

The Development of Capitalism and Enterprise in Japan

—What is Japanese Management?—

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1. Preface

Recently, “Japanese management” has aroused peoples’ interest in Japan and abroad, because it is considered to be the secret of the good performance of Japanese economy resulting in high productivity and strong international competitive power of Japanese companies. Certainly, Japanese capitalism, which rapidly revived from the industrial collapse incurred by World War II, successfully bridged over the worldwide structure changes of capitalism by overcoming dallercrisis, twice-hit oil crises, and the consequent serious economic recession of these days.

Japanese major companies still maintain their high earning power and keen competitive power which is threatening the United States and European Community industries. This argument is, however, rather superficial in a sense that it doesn’t come at another aspect of Japanese economy, ‘1979 Employment Status Survey, shows that

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among the population of 883 million of fifteen years old and over, and 4.76 million workers wish to change their job, 2.94 million workers wishing to have additional job, and 2.57 million persons unemployed wishing to work—10,270,000 (11.6%) altogether and 4,320,000 of them (4.9%) looking for employment. Those statistics indicate that the official announcement of 1.20 million unemployed people (2%) is far from the realities. Furthermore “cheap management” and “rationalization” has intensified labor and working conditions. The Japan Federation of Employers Association has recently informed that the total working hours are 200 hours more than those of the U. S, 400 hours more than that of those West Germany. Vacations with pay, which are much fewer than in other advanced industrialized countries, are spent only 30 to 40 percent and “over time without pay” is getting more common. Wages of Japanese laborers, which are exceedingly low from the international standard, have shown a marked tendency to be kept in a lower level since 1975, and the real wages have been greatly reduced. Nevertheless, there seems no strong action to stand against this trend among the Japanese worker, especially of major companies. The number of the members of labor unions has been decreasing since 1975, so has been the number of labor disputes both in private and in public sectors. Absentism, which was often seen in the industrially advanced countries in the 70's, did not influence Japanese workers at all. Amazingly, Japanese companies are still proud of more than 95 per cent of attendance of their employees.

Why is the Japanese worker is so industrious in such miserable labor conditions? Forced long and hard labor, with cheap wages, without taking enough vacations, why do they go to work day after day? Why won't they go on strike but cooperate with companies, standing out for higher productivity? Here it seems very significant to review at the “Japanese management”. I will discuss industrial relations as well as overall enterprise states, with which

Japanese economy has been supported and expanded.

2. Industrial Society of Japanese Style

Japanese capitalism is highly developed and the socialization of production has so much advanced that the big businesses now can rule strongly the systems of both production and distribution and exercise great power for the maintenance of Japanese economic society. This sort of big businesses which have been entrenched here is, however, is not a Japanese peculiar phenomenon but a general tendency recent capitalism all over the world. What is unique for Japan is that the big businesses have greatly contributed to Japanese capitalism, which has society an utterly business enterprise-centered one and which in effect, restrains civil society. I will discuss this Japanese peculiar characteristics from three points; 1) The cooperation system of the government with enterprises, 2) Solid enterprise groups, 3) Formulation without contents of company systems.

- 1) Establishment of a cooperation system between the government and enterprise ("Japan, Inc.").

Japanese capitalism has traditionally promoted the Government-enterprise cooperation system, the so called "Japan, Inc.". A strong state policy for big business produced ZAIBATSU which built up prewar Japanese imperialism and the similar policy realized postwar rapid economic growth of Japan. The policy itself is the basic factor which has pushed up Japanese economy to an "economic power".

So I'm going to bring out how the Japanese Government with its own state mechanism has contributed toward the development and the high accumulation of the capitals of big businesses.

[1] The Japanese Government has wholly ensured large funds for investments in big plants and machinery through the Bank of Japan, some city banks, other Government-sponsored financial organs and treasury investments and loans of the Government. The great

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amount of private investments in plant and equipment caused the rapid economical growth of Japan and as a result, big businesses obtained the great producing power with the highest levels of technology and equipment in the world. The details shall be discussed later, when the features of financial management of Japanese enterprises are analyzed.

