

THE HIGH GROWTH OF THE JAPANESE ECONOMY AND THE PROBLEMS OF SMALL ENTERPRISES

by TAIKICHI ITŌ

I. BASIC PROBLEMS CONFRONTING THE JAPANESE ECONOMY

—High Economic Growth and Its Dilemma—

THE Japanese economy is now facing a crucial trial with the imminent liberalization of trade, Japan's membership in the Organization for Economic Cooperation and Development (OECD), and the shift to an International Monetary Fund (IMF) Article 8 status in the offing.

Will the Japanese economy, which has been protected from foreign competition for the past 30 years under a closed-door economic policy and with its numerous structural defects, be able to withstand the onslaught of foreign competition when it shifts to an open-door economic policy?

How many of the defects have been eliminated? What changes have been brought about in the special features of the Japanese economy during the past several years when Japan's economic growth rate was the highest in the world?

The Government, financial circles and other quarters have mapped out countermeasures for reorganizing industries to cope with the adoption of an open-door economic policy, but what is the right direction of these countermeasures?

There remain as yet innumerable problems to be solved regarding the reorganization of Japanese industries.

Although the giant enterprises have grown even larger as the Japanese economy expanded, only a limited number of industries and enterprises have reached an international level. The majority of others are still in the small or medium-scale stage because of disorderly dispersion of investments made by separate groups of industries and enterprises.

The international competitive power of Japanese industries is in jeopardy because of the increasing burden occasioned by the increasing volume of interest payments, depreciation and sales expenditures as

well as purchases of excessive equipment, and the reduction of the operation rate in some industries which have boosted cost.

Japanese industries have hitherto tried to overtake advanced countries by the easy way of inducting foreign technology, but now they must develop their own original technology. This is a most difficult problem because the management setup for developing such a technology is still rather flimsy. This is one of the most basic problems which must be tackled and solved.

Meanwhile, the disparity between big and small enterprises in capitalization and productivity is growing larger as investments are concentrated in the bigger enterprises. (Certain growing young enterprises are, however, an exception.) As a result, the so-called "dual structure" of the Japanese economy is attaining greater proportions.

Furthermore, as a result of the shortage of young labourers due to the rapid growth of the economy and the progress witnessed in technological renovations, the wages of young workers—particularly in small enterprises—have continued to rise even during economic recessions. Therefore, the "dual structure," in the sense of the disparity in wages as classified by scale of enterprises, has been considerably narrowed as far as the young labour market is concerned. Consequently, in the small enterprises, which are sandwiched in between the two phases, it is quite evident that the rise in wages has exceeded the productivity increase, and there are cases where even the weak organizations' existence is jeopardized.

In sectors where conditions for this contradiction can be blamed on prices, prices have risen, and this has been one of the important factors causing the rise in consumer prices.

The problem of rising consumer prices cannot be explained simply by pointing out the reason mentioned above, but because the blind points in the "Doubling National Income Plan" have been those concerning commodity prices, currency, and funds. These omissions, along with the problem of the balance of international payments, are the most important issues which will influence the future course of Japan's economic growth.

The Government's industrial policies, concerning the above-mentioned contradictions which face the Japanese economy, incorporate the elevation of the industrial structure and the reorganization of industries as exemplified by the "Specific Industries Promotion Law" and the "Small Enterprises Standards Law." The Specific Industries Promotion Law was not enacted in the 43rd Regular Diet session (July, 1963),

but the direction it points to will be probably followed in the future. The Small Enterprises Standards Law was enacted during that Diet session along with 11 related laws. The common objectives of these two laws are: the reinforcement of international competitive power, increasing productivity, confining the enterprises to an appropriate scale, modernization and reorganization of industries and, in order to attain these objectives, the acceleration of mergers, concentration of production, specialization, and collectivization.

I shall attempt to explain the changes which the "dual structure"—one of the basic problems of the Japanese economy—has undergone during the period of high economic growth, and seek out the key points in the future as revealed by the problems of small enterprises. At the same time, I shall touch on the policies of the Government relative to the Small Enterprises Standards Law.

II. WILL THE "DUAL STRUCTURE" OF THE JAPANESE ECONOMY BE SOLVED?

—Debates Concerning the "Dual Structure"—

What will become of the "dual structure" of the Japanese economy? This question is so complicated and big that it would be impossible to give a satisfactory answer in such a short essay. In the first place, the concept of "dual structure" not only differs among individuals, but also assumes different meanings depending on how one understands the structure of the Japanese economy. When the term "dual structure" was first used in the *Economic White Paper of Japan* (fiscal 1957) there was some criticism that the Economic Planning Agency had not fully grasped the international structural relation between the two. The White Paper, in defining the "dual structure," mentioned that the modern sector was identified with the giant enterprises while the non-modern sector was represented by small enterprises and agriculture.

In other words, the criticism points out that, since small enterprises are utilized as a foundation for the growth of big enterprise and that the cheap labour of small enterprise is indirectly utilized by the big enterprise, there is a close internal relation between the modernization of big enterprise and the stagnancy of small enterprise.

Small enterprises after the war criticized big business for shifting its troubles to them. This development meant "pressure," "domination," "oligopoly," and "usurpation" exerted by large enterprises on their smaller counterparts through the former's various complicated forms.

