had financed those investments, and in particular the banks that had advanced funds for enterprises by having used land as security. The wind of

growth thus ceased to blow. The sailing vessel of the economy found itself in a dead calm, and could no longer move. Japan's politicians, moreover, lacked the ability actively to find the necessary impetus. Even after Japan was no longer in the situation of post-defeat occupation, all its politicians had done was obediently to ensure that the wind blowing from America was relayed to enterprises. They now find that even when Japan is becalmed they can do nothing but stand idly by.

This attitude on the part of Japan's politicians and bureaucrats, that has led to them faithfully following someone's instructions in this way, was something learnt during the period of military dictatorship before and during the War. They continued to show the same attitude towards the American government after the war, and during the Korean and Vietnamese conflicts. Japan was a defeated country loyal to the point of servility, and my *WHJS* (1982) argued that this was one of the greatest reasons for Japan's success. In a situation where there is no wind, no impetus, however, Japan has found itself without a partner to whom she can demonstrate her loyalty. As long as Japan's leaders remain so weak and lacking in confidence, then Japan is unlikely to have the strength to escape from the trap in which it has found itself, and its sufferings are likely to continue indefinitely.

An internationally insignificant country with a reasonably high standard of living but with no driving force. This is my image of Japan in the midst of the twenty-first century.

Notes

2 Ideology and Economic Activity

1. Sir John Hicks kindly commented on an earlier version of this chapter. He compared education in Europe with education in China and Japan. I found it most valuable and reproduce the relevant part of his letter to me with his permission:

‘Concerning the division between literates and illiterates in Confucian countries, I asked myself: was there anything in Europe that corresponded? At first we would say that European scripts, going back to the Greeks and Romans, were immensely easier to read and write than the Chinese. So they should not have been responsible for a similar class-division. But of course in Europe there were language differences, which could have had the same effect. Were what corresponded to the Chinese mandarins the *clerks* in Europe who could write Latin? There could have been something of that in early Mediaeval Europe.

But the rise of the nation states in the 14–15th centuries was accompanied by the displacement of Latin as “mandarin” language by the national languages, English and French in particular. And at much the same time came the invention of printing, which made books, now easy to read, also quite cheap. So a large part of the population, at least in towns, became in your sense literate. It is surely no accident that that was accompanied by the Protestant Reformation. And by what Weber calls the Rise of Capitalism. For the large literate population, which could now pick up ideas from each other, and did not have to have them handed down from above, could stimulate each other, in a way that had not been possible before.

Even if one goes back to the earlier period, when I accept that in Europe there was indeed a line between literate and illiterate, there is the difference that in Europe education was not, as in China, in the hands of the State. That, from very early days had a rival, the Church. That the Christian Church, in Western Europe (not in Byzantium or in Russia) was an independent source of authority was very important. Early mediaeval Kings had to rely on churchmen as administrators – bishops and cardinals were their ministers – the educational system of the church was largely independent of the King. Then the Kings tried to develop schools which were less clerical, universities, law schools, and so on, in competition; and competition was fruitful, as it often is. Surely it is because Europe, unlike China, did not have a unified educational system, but at least two systems, that Europe in critical centuries found out so much more.’

2. Regarding this point, see M. Morishima (1982: 1–9).
3. See for example Hirschmeier and Yui (1975) and Morishima (1982).
4. On similarities and dissimilarities between capitalist and socialist economies, see Morishima (1976: 1–15).
5. Hall (1985: 102) and Weber (1927: 337, English edition).
6. Any theoretical description of the world based on ideal types will frequently deviate from the actual world; it is no more than a first approximation to reality. Therefore,

whenever we find a serious gap between theory and reality we must be modest enough to alter the model, so as to obtain a better theory. Although economic theorists are not eager to modify their own models, the revision of a theory in the light of observation is, of course, the most essential part of scientific activity.

3 Transformation from Feudalism to Capitalism in Japan

1. Concerning this long-run effect of the decisive victory over the war with Spain that ultimately led to the hegemony of the bourgeoisie in England see, for example, Morton (1945).
2. For a concise history of Japan refer to Hunter (1989).
3. As I wrote in Morishima (1982), I oppose the view that Japan, like England, shifted to a period of absolutism (i.e. the Meiji period, according to this view) directly from feudalism (i.e. the Tokugawa period). I would rather consider that feudalism and absolutism coexisted under the Tokugawa period. In fact, the bakufu was mercantilistic in spite of the fact that its foreign-trade activity was very sluggish due to the isolation policy.
4. Many powerful merchants were appointed as financial advisors of various clans.
5. See Morishima (1982: 542–87). There was no way in which the Meiji Revolution could be thoroughgoing. Apart from the fact that the demand for individualism, as well as for democracy, was still very feeble in Japan, it is, in view of the international circumstances then facing Japan, that it was extremely dangerous and, therefore, almost impossible for the Japanese to implement a revolution achieving total freedom. They had to be satisfied with a series of reforms aimed at strengthening national unity and catching up with the Western countries in technology. By comparison England found herself in a much more favourable international position at the time of the English Revolution.
6. Each clan had its own enterprises. In addition to the bakufu, such clan names as Satsuma, Hizen, Tosa, Choshu, Fukui, Nanbu, Akita and Uwajima may be mentioned as the most successful clans in commercial and industrial businesses.
7. Sakai spinning factory was one of the most advanced factories Japan had at the very beginning of the Meiji period. It was established at Sakai by the Satsuma clan using machines and equipment which had been imported from England and initially installed at the clan's Kagoshima spinning factory.
8. For these, See Morishima (1982: chap. 2).
9. For selected ten years between 1721 and 1846 the bakufu compiled and kept statistics of the total population. These aggregate data have been examined by various writers. See, for example, Sekiyama (1958) and B. S. Hanley and K. Yamamura (1977: 38–68). All these writers pointed out that there were reasons for believing that these statistics officially collected by the bakufu generally underestimate the true figure. In view of the figure we have for 1872, 33 million, which is more reliable, those for 1721 and 1846, 26 and 27 millions respectively, may be too small. However, the 1872 figure includes some classes of people excluded from the 1721 and 1846 figures. After taking this change in the concept of the 'population' into account, the official data would still underestimate the actual population, perhaps by 10 per cent.
10. Mitchell and Deane (1962: 24–6).
11. The Tokugawa bakufu was extremely suspicious of the feudal lords and, therefore, devised a very expensive paranoid ruling system.
12. During latter part of the regime, however, reallocation declined drastically.