[2] The Japanese Government put a large Government funds in order to improvement of industrial foundations, such as location of industries, water for industries, energy, road and harbor facilities, all for the accumulation of capital of big businesses. The Government named such arrangements "public undertakings" and inserted them into the overall, and the regional development plans, and invested 70 per cent of the whole administrative investment in them. The public investments out of the general accounts were maintained at the high ratio of 30 per cent in Japan in the 1970's, while it was only 4.9 per cent in the U.S., 10.4 per cent in West Germany, 4.7 per cent in the U.K., and 3.9 per cent in France. That is to say, the Government kindly used its tax revenues for the investments, which should have been done by enterprises themselves, thereby creating favorable conditions for the high accumulation of capital. Thus the living standard for the citizens have been left far below, while big businesses have rapidly enlarged their strong competitive power and great capital reserves.

[3] The Japanese Government has specially protected the big businesses in the tax system, too.

① In Japan, the corporation tax rate has been kept rather low for the capital accumulation of enterprises. Especially in the 60's, when the Japanese economy was growing rapidly, the rate was only 30 per cent in Japan, while it was 50 to 60 per cent in other developed countries. Later on, as criticised in Japan and abroad, the Japanese Government changed the rate into 49.47 per cent in 1981, but it is still lower internationally: 52.06 per cent in the U.S., 52

per cent in the U.K., 50 per cent in France, and 56.52 per cent in West Germany.

② The Special Clauses of Tax Laws Acts take favorable action for big businesses. The system was built up in 1951 in order to promote the rationalized investment industries. Since then, more than 150 kinds of actions for enterprises were taken: e. g. special finances for renewal of antiquated plants and machinery, special actions for overhauling the system of enterprises, also for promoting the unity of companies to strengthen their competitive power, etc. The reduction taxes by the Special Clauses of Tax Laws Acts was officially announced as about 800 billion yen in 1975, and it is said to be five or six times more in reality.

③ The bigger an enterprise, the lower tax rates is subject to big businesses can change their profits into expenses legally such as reserves for price fluctuations, reserves for possible loan losses, reserves for retirement allowances, etc., so they can be taxed very lightly. In 1974, the corporation tax rate was 30.2% for big businesses capitalized at more than ¥ 10 million, while it was 46.3 per cent for small businesses capitalized at ¥ 50 million to ¥ 100 million.

(1) In Japan, adhesion between the Government and business world is clear in the personnel combinations. The appointments of farmer to responsible positions in private companies ("amakudari"), and the governmental policy council led by magnates of business circles are representative examples.

① In Japan, every year 400 to 500 of the bureaucrats are moved into private companies. Foreexample, some officials of the Ministry of Construction, of the Ministry of Agriculture & Forestry or of the Ministry of International Trade & Industry assume posts in private construction companies, some of the Ministry of Transportation go into private aviation companies, some of the Defence Agency go in weapon arms makers, from the Bank of Japan and the

Ministry of Finance some officials will go in private finance companies. Most outstanding has been an "amakudari business" of Nishoiwai, a general trading company, which was scandalized because they had succeeded in obtaining a big military plane business through the good offices of a former official of the Defence Agency now on their staff, and the scandal to light the adhesions of enterprises to the Government.

② Special councils and the boards of inquiry of the Government influence greatly over policy planning decisions, and administrative affairs of the Government. The major eleven of special councils are consist of 373 councillors of which 56 per cent is leading magnates in business circles and 20 per cent is the Government officials. Especially those big business executives of the Federation of Economic Organizations are taking initiative in the Economic Policy Council, which is an advisory organ for the Prime Minister, and in the Industry Construction Council, which has much to do with economic planning and operation, also in the Finance Council, and in the Foreign Economic Cooperation Council.

Some outstanding examples of the Government-enterprises cooperation system are found in the Government long-range economic plans by the Ministry of International Trade & Industry and the Economic Planning Agency also in the general economic development plan, which is connected with the long-ranged management plans and the management strategy of the big businesses.

③ Many Prime Ministers, since 1945, made their own social groups with the magnates of business circles: They are SATO Cabinet—CHOEIKAI, IKEDA Cabinet—KOCHIKAI, OHIRA Cabinet—SHUNKOKAI, SUZUKI Cabinet—SEIREIKAI.

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Even though the whole system of the corporate state has not been exposed yet here, one may see how the great "Japan Inc." is constructed in the Japanese capitalism. The "Japanese management" is based on the big business state.