In the many relations between big and small enterprises in Japan represented by the words "shifting of troubles," there are two kinds of relations—one which is common to modern capitalistic society, and one which is peculiar to Japan and not witnessed in advanced countries in the West. These two, however, are actually closely related.¹

Arguments concerning the problem of the "dual structure" have been originally put forth because of the considerable disparity existing between big and small enterprises in Japan as indicated by statistical data obtained from a comparison of the disparities between big and small enterprises in Japan and Western countries.²

However, when it comes to the problem of why this disparity occurred, opinions differ because of the different standpoints taken on the structural interpretation of the factors which created such disparity.

In order to fully understand the problem of small enterprises in advanced Western countries, it is necessary to clarify the changes that have occurred since the 19th century in regard to capitalism based on free competition. In other words, it is necessary to clarify the difficult but basic question of the structural peculiarities of modern capitalism.

What can be pointed out in this respect is that enterprises have formed a pyramid with the great oligopolistic enterprises at the summit and small and petty enterprises making up the vast base. Furthermore, giant enterprises have been created through the mobilization of an enormous amount of capital which small enterprises have found impossible to accumulate as productivity increased and technical science progressed. Also, the limit to the minimum scale of enterprises centred on the nuclei sectors of heavy and chemical industries has been raised and consequently, individual and family enterprises which have hitherto

¹ I toured European countries and the United States from 1957 through 1958 to study the problem of small enterprises and to compare it with the problem of Japanese small enterprises. My conclusions have been published as "Structural Peculiarities and Labor Problems of Small Business in Japan," in *Small Business in Japan* (compiled by Tokutarō Yamanaka, Tokyo, Japan Times Co., Ltd., 1960.) There are no fundamental changes in my way of thinking since then. However, because the structural changes in the Japanese economy during the high economic growth period from 1959 has provided me with interesting experimental data, there are many details which necessitate revision. The present article is aimed at revising some of the points in my previous essay.

² Prof. Kazushi Ōkawa, however, is of the opinion that the term "dual structure" should really be called "a sloping structure," for the following reasons.

Statistically speaking, the disparity between big and small enterprises in Japan does not mean the dislocation found in under-developed countries, but when compared with the disparity in advanced countries, it takes on a sudden and sharp slant, and the smaller the scale of the enterprises, the more conspicuous the slant becomes.

been able to expand are now being called "small enterprises." Therefore, these enterprises are finding it considerably difficult to enter the above-mentioned sectors. In other words, it is easy for an enterprise at the summit of the pyramid to enter the lower echelon group but difficult for the small enterprises to join the upper group. As a result, freedom of capital transfer, which is a principle of free competition, will be thwarted. These then, are structural changes that have taken place.

The internal structure of this pyramid shows that the nearer enterprises are to the top, the more market power they wield, while oligopoly is the rule in price formation. On the other hand, the closer the enterprises are to the base, the larger the number of such enterprises becomes and competition becomes much more severe, resulting in a so-called atomistic market structure. Price competition becomes extremely excessive.

When intermediate goods are manufactured by the enterprises at the top of the pyramid and the finishing is done by lower echelon enterprises, it is inevitable that prices of the original materials will be high and prices of finished products low. On the other hand, in the assembling industries (electric machinery, automobile and general machinery industries), if a few giant enterprises carry out the assembling and the parts are manufactured by numerous small enterprises, the parent enterprises are in a position of oligopsony. Therefore, the small enterprises which are subcontractors are placed in an unfavourable position.

Furthermore, capital concentration is incessantly carried out from the lower echelon enterprises to the summit enterprises in the pyramid through financial and fiscal mechanisms. Of course, it must be borne in mind that the above-mentioned pyramid is only an illustration used to simplify the explanation. Actually, the situation is far more complicated. For example, there is a trend among the industrial sectors of big and small enterprises, as well as an industrial sector which is a mixture of the two, to be gradually divided in their scale. In an age where a dynamic progress in technical renovation and changes in the industrial structure are being witnessed, this division cannot be considered with any fixed conception. From the point of view of enterprise management, the contradictory trend of specialization and diversification will occur simultaneously while competition and monopoly will also progress dynamically, each counteracting the other.

Meanwhile, the progress of technical renovation does not mean that the area of small enterprises will disappear and new industries

suited for operation on a smaller scale will no doubt make their appearance. However, as mentioned before, the big enterprises' "shifting of trouble to small enterprises" will proceed in parallel with the degree of capital power these enterprises have, so that it will become difficult to realize a fair social division of labour according to scale of enterprises. These then are the general reasons why the problem of small enterprises in modern advanced capitalist countries is now being increasingly considered. Therefore, even if Japan accomplished her desire to become an advanced country as mentioned in the *Economic White Paper for 1962-1963* entitled "Way to an Advanced Country," it does not mean that the problem of small enterprises will be solved.

The "dual structure" of the Japanese economy, when compared with that of other advanced countries in the world, points out the weaknesses of the Japanese economy (for example, the immense disparity between big and small enterprises, value added by manufacture per capita, wages, labour conditions, gross profits, ratio of capitalization, etc.). However there are many different opinions concerning the reasons why such defects have occurred. Depending on the interpretation of such reasons, the prospects of solving the problems as well as policies towards this aim will also differ. Although space is not sufficiently available here to explain the problems in detail,¹ we can at least con-

¹ The following are the principal references regarding the problems of "dual structure" and small business in Japan.

Keizō Fujita and Taikichi Itō, *Chūshōkōgyō no Honshitsu* (Substance of Small Business), Tokyo, Yūhikaku, 1954, 416 p. (in Japanese)

Taikichi Itō, the preceding English-language essays.

