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## Performance of Japanese economy

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political weekend schools thus enabling the government to convey its intentions to every village in the country. Posts ranging from Cabinet Ministers to heads of statutory government bodies would be subject to screening to ensure that "only those who understand and are prepared to follow the principles of humanism occupy positions of influence in our society".

It goes without saying that President Kaunda's new policy is moving in the direction of totalitarianism and it remains to be seen, if his newly built Zambia will be able to solve its social and economic problems. Being the border-country of "white" Southern Africa it has—of course—also its political problems to contend with, although these problems are strongly exaggerated. Although Zambia has become the main base for guerilla operations against Rhodesia, it is not in the interest of Rhodesia and South Africa to strike into Zambian territory. This would undoubtedly provoke an international outcry and the situation in Southern Africa would deteriorate considerably. In fact, South African spokesmen like the Minister of

Defence, Mr Botha, have been warning Zambia that its long-term interest lay in being on friendly terms with South Africa. Yet, as General R. C. Hiemstra, Commandant-General of the South African Defence Force, recently pointed out, there is definitely a great danger that the present terrorist attacks in Rhodesia could gradually become a full-scale conventional war. A development like this took place already in Vietnam and a repetition in Rhodesia would be absolutely possible.

Zambia is scheduled to have a general election before January 1969 — the first since the country became independent in 1964. These elections will be of decisive importance for the future. They will show, if President Kaunda's reforms really enjoy the high degree of popularity he expects them to enjoy, and if the "one-party state" will be a permanent institution. Careful observers of the situation expect an overwhelming victory for President Kaunda who is definitely still the most popular personality in Zambia, and at the same time the right man to deal with the country's various problems.

## Competition

# Performance of Japanese Economy

by Professor Tsutomu Nakamura, Nagoya

The development of the postwar Japanese economy was remarkable, especially since 1955 when the postwar reconstruction had been completed. We can point out three factors which played a particular and important role for this development—banking, dual economy and oligopolistic competition. It seems as if the influence of these factors is diminishing and the Japanese economy is facing a turning point of its economic development.

### **Banks and Big Business**

It is characteristic of the postwar Japanese economy that banks have played the key role for its reconstruction and development. First, they were relatively protected during the postwar period. Moreover, since Japan had lost almost all its accumulated capital during the war, money was the indispensable element for the economic recovery. The private banking system was able to finance industry in the form of long term funds as well as working capital. Furthermore, the Bank of Japan lent money only to commercial banks, the dominant financial institutions.

Most credits of commercial banks went to large firms, especially to the particular firms to which the banks were closely tied. The loans to companies whose stock capital was more than 10 mn yen ac-

counted for 70 per cent of all bank loans. As an indispensable consequence, intimate relationships between big banks and big firms developed under the leadership of the former. It was through this course that the old zaibatsu, the big family concerns, first recovered as they had their own banks which had not been dissolved by the Allied Powers. New industrial combines, too, appeared under the influence of other banks which had not attempted to build industrial combines before the war.

**Tabelle 1**  
**Differences of Wage Rates by Size of Enterprises**  
(in per cent, 1,000 employees and more = 100)

Number of employees	1955	1964
1—29	43.0	59.3
30—99	50.5	65.7
100—299	61.4	71.5
300—999	76.5	81.5
1,000 and over	100	100
Total	62.1	73.9
Real wage rates of 1,000 and over	\$ 769	\$ 1,425

Source: MITI, Statistics of manufacturing industries (kogyo Tokei Hyo).

It was also characteristic of the Japanese economy that it had two sectors, a modern and a traditional

one, which were closely interrelated, and that there was a big gap of wages between them. As is shown in Table 1, the wages of smaller firms, with less than 29 employees, were only 43 per cent of those of big firms with more than 1,000 employees, in 1955.

For big firms lifelong employment of their labour force and better salaries for longer services are customary while the labour market of big business is separated from small business. Oligopolistic market structures and a high productivity resulting from technically advanced equipment enable big firms to pay higher wages. The high level of equipment investment was made possible through the concentration of loans on big firms mentioned before.

### **Competition among Big Business**

Oligopolistic competition has been very strong. The ranking of combines and big firms had been put into disorder after World War II by the dissolution of the old zaibatsu concerns. New combines, the core of which was banks, joined the former leaders at the start. It was imperative to win market positions. This competitive rivalry was stimulated by the international development of new technologies and the appearance of new industries. Furthermore, there was less specialisation among the combines than before the war. Another factor was the policy of the Bank of Japan in lending money equally to all commercial banks. Finally, since the controlling power of the combines was weaker than under the old zaibatsu, affiliated firms within a particular combine were more likely to compete against each other and decentralisation proceeded.

Due to the post-war shortage of capital big business could borrow money preferentially for high standard equipment and at the same time make use of the cheap labour of small business through the subcontract system. These were the main supports for the development and competitiveness of big business. The role of strong oligopolistic competition was decisive for the economic performance. Big firms were forced to accelerate the introduction of new technology because of international competition, especially since 1955. It spurred the equipment investment activities and played an important role for the economic growth.