(2) Enterprise Groups and Management Control

When the ZAIBATSU offices were compelled their dissolution and such ZAIBATSU families, such as the Mitsui, the Iwasaki, and the Yasuda were purged, Japanese big businesses found new ways for the mobilization of more capitals, for the accumulation of more production and more capital, and for more monopolization. The ZAIBATSU, which were dissolved once, have been restored and grew to be the six greatest enterprise groups of the Mitsubishi, the Mitsui, the Sumitomo, the Fuji, the Daiich-Kangyo-bank, the Sanwa and they now keep inestimable power on the whole economy of Japan.

The prewar ZAIBATSU contracted and closed itself and affiliated lots of enterprises, but the postwar enterprise groups are based on mutual share holding and strengthen the unity by dispatching corporate officers, by financing to the member enterprises by doing business with the members, by engaging in new business through joint efforts, by supervising the common trademark, etc.,

Instead of the prewar ZAIBATSU head offices, the enterprise groups built up president meetings for strategic decision making under the group leadership. Each president meeting is named as follows. The Mitsubishi group of 28 companies—KINYOKAI, the MITSUI group of 23 companies—NIKIKAI, the SUMITOMO group of 21 companies—HAKUSUIKAI, the Fuji group of 29 companies—FUYOKAI, the DAIICHIKANGIN group of 45 companies—SANKINKAI, the SANWA group of 39 companies—SANSUIKAI.

While the prewar great four ZAIBATSU, Mitsui, Mitsubishi, Sumitomo, and Yasuda, were holding 544 companies directly or indirectly and their total capital was 24.5 per cent of the whole industries, today the financial capital of the six great enterprise groups holds 8,476 companies, 30.9 per cent of the whole industries in capital and those enterprise groups are forming the corporate state with the Government enterprises cooperation system.

The management on the top of the big business state has developed with Japanese capitalism and is now highly systematized.

The executives of the big businesses are said to have become the controllers of enterprises, taking the place of the prewar privately-owned capital owners. Although the ZAIBATSU were dissolved mutual confidence among the companies within the system has been great partly because they share their stocks one another. This mutual confidence is brought about by the management consisting of the managers who are concurrently capital owners of the company to assure the management control. By the way, the Japanese management of a big enterprise has, so to say, a special kind of hierarchy of a bureaucratic organization. During the time employees are promoted by seniority order and by academic career order, they are made to be the able managers who serve for their own enterprises, and those managers are to hold much more stocks than other staff and general stockholders. In short, the higher one moves up in the corporate ladder, the more stocks one is to own. Certainly, the stocks held by those executives show only a small percentage of the whole issued stocks of an enterprise, and those executives who are included in the ten largest stockholders of the enterprise concerned are rather exceptional. The stock ownership of executives is, however, worth paying attention to, because it plays a very important role in the company in the mutual-stock-holding system within the same enterprise group.

In shortly, the executives of Japanese big businesses were young employees once, then distinguished themselves to the management by gradually rising the corporate and their leadership abilities tested as managers, then got the positions of executives and owned treasure stocks of the enterprise. That's to say, they changed from labor into capitalists as they rose. And those executives or contemporary capitalists have gained, very strong and tight control over the management¹.

(3) Company System, Japanese Style

The executives' control over the management will be discussed here in reference to the company systems of big businesses. It is well known that the general meeting of shareholders, the board of directors, and the committee of auditors were built up historically and principally as the systems for running companies democratically. There is a tendency today, however, to deny corporate democracy in every capitalistic state. Especially in Japan the directorial control by the board of directors has been fixed in the company system over a long period of time, and the closed characteristics of enterprises has strengthened this tendency.

In the Japanese management system of a big business, the board of directors consists of the top management; JOMUKAI (senior executives) and the president of the company, and it has a SOMUBU (Allgemeinedienstestabteilung) as its general staff, and the top management exercises strong authority to plan, to do, to see all the personnel affairs, labor management relations, financing, etc.

On the contrary, generally speaking, the general meeting of stock holders which should be in a position of the top decision-making organ has never been given enough power and has completely failed to function. The general shareholders are not guaranteed their profit, either.