Taikichi Itō, *Chūshōkōgyō Ron* (Smaller Business), third edition, Tokyo, Nihon Hyōron Shinsha, 1963, 283 p. (in Japanese)

Taikichi Itō, *Chūshōkōgyō Sōron* (General Survey of Smaller Business), Tokyo, Tokyo-to Rōdōkyoku, 1962, 148 p. (in Japanese)

Mitsuharu Kajinishi, Yoshio Kobayashi, Hirozumi Iwao, Taikichi Itō, *Kōza Chūshōkōgyō* (Lecture on Smaller Business), four volumes, Tokyo, Yūhikaku, 1960, vol. 1 284 p., vol. 2 302 p., vol. 3 303 p., vol. 4 314 p. (in Japanese)

Hiroshi Kawaguchi, Miyoei Shinohara, Ichiji Nagasu, Ken'ichi Miyazawa, Mitsuharu Itō, *Nihon Keizai no Kiso Kōzō*—Nihon Keizai no Genjō to Kadai— (Basic Structure of the Japanese Economy—Present Situation and Problems of the Japanese Economy), Tokyo, Shunjūsha, 1962, 217 p. (in Japanese)

Ichiji Nagasu, *Nihon Keizai Nyūmon* (Guide to Japanese Economy), Tokyo, Kōbunsha, 1960, 255 p. (in Japanese)

Shūichiro Nakamura, *Nihon no Chūshōkōgyō Mondai* (Problems of Japanese Small Business), Tokyo, Gōdō Shuppansha, 1961, 332 p. (in Japanese)

Kazushi Ōkawa, *Nihon Keizai Bunseki*—Seichō to Kōzō— (Analysis of the Japanese Economy—its Growth and Structure), Tokyo, Shunjūsha, 1962, 354 p. (in Japanese)

sider an example. One of the reasons why Japan has achieved the world's highest economic growth rate is because the "dual structure" of the economy has been utilized for the growth of big enterprises. In other words, the big enterprises at the top of the afore-mentioned pyramid have "shifted" their troubles to the lower echelon enterprises on one hand, while the small enterprises have been utilized fully by their bigger counterparts.

There are two phases in the utilization of the "dual structure" of the economy by big enterprises. One is a plus phase, and the other is a minus phase. Up to the present, the plus phase has predominated during the period of high economic growth, but there are some who believe that the minus phase has already appeared in the form of rising commodity prices.

In regard to future prospects, there is an optimistic view that the "dual structure" of the economy will be eliminated as the Japanese economy continues on its path of high growth. On the other hand, there is the pessimistic view which contends that, even if the Japanese economy should expand at a fast rate, the economies of other advanced countries will also grow at a fast rate, and therefore the Japanese economy's "backwardness" will not be eliminated. Consequently, Japan's "dual structure" will not be eliminated for some time when viewed from the point of international competition.²

In the following pages, I shall attempt to explain the main phenomena in the "dual structure" and analyse objectively how they have changed today.

Miyohei Shinohara, Naomichi Funahashi, *Nihon-gata Chingin Kōzō no Kenkyū* (Studies in the Japanese-type Wage Structure), Tokyo, Rōdōhōgaku-Kenkyūjo, 1961, 425 p. (in Japanese)

Miyohei Shinohara (ed.) *Sangyō Kōzō* (Industrial Structure), Tokyo, Shunjūsha, 1959, 273 p. (in Japanese)

Miyohei Shinohara (ed.), *Nihon Keizai no Seichō to Junkan* (The Growth of the Japanese Economy and Its Cycles), Tokyo, Sōbunsha, 1961, 398 p. (in Japanese)

Tokutarō Nakayama (ed.), *Keizai Seichō to Chūshōkigyō* (Economic Growth and Small Business), Tokyo, Shunjūsha, 1963, 260 p. (in Japanese)

Chūshōkigyō Chōsa Kai (The Small Business Survey Council), *Chūshōkigyō Kenkyū* (Studies in Small Business), nine volumes, Tokyo, Tōyō Keizai Shimpō Sha, 1960-62, vol. 1 467 p., vol. 2 462 p., vol. 3 886 p., vol. 4 443 p., vol. 5 486 p., vol. 6 452 p., vol. 7 480 p., vol. 8 433 p., vol. 9 566 p.

² Kikutarō Takizawa, "Nihon Sangyō Kōzō no Kōdoka Katei to Chūshōkōgyō" (The Process of the Elevation of Japan's Industrial Structure and Small Business), in Tokutarō Yamanaka (ed.), *Keizai Seichō to Chūshōkigyō*.

III. CHANGES IN THE BASIC ELEMENTS OF THE DUAL STRUCTURE

—High Economic Expansion and Structural Change in Small Businesses—

What is the “Dual Structure” of the Japanese economy as interpreted from a basic understanding of the common structural features of modern capitalism?

In part developments in Japan are similar to those taking place in all modern capitalistic countries. However, the Japanese economy also has developed some specific characteristics, in part because it has been expanding at a phenomenal pace in a hasty bid to catch up with advanced nations while labouring under unbalanced and distorted situations. Agricultural problems aside, the dual structure will be seen in such aspects of small enterprises as a) capital and enterprise; b) labour; c) the commodity market, etc.

1. “Dual Structure” of Enterprises and Labour

Statistically speaking, there is no advanced nation where gaps between big and small firms in added value productivity, wages, labour conditions, and gross profit (or the rate of surplus) per employee are wider than in Japan. (See Tables 2 and 5)

Small enterprises account for the bulk of Japanese firms; above all, small and petty enterprises are legion. (See Tables 1, 3, and 4)

The said scale-wise gaps and the multitude of petty businesses are like two elements forming a vicious cycle. This is also connected with the presence of both a vast difference in the size of capital and of the “class organization” of the labour market.