The Japanese economy developed rapidly as did productivity just through this system of the priority of big business and through keen competition among the individual combines. Value added per employee in manufacturing firms of over 10 employees increased to 230 per cent from 1955 to 1964. Gross National Product increased to 240 per cent during the same period. Technological innovation has developed very rapidly. Prices remained stable until 1960. Though consumer prices have been increasing afterwards, prices of products of oligopolies were relatively flexible, compared with America. These facts may prove the efficient economic performance of the Japanese industry.

But this type of development was detrimental from the standpoint of welfare performance, for, the relative share of wages was unfavourable, compared with other advanced countries. The share of wages to value added was 39.4 per cent in Japan in 1955, which was far lower than in other countries (France 56.6 per cent, USA 53.9 per cent, UK 55.8 per cent), the relative share of wages in big firms being lower than in small ones.

### **High Mortality of Small Firms**

As for small business, small subcontractors have been forced to improve their technology and productivity continuously, and the outcome of their efforts was mostly squeezed from them by the prime contractors. Even upper subcontractors were frequently unable to make adequate profit. Independent small firms have been, generally speaking, in an unfavourable situation. They are exposed to excessive competition and experienced severe difficulties in financing their investment, because they have to pay higher interest rates than big business. Small firms are asked to deposit about 30 per cent of loans to banks, and that deposit cannot be withdrawn. They also depend on other financial institutions whose interest rates are generally higher than those of commercial banks, although they already pay even for bank credits a higher interest than big enterprises. Average interest rates of small business might be from 9.13 to 10.95 per cent, in contrast to about less than 7.3 per cent in big business. Consequently net profit as a percentage of total assets of small firms is lower than that of big manufacturers. So the mortality of small business is very high.

The decisive factors in competition is the cost per unit of output, which can be reduced by high equipment investment, even if the profit ratio as a percentage of total assets goes down. Consequently the profit ratio in per cent of sales in big business is higher than in small business. A great number of smaller firms borrow their fixed assets from owners without interest. It apparently reduces the fixed assets and raises the profit ratio in per cent of total assets. Consequently, the actual profit ratio of small business must be far lower than the nominal figures.

### **Changing Competition Pattern**

This type of development is coming to a turning point now, just because of this very development. First, the role played by banks is declining in importance. As firms have come to accumulate money as well as assets during the rapid growth period, the controlling power of banks has gradually lessened. Some of the giant producers became independent of conglomerate combines and created still another type of integration. Secondly, the structure of the economy is changing owing to the labour shortage, and wage differences by firm size are declining. It is a serious problem how Japanese firms will adapt themselves to the changing environment. Thirdly, keen oligopolistic competition is also going to weaken with the

liberalisation of capital. This means that the Japanese economy is entering a new stage.

The liberalisation of foreign capital, which has been necessary since Japan's participation in OECD in 1964, might be a threat to Japanese industries. Big industrialists insist that they should promote mergers in order to be able to compete with foreign giant firms, and that anti-monopoly policies should be moderated for this purpose. According to them, with their present size they cannot compete with foreign firms, because of the inferiority of their research programme, development expenses and marketing power. The ministry of International Trade and Industry strongly supports this view.

American entrepreneurs, of course, oppose the merger policy of Japanese big firms as a countermeasure to the liberalisation of capital. They state that big firms are not always the pioneers of technological invention. Creative ideas often come from individuals or small enterprises, who do not always like to be under the control of big firms. This is the reason why there are many small firms which trade on their technology. Concerning marketing power, anti-monopoly policies in Japan should only be applied to foreign giant firms if their behaviour restrains free competition. There would be no need for Japanese big firms to promote mergers under the pretext of liberalisation of capital.

Such an opinion has its shortcomings, because a lot of money and marketing power are necessary to

lead invention to innovation, especially in growing strategic industries. Huge research and development expenditures are often decisive. Furthermore, as for monopolistic marketing power, the effect of anti-trust policy has been limited even in America. The concentration ratio of some American industries may be not very high and may be free of anti-trust policy, because of the big American market. But this degree of concentration still has monopolistic market power in the smaller Japanese market. The Japanese government would find it difficult to apply rigidly anti-monopoly policies, which have been weakened chiefly under the pretext of strengthening international competitiveness, to the monopolistic market behaviour of foreign big firms.

Actually, important horizontal mergers or cooperatives of big firms proceeded during the past two years, and are especially developing now. Before they had been infrequent in the major developing industries, except for the remergers of those companies which had been forced to dissolve by the Allied Powers immediately after the war.

Some economists and labour unions in Japan as well as the Fair Trade Commission oppose the merger movement, because it would be adverse to market performance and consumers' benefit. But the powers advocating anti-monopoly policy are weak in Japan. And perhaps the development of mergers and the cutting down of inefficient firms might be unavoidable for the survival of Japanese strategic firms, whether one likes it or not.

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