The SOMUBU often use "SOKAIYA" (meeting flies) to finish general meetings of shareholders in 20 to 30 minutes. According to the survey conducted by the Metropolitan Police Board, there are about 7,000 of SOKAIYA in Tokyo and Osaka and it is said that a big wig runs the whole things and that some politicians have something to do with them. In spite of the amendments of Commercial Law which have regulated the businesses, such SOKAIYA are still

1. Fujii, Mitsuo, KEIEISHI-NIHON (Business History of Japan) Tokyo: Nihon Hyoron, 1982, p. 332.

paid hundreds of millions of yen per year as "the membership fee" from "company entertainment budgets". Furthermore, a few of well known cases are noted: JAPAN AIR LINE Co., Ltd. (JAL) and Tokyo Gas Co., Ltd., in which SOKAIYA succeeded in taking hands even in some factional strives at the top management level.

The system for auditing those irregular management and accounting doesn't work well, in the Japanese enterprises because the executives themselves, who have arisen through the seniority order, will gained the positions of auditors just before they reach the mandatory retirement. So it is impossible to expect them to check the performance of the top management. Also certified public accountants as the external auditors are, unlike in the U.S, or other countries, usually employed by the president of the company. If an auditor, against the will of the top management, disclosed any problems of the accounting before the public, he would never be entrusted by the president. There can be no justice in auditing when the inspector is employed by the inspected. According to the basic principle that "self auditing is not auditing," the auditings of Japanese big business enterprises are not real auditings.

As long as the CPAs depend upon enterprises, how the enterprises are run cannot be fully disclosed so that the enterprises can take antisocial actions.

As it has been discussed, besides the directorial control by the boards of directors, the executives are producing a closed society in the Japanese big businesses with their capital ownership. This dual structure of the management control should be stressed. And such control by the executives is possible when they are vigorously supported by the conciliative leaders of corporate union.

The labor-management relations in enterprises are discussed in the next chapter.

3. Industrial Relations of Japanese Style

“The Three Sacred Treasures” of the Japanese management are said to be life-time employment, seniority wages, and corporate unions. Here, at first, each of them will be discussed briefly.

(1) Life-time Employment System

If the life-time employment system is defined, as general, the system in which all new college graduate employees continue working in the same company until their retirement, there has never existed such system in Japanese enterprises. Compared with the prewar working conditions, in which employees were easily laid off, postwar management met the resistance of the labor union and couldn't discharge workers so easily, therefore management tended to lengthen the terms of employment. It is worth mentioning though, that in fact, lots of young, middle and old workers in varied age brackets resigned their jobs and only the employees considered indispensable by the management were committed to the long-term employment.

The “cheap management” carried out in the late 1970's, didn't give up the long-term employment system, but reduced marginal employees. As a result, it decreased the total number of workers and increased the percentage of the number of the essential long-termed employees. That's to say, in the “cheap management”, big businesses took up the policy to run by fewer workers of superior ability and those selected are still provided with life-time employment. The Japanese management took advantage of the “reduction” to create the favorable condition not only for the maintaining the life-time employment system for the selected workers, but also for meritocratic reorganization.

For the first step, the middle and old aged workers who are surplus employees were discharged because of shortage of positions in the administration caused by the enlarged middle and old aged

and the policy for the selected fewer. Also it was necessary to rejuvenate the labor structure to realize mobiler and more flexible job arrangement, also to built unattended factories. With these purposes, keeping the life-time employment system formally, the management promoted voluntary retirement of workers and employees of related enterprise and introduced the optional age limit in the retirement system.

Secondly, with labor-saving devices, job reorganization was put into operation, then labor transfer and job switches were necessary. This means that the workers were forced to change their offices or their jobs in charge and that only adaptable workers were demanded and were ensured the life-time employment.

Thirdly, so called "the peripheral labor" was made use of. In the reorganization of jobs and sections, peripheral jobs began to be entrusted to subcontractors or left to part-time workers. And a labor pool which accommodates workers reassigned from big businesses was necessary. It was not until the peripheral labor was effectively used that the selected few could maintain their life-time employment. Some new systems were applied to temporary employees and outside employees (SHAGAIKO), for the same purpose.