13. These figures have all been calculated from Kodama and Kitajima (1977: 425–31).
14. Also obtained from Kodama and Kitajima (1977).
15. Nishigaki and Matsushima (1974: 121).
16. Various local histories confirm these facts.
17. See Taniguchi (1970: 122–5).
18. See Tanaka (1973: 101–16).
19. Marx (1965: 632).
20. This has been pointed out by Hicks (1969: 39).
21. For example, the number of clans to which the Konoike family lent money reached 111. See Miyamoto's *Konoike Zenzaemon* in Sakudo (1978).
22. Honjo (1935: 120–33).
23. For a more detailed analysis of the sale of state factories, see Kobayashi, '*Kindai Sangyo no Keisei to Kangyo Haraisage*', in Kajinishi (1965). Although most state factories were sold because they were unprofitable, some others such as those of the silk industries which had been built as model factories were sold since they had fulfilled their purpose.
24. See Mannari (1965: 61), and Ishikawa (1974: 86).
25. Hattori (1981: 148–66).
26. *Jinji Koshin Roku* (1980).

4 The Japanese Financial System

1. Berle and Means (1932).
2. Okumura (1983: 106ff).
3. Okumura (1984: 100ff) and Dore (1986: 70).
4. I greatly owe this analysis and the following to Okumura (1992).
5. See Morishima (1982) and Chapter 3 above.
6. Dore (1965).
7. Hilferding (1910).
8. Bank of Japan (1984: 377).
9. Toyo Keizai Shimposha (1992).
10. This has been clearly explained with interesting examples by Okumura (1978).
11. Harrod (1952).

5 Japanese Enterprise as Private Sector Bureaucracy

1. What follows is a revised version of an open lecture for students delivered at Ritsumeikan University (Kyoto) in November, 1993, which shows my own perception of the Japanese enterprise. It is included herewith as I consider that it would be useful for explaining the behaviouristic features of Japanese firms to general readers.

6 Polarization under Capitalism from Above

1. K. Koike, (1981: 81–4). We argue later that Koike's measure of wage differentials is inadequate. Similarly, for the sake of fairness it must be said that all the figures presented in Table 6.1 are subject to similar errors to those for which I criticize Koike.
2. K. Odaka (1984).
3. K. Koike, (1981: 79).
4. For example, Kendall (1955: 175–246).

5. Tachibanaki (1975: 562–86). Tachibanaki's table of the estimated parameters in Appendix 2 of his paper contains several misprints, which have all been corrected in the following calculation of wage differentials. In his above-mentioned book, however, K. Odaka estimates wage differentials on the basis of Tachibanaki's uncorrected table.
6. Hazama (1997).
7. See Koike (1981: 250–8).
8. Koike (1981:5).
9. Koike (1981: 77–9).
10. The error of the approximation amount to $-B_S C_S$ so that where B_S and C_S are small in absolute value, the approximation is satisfactory.
11. There are some inevitable discrepancies between the results in terms of B/A and C/A and those in terms of B'/A and C'/A . Table 6.9 presents the former only, from which I have derived the above conclusion. It should be noted, however, that substantially the same conclusion would follow from a table of results in terms of B'/A and C'/A .
12. See Koike (1981: 250–8).

7 Agony towards Capitalism from Below

1. It is not fair to mention only the Allied Forces' indiscriminate air-raids. The Japanese of today should remember that the attacks carried out by Japan against China and other South Asian countries were also in many cases indiscriminate; Japanese soldiers and army doctors practised brutalities and atrocities upon innocent citizens and prisoners of war, especially upon those of Chinese origin, on a scale and to a degree comparable with the Nazi atrocities committed against the Jewish people.
2. See, for example, Okumura (1988).
3. It is well known in Japan that the tradition of bureaucratic democracy can be traced back to Shotoku Taishi's Seventeen-Article Constitution (604) where he emphasized the elements of democracy and bureaucracy as the elements on which an everlasting regime could be founded.

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