In considering Japan’s labour market, one must take note of the nation’s growing population.

The market presents the following features:

i) Isolation of permanent employees in big enterprises from outside influences as a result of the seniority system, life employment, various fringe benefits, etc.

ii) Utilization of casual, outside and subcontract workers as leverage for business adjustment to the stabilization of permanent worker employment.

iii) Fixing of a discriminatory wage-level for the non-permanent workers.

iv) A steady flow of surplus labour to small enterprises—because the big enterprises’ new employment of permanent workers is limited. Mushrooming of petty enterprises run by ex-factory hands or former

small enterprise employees who compete excessively with one another.

These features of the Japanese labour market gave rise to extreme gaps in the wage-level, according to scale of enterprises, and they should also be held responsible for the over-all low level of Japanese wages. (See Tables 6 and 7)

This seniority system in part is basic for the extremely low wages of young labourers. It also is consistent with production systems under which seniority means higher skill. Of course, small enterprises depending on low labour cost cannot adopt the seniority system, as they count largely on low wages and young labourers with a few old, experienced hands acting as foremen.

Labour is, one may say, "blocked" at big enterprises, whereas at small enterprises, in contrast, employees tend to move outside as soon as they can. Some of them "become independent" if it is financially possible. In short, the labour force is constantly flowing in and out of small enterprises.

Today, skill means something different—at least at large industrial mills—the change being brought about by the recent high economic expansion of the nation and technical reforms.

Major enterprises now demand massive young labour. Petrochemical firms, for instance, need young labour fresh from senior highs with an aptitude for new techniques—the result of automation. Light electric machine makers demand young girls for routine assembly work. The nation's population pyramid has undergone a change, too. The population's rate of increase slowed down during the war, and this factor has now a direct bearing on the current shortage in young labour.

There was a "baby boom" right after the war so that more and more children enrol in senior high schools; thus demand for young labour always exceeds supply. With the nation's birth-rate dwindling, the situation will turn for the worse. The upshot of all this is an acute shortage of young labour in small enterprises (see Tables 8 and 9), resulting in a boost of starting salaries. (See Tables 10 and 11)

But a rise in the pay naturally calls for adjustments of the erstwhile wage system, entailing the chance for an over-all pay raise in small enterprises—which, in a sense, will rock their very foundation.

A wage difference for young labour between big and small firms has been almost wiped out by now. The same is true for skilled workers. The difference is seen, however, in fields requiring no skill or specialization. (See Table 12) Anyhow, the wage equalization for young labour and its increased mobility are touching off a considerable

change in the dual structure of Japanese labour. (See Figure 1)

Meanwhile, the seniority system in big firms is fast breaking up because the old-type skilled worker has lost his *raison d'être*. Under the seniority system, young employees with high technical skills are forced to accept low wages, while old workers without much technical skill are paid a high wage. This is apparently an abnormal pattern and will sooner or later disappear. But to big enterprises, the seniority system has been an important element in their orderly control of labour. This prevented them from catching the chance of adopting the American type, efficiency-based service allowance system.

It is probable that Japan's pay system will eventually become a sort of combination of the old seniority and the American-type wage system. Employees' efficiency rating, "contribution" to the enterprise or the sense of responsibility will be major factors. The gap in young labour wages between big and small enterprises seems to have disappeared, but a wide difference is still seen in labour conditions between them. By conditions I mean, for instance, working hours, labour environment, welfare facilities, the chance for promotion, stabilization of employment, or company pension after retirement.

Japan has been lagging with regard to governmental social policy and employment security programmes. Only large enterprises have been able to fill these shortcomings for their employees.

At long last, plans are afoot among small enterprises to expand fringe benefits jointly for their workers, but the difference with their large counterparts has not been narrowed to any significant extent.

After all, it is still premature to conclude that the dual structure of the Japanese labour market has been wiped out, but an important change is taking place.

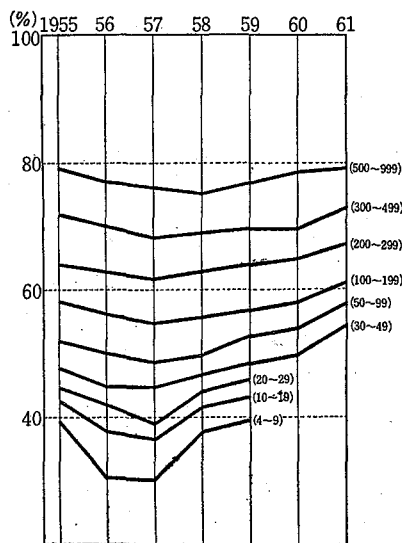
2. *Peculiar Japanese Mechanism of Capital Centralization*

The special mechanism of capital centralization in Japan must be pointed out as the major cause for the nation's extreme scale-wise productivity gap.

The underdevelopment of Japan's capital market—in comparison with certain advanced nations—and a shortage in owned capital even in big enterprises increased their dependence on powerful commercial banks, sparking a phenomenon dubbed "indirect financing."

Through loans a special relationship develops between bankers and enterprises or more specifically, with groups formed among leading firms, centring around big commercial banks at the top of the pyramid.