The life-time employment system is a framework which ensures a job and then a stable way of living for workers and only when an employee is regarded as an indispensable employee in an enterprise, he can get in the frame. If many workers want to be with in this framework, they should do so on competitive basis. Today when newly college graduate workers come into the labor market, they find themselves in the severe competition, and since educational background has become the decisive factor for the competition, it is clear that those who have the most brilliant academic background can enter into the big businesses and get into the long-term employment system and those who are educationally low-ranked have to feel uneasy without stable employment, and actual-

ly those who are out of the framework are increasing in number.²

(2) The Seniority Wages System

This is the wage system in big businesses for the indispensable employees who benefit the life-time employment. The wages are raised according to the length of the workers' service and to the skills they have obtained in it, and today ones' wages cannot be determined only with the length of his service, but depend much on ones' skills. The skills to fulfil his function, to understand manufacturing processes, to cooperate with his fellow workers and with the company are totally assessed, which means that the abilities are grown during the long time of service and assessed for the long span of time.

In the Japanese management, at first, when a new college graduate is employed by an enterprise, their wages are set according to his academic career, later he is promoted and his annual pay raise set in accordance with mentioned above. In this seniority wage system, when the worker is regarded that he has contributed to the company greatly, he wins a speedy promotion and since the management has limited those employees to when the life-time employment is applied, the competition among workers not to be excluded from the framework in their middle ages is getting keen. And the young winners in the competition to enter big businesses are thrown into another keen competition in each hierarchy of school career. So the seniority wages is a very incentive system concerning raises in salary and high status and it has a management function to control the workers individually and distinctively. This seniority wage system has collectively maintained united labor as cheaply as possible for a long time on a stable basis and has effectively used the labor cultivating corporate consciousness among

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2. Motozima, Kunio, DAIKIGYO NO NAKADE YURERU KYOSOTEKI ZINSEI (Competive Life in large Enterprise in Japan) in KEIZAI (Economics) No.210, 1981, pp. 78~81.

workers and made it cooperative with the management.

The seniority wage system has another social function: it keeps the wage low in its standard and its structure. In other words, basically in this system, the worker at the beginning of his career earns a salary that is commensurate with a bachelor's cost of living and will raise obtain a raise proportionate to an increase his living expenses as he marries and has a family. And even though the standard of the wages of Japanese workers are for higher than prewar standard, the real wages are in fact decreasing because of chronic inflation, and stay on a very low level compared with those of other advanced countries. The strong competitive power of Japanese goods is obviously due to the lower cost of the small labor share as well as to the high quality of the goods and the high productivity of the enterprises.

(3) Corporate Unions

A corporate labor's union is, as a general rule, organized by all the permanent employees, both of the white-collar and the blue-collar workers of a company. Generally corporate unions have some weak points that they have a difficulty to take united actions in the same industry and to develop political movements altogether, and that a corporate union may exclude temporary employees and outside workers of the same business from the unity. Moreover, a corporate union is very likely to be united with the management and to strengthen the corporate consciousness of the labor, which is defective as a labor's union.

A workshop organization of a union should reflect the opinions of the members in their activities and support the negotiations with the management and elect union officers, but in fact, it often overlap the workshop conference of foremen, which is a small unit of the administrative organization. The conference is held generally as one of the safety means, but actually it is a meeting place which deal with the problems and complains in the workshop, and also

union officers are elected here, and it's not different from the workshop organization of the union. Since this conference is entrusted with more power to solve the problems, the complaints and demands in the workshop are brought not to the branch of the union, but to the organization of the administrative office. And even, the positions of union branch officers are usually occupied by responsible workers, such as foremen, who lead the conference. The elections of the union officers are held as a part of the administrative machinery and only faithful, responsible workers should be elected. Anyone who goes against it and runs for the election will be excluded from the "community" of the workshop and repressed in public. Here the union puts a hand to the collectivism of enterprises, a fact that is characteristic of Japanese labor's unions of big businesses.

As the result, the union, allied with the management, is supervised by the labor-management cooperation policy.

It is rather common in the promotion system of the Japanese big businesses that a leading employee is elected a union officer and that an able union officer becomes a manager and then rises to the top management. A 1978 survey by the Japan Federation of Employers Association show that 235 companies or 66.8 per cent of 352 surveyed companies had at least one executive who had been union officer. In number of persons, 1,012 of 6,456 executives, that's to say the one sixth had been once union officers.

From the findings, the unity between the management and the labor is so evident that prevalent now is an ideology stressing corporate communities, such as "There is no capitalist in Japan". or "There is no class distinctions in Japan."