Figure 1. CHANGES IN WAGE DISPARITY
(Enterprises employing more than
1,000 persons=100)



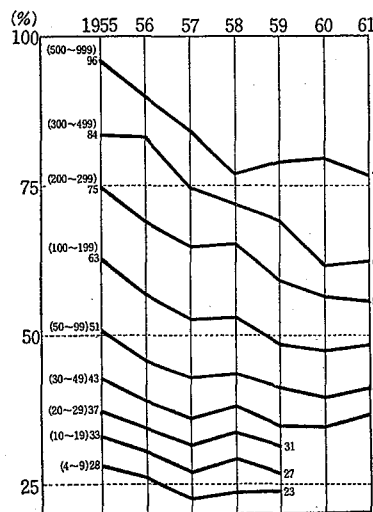
Source: Ministry of International Trade and Industry, *Census of Manufactures*, every fiscal year.

Figure 2. WIDENING OF THE GAP BETWEEN THE PRODUCTIVE VALUE ADDED BY MANUFACTURE, BY SCALE OF ENTERPRISE

—Disparity in the amount of value added by manufacture per worker per year by scale of enterprise—

A. All Industries

(Enterprises employing more than 1,000 persons=100)



Source: Same as Figure 1.

Statistics show that the bigger a bank, the more deposits it receives from the masses. The bank then funnels the money into firms under its wing.

Since the war, overloans seem to have become customary with major bankers. The special loan system of the Bank of Japan makes this possible. Financing by the central bank reached a new high of ¥ 1,600,000 million in the summer of 1962, even exceeding its currency issue of ¥ 1,200,000 million.

Overloans by major banks also totalled around ¥ 1,600,000 million at that time. No recent statistics are available on the proportion of loans to small enterprises to over-all bank deposits of small business, but an "analysis on money flow" compiled by the central bank discloses that the ratio now is about 4 to 6. (Proportion of all small enterprises' loans to their deposits or the rate of flowback to small enterprises out to their total deposits). In short, the bulk of capital converges upon the top of the pyramid, where overloans are available to large enter-

prises in the name of "growth financing."

Loans exceeding deposits constitute swollen credit in excess of national savings or, more simply put, an inflation.

Capital investments have a waiting period, that is, while the investments are in process, various construction facilities are in demand and huge funds are used although products are not as yet forthcoming. Such is doubtless an inflationary phenomenon, too.

The adverse consequences of this phenomenon cannot be ignored, for it provides, I believe, the very background for the current advance in prices. But the tendency must be finally traced to the peculiar loan system pursued by the Bank of Japan. Loans of the central banks are available only against bills of big enterprises, meaning that small enterprises or their financing organs are shut out from this system.

Such mechanisms of capital centralization stimulated directly a widening of the gap in capital accumulation between big and small enterprises. The Government should step in to adjust this unbalance in capital distribution, but the fact is that its fiscal policy has at least thus far worked to the contrary.

As for the taxation system, the principle of equality of tax burden—one of the two props in the famous Shoup Report—was undermined after what the Government calls special tax measures were announced, one after another. The majority of these laws resulted in tax cuts for big enterprises. Small enterprises were again left out. A capital-wise breakdown of actual corporate taxes shows that the less a firm earns, the more tax it has to bear—or just the reverse of the progressive tax formula.

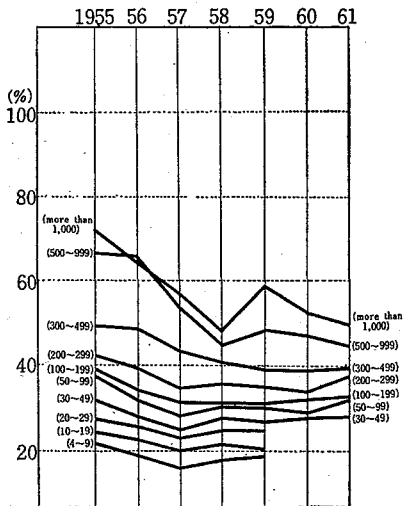
How are Government expenditures or orders affecting small enterprises? Again it is found that they are centring on big enterprises, directly or indirectly.

According to a survey by the Small Enterprises Agency, orders placed by major central Government offices and the Japan National Railways headquarters reached a total of ¥ 524,300 million in 1961, of which those with big enterprises represented 81.2 per cent or ¥ 425,800 million, and only 18.8 per cent or ¥ 95,500 million going to small enterprises. What does this mean? It is simply that even the Government spending programme is working in favour of big enterprises.

Through mechanisms encouraging capital centralization in big business, the gap in capital investments between big and small enterprises widens even when the nation is in the thick of a so-called high economic expansion. So does the difference in productivity and capital

Figure 2.—Cont.—

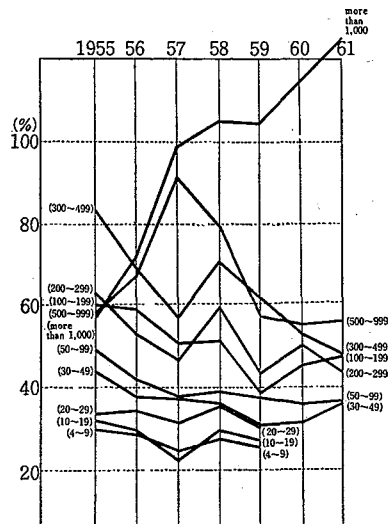
B. Spinning and Textile Industries
(Enterprises employing more than 1,000 persons in Figure 2, A.=100)



Source: Same as Figure 1.

C. Manufacturing Industries of Transport Machinery

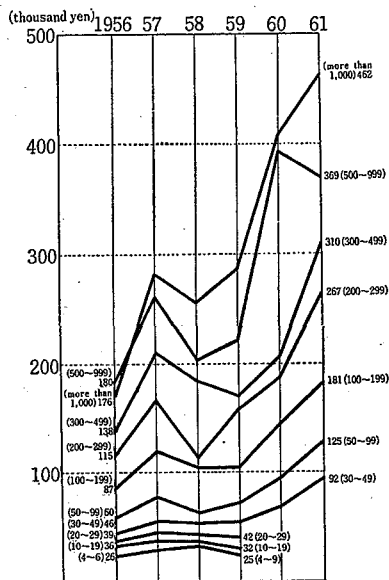
(Enterprises employing more than 1,000 persons in Figure 2, A.=100)



Source: Same as Figure 1.

Figure 3. CHANGES IN THE AMOUNT OF INVESTMENTS PER WORKER BY SCALE OF ENTERPRISE

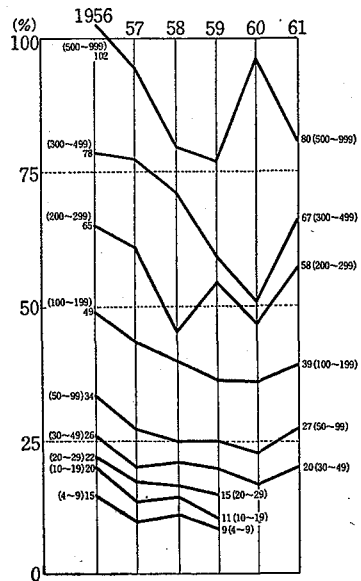
A. Actual Figures



Source: Same as Figure 1.

B. Disparity

(Enterprises employing more than 1,000 persons=100)



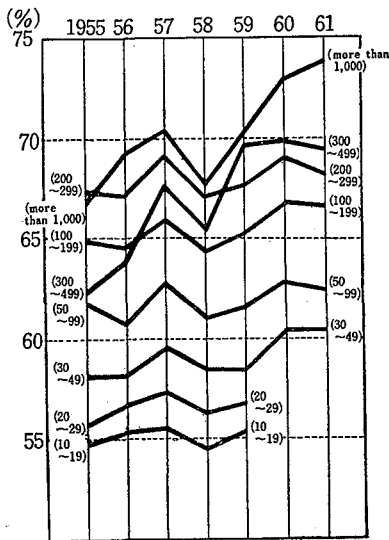
Source: Same as Figure 1.

accumulation between the two. The fast economic expansion also is bringing a change in the pattern of labour demand and supply. Japan is said to be blessed with an abundant labour supply, but an overwhelming proportion of young labour is now by-passing small enterprises for large ones. Here again, small enterprises are driven into a corner, because they used to count so much on young (and therefore, cheap) labour. (See Figures 2, 3, 4, and 5)

But even small enterprises can expect to procure enough facility funds and offset wage boosts with an increase in productivity, if they are in the so-called "growth lines," under the wing of big enterprises, or in the upper echelon of small enterprises. But fund-raising is difficult for those in declining industries or for petty enterprises.

They are apparently fighting a losing war. This statement also applies to those in business lines which depend more on manual labour than on machinery. If demand rises for their products, they can expand

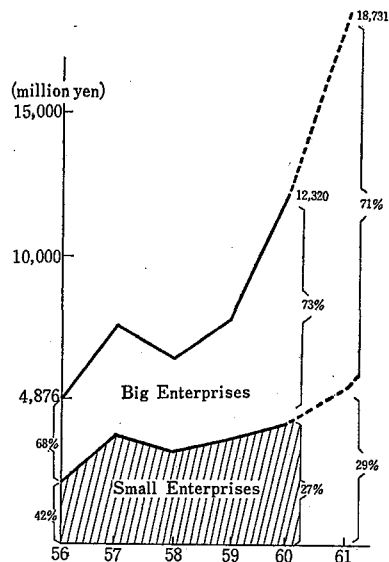
Figure 4. CHANGES IN SURPLUS RATE
—Total for manufacturing industries—
(Surplus rate per worker by scale of enterprise)



Source: Same as Figure 1.
Note:

$$\text{Surplus Rate} = \frac{(\text{Amount of gross value added by manufacturing}) - (\text{Cash paid for wages})}{(\text{Amount of gross value added by manufacture})}$$

Figure 5. TOTAL AMOUNT OF INVESTMENT IN TANGIBLE AND FIXED ASSETS



Source: Same as Figure 1.
Note: Figures for 1961 are based on the survey compiled by the Smaller Enterprises Loan Corporation.

production only at increased costs. Moreover, in the marginal service industries modernization through labour cuts is virtually impossible.

The consequence of all these factors has tended to be an increase in commodity prices. However, advanced in labour costs may also be the result of the petty entrepreneur's desire to raise his living standard.

3. Characteristics of and Changes in the Consumer Goods Market

Among the various conditions that have permitted a wide distribution of small enterprises in this country is the underdeveloped status of the commodity market due specifically to such characteristics of the Japanese consumer goods' market as decentralization, smallness, and changeability.

Consumer taste in Japan retained most of its traditional pattern even through the industrial revolution during the Meiji Era. The unchanged modes of food, clothing, and housing have resisted standardization and mass production. They served to stimulate small-scale production and processing of farm and marine products. These were the major reasons for the wide distribution of outdated, small enterprises as well as for the prevalence of an obsolete wholesale system.

The Great Earthquake of 1923 and World War II initiated important changes in Japanese-style consumer life. Even more important, and perhaps the most important of all, however, was a series of radical economic changes during the post-World War II years, such as technical renovation, shift of industrial structure, changes in consumption and distribution system.