The Japanese management is operating the corporate communities and holding each worker's whole personality. If only a worker gets out of the community he belongs to, he will not only be shunned by his fellow workers but also loses in competitions for his achieve-

ments and have a hard time making his living. So superficially in attitude, he must accept the corporate community as a fate. The labor's union has possibility to be even an implement of the corporate fascism in Japan.

4. Growth Financing Structure and its Reorganization

During the high-economic-growth period, the Japanese big businesses depended on banks for their numerous facility investments. Since the industrial revolution in Japan, a tradition in the Japanese economy is that industry have been supplied by indirect financing of the Japan Central Bank and other city banks and that indirect financing took root and extended in the high growth period. In those days, in proportion to the increas of borrowed funds, it got easier to build new plants and enhance the production simultaneously in order to reduce the cost of product and to be victorious in the corporate competitions, and then to realize the high accumulation of capital, because the inflation spiral made the repayment easy. The interests of the borrowed money could be counted in pecuniary loss, and the fund cost was lower than to issue stocks and defenutures. Thus, a particular financing structure, so called "borrowing business" was brought about. In 1974, the stock holders' equity ratio was 53.2 per cent in the U.S., 30.0 per cent in West Germany while it was 10.3 per cent in Japan. In this condition, if only an enterprise earned enough for the interests of the borrowed money, it could grow quickly and it could compete with others keeping its returns profit low and if the sales by oligopoly prices were possible, the accelerated depreciation for technical innovation and the revenue of hage profits of income retained in the business made it possible to set up the financial institutions for the business itself, aside of the borrowed money.

With credit creation by the Bank of Japan, it was normalized for city banks to advance enormous amount of funds for big busi-

nesses with over-loan of the banks. That's to say, the inflationary financial policy by the Government and the Bank of Japan caused big businesses to over-borrow funds that the latter depended more on bank for funds than on their own funds. And with those indirect financing systems, capital funds were efficiently revolved by concentrating on big businesses and consequently the high accumulation of their capitals were realized.

In 1976, capitalized more than ¥1 billion were 1,600 big companies, which were 0.1% of 1.2 million of all the corporate enterprises. They were furnished with 50% or ¥56,000 billion of the whole sum of money borrowed by corporate enterprises, ¥130,000 billion, and 91 per cent of the whole financing by the Government-sponsored Japan Development Bank and 94 per cent of the financing by the Export-Import Bank of Japan. And those banks financed the big businesses in very profitable conditions with lower interests, longer terms and on less collateral security, than the funds for small businesses. Furthermore, city banks that closely cooperated with big businesses proceeded to the systematization in their enterprise groups. Through the loans made available the banks also expanded their control over the big businesses by holding the latter's stocks and assigning their senior offices to the latter.

However during the period of change from high-growth economy to low-growth economy, triggered by the oil crisis in 1973, financial structure of Japanese companies has changed to self financing and into returns structure. In other words, Japanese big businesses have taken their way to the direction that they would make a profit even with the low rate of output by lowering the break even point even in slow economic growth.

In 1978, Japanese big businesses recovered to a state of decrease revenue but increase profit, though the level of their ordinary profit had been very low since 1974. Furthermore, in 1979, they reached the state of increase revenue and increase profit, and made

a supreme profit. In order to establish such corporate structure, Japanese big businesses cut their fixed cost drastically. They established self-financing system by repaying their debt, cutting back their expenditure for investment, and using internal finance for investment. In so doing, the ratio of interest paid was reduced from 5% in 1975 to 3% in 1978, and the ratio of depreciation was reduced greatly from 5% in 1971 to 3% in 1978, by virtue of curbing investment and changing depreciation formula from the fixed rate method to the straight line method, moreover, by dismissing workers to a certain from 13.4% in 1975 to 12% in 1979. The main reason why Japanese big businesses were able to change their returns structure during such a short period of time can be explained by "cheap management" which they had promoted since the late 1970's.

For example, during between 1974 and 1978, 185 major companies out of 250 reduced their work force: That is to say, 3 companies out of 4 reduced their manpower. This personnel cut turned out to be 215,000, over 1,100 per a company in average, and it also deserves 12.54% of 1,715,000, the total work force of 250 major companies (according to a report of Industrial Labor Research Institution).