From the viewpoint of industrial structure, the heavy and chemical industry has found its way into consumer goods production which had previously been dependent mainly on light manufacturing industries.

The widespread use of various electric appliances, the substitution of chemical and synthetic fibres in clothing, and changes in materials of furniture and utensils, and in dietary life and dwellings are a result of standardized, mass-production large-scale industry. It is the kind of industry that cannot afford to rely on small-scale business even in processing.

There still are some consumer goods suited for production by small enterprises production, provided they are armed with modernized techniques. There is no denying that the conditions supporting the widespread existence of small enterprises are gradually giving way.

Standardization and mass-production of consumer goods are the reasons for the recent development of supermarkets. At the same time,

these factors stimulate co-operation of big enterprises in the field of marketing and cause a decline of the wholesale system, forcing the liquidation of small enterprises incapable of adjusting to industrial modernization. (See Tables 1 and 2)

4. *Territories of Small Enterprises and Their Changes*

The following are production fields of smaller enterprises classified according to their relation to large firms :

(A) The field in which small enterprises can operate independently, having no direct relations with big enterprises.

(B) The field in which small enterprises must compete with big enterprises.

(C) The field in which small enterprises operate as subcontractors of trading capital such as wholesalers and trade firms.

(D) The field in which small enterprises operate as subcontractors under industrial capital such as big manufacturing industries. However, (C) and (D), both being subcontractors, may be regarded as supplementary to the big enterprises.

Now, let us review what sort of changes have been brought about in these four fields as a result of recent technical renovation and the improved standard of industries.

(A) or the "independent field" is now on the decline, while in (B) or the "competitive field," small enterprises are either being encroached upon or are becoming affiliated with big enterprises, in so far as they belong to the so-called "growing industries." As a result, (B) tends to shift to a (C) or (D) type.

With the development of the transformation in consumption patterns, with the advent of new materials and new products, and with the further advance of chemicals in consumer goods, small enterprises can no longer exist alone. In other words, as the big chemical or iron and steel and metal industries find their way into the field of raw materials production and as such mass-production leaders as automobile, electric appliances and other machinery makers increase their influence, even (A) and (B) will become (C) or (D), especially (D).

In such a case, new competitive relations are likely to arise between small enterprises which have successfully come under the wing of certain large industrial capital and those which have not.

According to Table 13, a result of an analysis of the *Census of Manufacturers for 1958* by the Smaller Enterprise Fundamental Policy Chamber, Smaller Enterprise Agency, 125 out of a total of 361 classes

of industries and trades of small enterprises belong to category (A) or the "independent field," with their employees accounting for as much as 20 per cent of the total small enterprises employment. The majority of the so-called "have-been industries" are included in this field.

In the field of (B), small enterprises are mostly on the decline, giving way to big enterprises. In the domain of (C) which is under the influence of trade capital, declining enterprises are more found than in (D). This means that most of the promising small enterprises are now centred in (D), the field heavily influenced by large manufacturing industries. At present, a little less than 24 per cent of the total workers in small enterprises belong to this field.

It was between the business recession of early Shōwa and the Manchurian Incident (1931), and through the period of the wartime economy, that subcontracting business began to prosper in this country. It is noteworthy that this phenomenon has had the same historical development as that of the afore-mentioned "dual structure" of Japan's labour market.

Let me give a short account about some characteristics of the Japanese subcontracting system, although I am not going to elaborate on the problem with which I have repeatedly dealt in my previous books. It is my opinion that big enterprises use the subcontracting system as a "safety valve," under conditions of shortage of owned capital and against business fluctuations in labour and fixed capital. At the same time, they want to capitalize on comparatively low labour costs offered by small enterprises, thus relieving themselves of burdens and risks.

To add to such disadvantages on the part of small enterprises, the postwar recession brought about another problem—that is, a delay of payment to subcontractors by big enterprises.

Such undesirable relations are witnessed not only between big and small enterprises, but also among small firms themselves. This is one of the specific characteristics of business in Japan.

Relations between big enterprises and their subcontractors become productive depending on whether big business is industrial or trade capital. Subcontractors under industrial capital are classified into two types. One, represented by textile manufacturing, is the type in which big enterprises supply raw materials to subcontractors for processing. In textiles, a parent enterprise supplies raw yarn to be woven, dyed, or finished into clothing by small enterprises.

In the other type, represented by general machinery, electric appli-

ances and automobiles, small enterprises undertake the production of parts to be assembled by their parent makers. It must be noted that productive relations between big and small enterprises are closer in the latter type than in the former type.

In postwar years, especially during the period of so-called high economic growth from 1955 on, the word "affiliation" began finding a wide use, with some difference in meaning from "subcontracting." That is, some subcontractors whose relations with their parent firms are more constant and closer than others began to be called affiliates rather than subcontractors.

These new affiliates were a product of the need of big enterprises to select subcontractors of comparatively superior quality and to modernize them so that high-standard production might be attained. To explain this, let us take the production system of the Toyo Rayon Co., Ltd. as an example.

Dyeing as well as weaving of new synthetic fibres such as nylon and tetron requires special techniques and facilities. This is the chief technical reason why Toyo Rayon needs to "line up" its subcontractors. Such lining-up is also called for to live up to the company's policy of quality goods and products differentials. Such a step is necessary, furthermore, in order to secure its monopolistic position in the raw nylon yarn market both in supply and price.