Such "cheap management" didn't contribute merely to reduction of labor force. First, it greatly increased the labor efficiency. On one hand major companies drastically curtailed labor force, on the other hand, they increased production and improved labor efficiency by closing or separating unprofitable sectors and concentrating highly efficient and profitable sectors.

According to a monthly report of the Ministry of Labor, while the quantity of output was increased by 8.5% in 1979 compared with a year before, the number of employees in manufacturing companies went down by 2.9% below the level of the year before. This means that labor efficiency was increased by 12.1% at one

time, and in 1980 it showed a remarkable increase by 13.8%.

Second, by virtue of drastic cut of labor force, they started to get their production facilities automated and computerised by promoting investment for saving energy, rationalization, and saving labor. For example, conversion to oilless manufacturing method of iron and steel in the field of iron and steel industry or mass-adoption of industrial robot in assemble lines in car industries have been promoted rapidly, and, as a result, Japanese big businesses realize "costdown effect" by lowering fuel unit cost and cutting down work force per output unit, therefore, they enhanced their earning power.

Thus Japanese big businesses established 70% rate of output system (which means, they can make profit even though they use only 70% of production facilities), namely they have created a very stable industrial structure to produce large profit.

5. The Major Company System and its Control System over Small Company

It may not be sufficient to talk about the postwar, characteristics of small companies only from the view point of their number them or their contribution to large part of production in Japan in spite of their relatively unstable management background. That is to say, it is these small companies that major companies have their base for existence. In other words, such subcontracting-subsidiary production structure of major companies based on these subcontractors of small business has not only been the impetus for strength of Japanese companies in the world market, but also been the trigger of innovation. These small companies played a role of safety valve during the period of industrial fluctuation and supported very high economic growth of Japan since the end of the war.

That's why we have to pay attention to these companies.

We usually find it very difficult to learn the details of Japa-

nese enterprise in reality.

It is because most of them have already formed several groups of enterprises as a sort of trust in the shape of pyramid.

We can see these characteristics in such fields as shipbuilding, car industry, electrical machinery, textiles, etc.. Let's take a car industry as a typical example of this phenomenon.

Characteristics of a big car makers is the system of division of labour which makes car parts makers specialize in production process suitable for mass production, leaving the process unsuitable for mass production with subcontractors. In other words, the trust company which specializes in the final assembly line can "make the best use of mass production."³

What we have to notice at this point is, that in this system of division of labor for mass production, the smaller the size of car parts makers or subcontractors becomes, the more labor-intensive process they have to undertake.

Original it has been one of the characteristics of Japanese economy to have different level of wages according to the size of companies. For example, labor cost of small-sized subcontractors placed at the bottom of a pyramid is almost equal to 70% of labor cost in Korea. Therefore, a trust company on one hand produced high quality product at low cost by means of new technology and application of mass production technology, on the other hand, they made the most of small-sized subcontractors producing parts of cars through their labor-intensive process and using their low-wages.

In this sense, the trust company at the summit of a pyramid realised dual cost cut combining these two factors.

If we compare the ratio of internal production of Japanese trust

3 Kikaishinkokyokai Keizaikenkyusho (Economic Reserch Institute of Machine Industry), KIKAIKANREN SHITAUKE KIGYO NO KOKUSAI KYO-SORYOKU NI KANSURU KENKYU (Reserch on International Competitive Power of Machine Industry), 1980.

companies with that of the U.S.A., we can understand the fact more clearly. The ratio of internal production of Japanese trust company is only 25%, while that of the U.S.A. is 48%. These figures show that Japanese trust companies in car industry highly depend upon external transaction and subcontractors.

Moreover, this system is described as a vertical control of a parent company over its subcontractors, in other words one-sided exploitation of a parent company over subcontractors, whereas the system of the U.S.A. is known as the horizontal division of labor in which a car maker has to buy parts necessary for car production from other companies.

The number of subsidiaries of TOYOTA, the biggest car maker in Japan, is 36,400 in 1977.

On the other hand, medium-and small-sized enterprises recently started to introduce newest equipment like NC manufacturing machines or micro-computers.

According to June 1981, the report of the Ministry of Labor, 93.7% of companies holding upward 1,000 labor force have already introduced MC or NC manufacturing machines and also 57.1% of 300 to 999 worker-sized companies and 40.9% of 30 to 99 worker-sized companies have already introduced them.

However these figures show that they were compelled to introduce such innovated machines in order to pass severe quality control of a parent company.

This may be described as so-called "poverty by machines".

The introduction of these automated machines round the clock is spreading night and day shifts among small enterprises, making working hours longer and longer, and forcing workers to work more intensively. As mentioned before, it is obvious that the hierarchical production structure is also a structure of utilizing processing unit cost, based upon the difference of wages between large companies and small ones. Let's look up wage scale differences between

car makers and parts makers. If we take the wage of big companies holding more than 1,000 workers, as 100 in 1977, then the wage of small companies holding only 2 to 3 workers deserves 19.7. Furthermore, after the oil crisis of 1973, the difference of wages between large and small enterprises tend to get wider. Such low cost based on these low wages is the key to competitiveness of Japanese companies in a world market.

In small enterprises workers have to not only work at low wages but also work longer and overtime frequently.

Generally speaking, their working places are more dangerous than those of workers in major enterprises, 40.8% of workers in a company holding 30 to 99 labor force have to work more than 48 hours a week, whereas 2.1% of workers in a company holding more than 1,000 labor force have to work for the same hours. And 51.5% of workers in major companies have to work less than 40 hours a week. Further, more according to the 1980 report of the Ministry of Labor, the number of workers who was dead or got injured in accidents (which means workers who had to be away from their jobs more than 4 days for their injury) was 337,600 (3,009 of them were dead). Comparing the statistics with that of developed countries, it is notable that workers have more accidents in Japan than in any other developed country. what is worse, 80% of casualties is from medium and small-sized enterprises. Two reasons can be pointed out: That is, the request from major companies for reduction of unit cost and shortening of time for delivery. In addition to the inferior working conditions, labor in small enterprises are not well organized; Therefore a large number of workers are still unable to exercise their right.

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Workers in these medium and small-sized enterprises are an overwhelming majority of Japanese work force: In 1980, 803 million people worked in companies holding less than 300 workers, occupying 73.5% of total work force. What is more, the percentage of workers

in medium and small-sized companies have been increasing since 1975 when they occupied 70.7% of total work force.

The very inferior working conditions of small companies serves as a warning to workers in major companies that once they lose their job all they can do is to fall down to small enterprises to find their job.

On the other hand, it is true that workers in big businesses tend to have a sense of labor aristocrat, since they enjoying relatively better working conditions compared with those of small companies.⁴

Because of this difference of working condition between major companies and medium and small-sized ones, workers in major companies are afraid of dismissal, bear irrational treatment, tend to be obedient to companies decision, although their working conditions are not necessarily better than those of the U.S.A. and of Europe.

This difference also serves as the base of cooperation principle between labor and management the labor unions within each company.

This kind of difference is evident in "Japanese management" which is proud of its stable existence.

6. Conclusion—Prospect of "Japanese Management"

As it has been discussed, what is supporting "Japanese management" is Japanese-style enterprise society. The "Japanese style enterprise society" consists of the cooperation system between the Government and the private enterprises as a pillar, and above it, building up a combination of tight control by top management of major enterprises, supported by enormous power of enterprise groups.

It has been very firmly established through absolute control of top management devived from nominal enterprise organizations and

⁴ Iwao, Hirozumi, NIHONTEKI KEIEI NO IGI TO SONO KINO (Meanings and Functions of Japanese Management) in NIHONTEKI KEIEI RON (Japanese Management) TOKYO: Chuo University, 1982.

also through the support of leaders of labor union in a company who are cooperative to this control.

Moreover, under the big business state, Japanese labor management relations in enterprise feature collectivism and harmonious industrial relations, and are characterized by the life-time employment, seniority wages, and the coporate union.

Besides, Japanese big businesses have established the hierachical production structure with the system which effectively utilizes the subcontractors of small businesses, and which assures the Japanese big businesses of the international competitive power and the high accumulation of capital.

As stated above, the "Jnpanese management" is the characteristic of the structure of Japanese capitalism. This means that, we cannot expect that essentials of "Japanese managment" will collapse or change in the near future. It also depends on the inclination of Japanese working class.