In automobiles, the fastest developing industry in Japan, the status of parts makers varies according to types of products, production scale, and ratio of original parts to repair work. Generally speaking, in this industry, too, leading makers are eager to affiliate small enterprises capable of meeting their requirements for mass-production and up-to-date techniques. To keep such small enterprises under their direct influence, they offer technical, managerial, and financial aid. Sometimes, they even occupy part of the executive posts and they own some stock of their affiliates.

As control over their subcontractors increases, parent companies try to have their affiliates assemble parts into complete units and to reorganize lower-grade small enterprises as sub-subcontractors to work under upper-grade small enterprises.

The so-called "Supermarket System" originated with the Toyota Motor Co., Ltd. and now is popular among most automobile producers including the Honda Motor Co., Ltd., and is even being adopted by some non-automobile makers. More commonly known as "just-in-time formula," this system aims at keeping the parent plant free of surplus

inventories of parts by adjusting delivery from subcontractors exactly to the parent plant's production schedule. This practice means that subcontractors are required to improve their production level so as to be able to meet their parent firm's schedule. Otherwise, they have to drop out of the line-up or, if they do not want that, they have no choice but to build their own warehouses in the neighbourhood of parent plants.

Thus, more and more small enterprises are becoming specialist makers. Not a few of them have successfully grown up keeping pace with the expansion of their parent enterprises, while others, left behind in the march of the times, have become sub-subcontractors. An increasing number, however, owing to the "selective ordering policy" (as generally seen in automobile industry, electric machinery industry, etc.) become bankrupt.

Furthermore, subcontractors are under increasing pressure for production cost reduction as well as for production rationalization. Trade liberalization is further stimulating this trend.

Especially in the automobile industry, subcontractors are being urged to carry out cost reduction according to a fixed schedule. Automobile lamp makers, for instance, have to cut their production cost by 1 per cent monthly until the date of trade liberalization. Under such circumstances, not a few makers are on the verge of being unable to keep themselves on a paying basis.

However, it seems clear that this unique industrial feature of direct affiliation must be reformed. To mention an example, a certain Japanese maker had its subcontractors supplied with the most up-to-date American or European machines to cut the cost of parts to the European level. The result: the parent company could not catch up with the swollen production capacity of the subcontractors.

In the European Economic Community, mass production is being promoted even by the international common utilization of parts makers, while Japan, with its direct vertical affiliation, is now only discussing the possibility of developing new relationships.

Another problem is that it is becoming increasingly difficult for subcontractors to reduce production cost through low wages, as they did in the past, because their labour conditions are improving to the level of large enterprises in accordance with production modernization.

It seems apparent that the present subcontracting system in Japan will have to change, for instance, in the direction of its European counterpart in which parent companies and subcontractors stand on

the same footing.

5. *Structural Changes and Problems Arising From Such Transformation—Summary*

The conditions for the existence of the "dual structure" are fading away in line with the previously mentioned structural changes. Particularly outstanding are the changes in the industrial structure and those on the labour scene centring on the short supply of young workers and the subsequent wage-hikes for them.

The financial and monetary mechanism causes a heavy, unbalanced capital concentration and the consequent shortage of funds for the modernization of small enterprises. The small enterprises are under constant pressure: the oligopolistic price-fixing by big enterprises, high raw material costs and the urgent demand to lower prices, the big enterprises' pressure on subcontractors for underselling, its invasion of the small enterprises' field in an attempt to diversify production, its reorganization of the distribution system, its control over the market, etc.

Thus the factors of the "dual structure" still exist in the form of pressure "from above" in relation to production, which is today's dilemma. To aggravate the situation, the big enterprises face a showdown in international competition as the hitherto closed economy will become an open system. Under the pretext of strengthening local enterprises to an appropriate size, business circles are seeking to dig loopholes in the Anti-Monopoly Law and have special tax measures expanded for them. The contradiction of Japan's economy is bound to deepen as these attempts, if successfully carried out, will no doubt inflict a heavy pressure on small enterprises.

Because of these factors the advent of a modern industrial system, which is internationally competitive, and typified by a rationalized, social division of labour, is completely impossible. If we tried to make previously mentioned attempts without solving the fundamental problem, we would face a serious social situation whereby not only petty and shaky enterprises but also small enterprises in general would be liquidated.

IV. PROBLEMS OF GOVERNMENT POLICIES FOR SMALL ENTERPRISES

—The Character of the Small Enterprises Standards

Law and Future Problems—

The Small Enterprises Standards Law was passed in July 1963 after a long wait on the part of the nation's small enterprises.

Attention is called to the fact that the lack of understanding of

the law and its limitations would cause an over-expectation on the part of small enterprises and that, without the supervision by small business circles of the future enforcement of related legislation, the law would become void.

1. The Small Enterprises Standards Law sees the problems of today's small enterprises in (1) its low productivity and (2) its disadvantageous transaction terms (its weakness due to over-competition, particularly with big enterprises).

The Government policies are outlined in :

(1) Chapter 2, Modernization of the Small Enterprises Structure (1. Equipment Modernization, 2. Technical Improvements, 3. Modernization in Business Management, 4. Expansion of Business to Optimum Scale, Co-operation, Collectivization, Amalgamation, Change of Business Lines, and Modernization of Retail Business Operations), and in :

(2) Chapter 3, Adjustment of Disadvantages in Business Activities (Prevention of Over-competition, Modernization of Subcontracting Transactions, Adjustment of Business Opportunities in Small and Big Business, Bidding for Public Works, Securing Import-Export Business); and in the following chapters (Petty Business, Monetary and Tax Systems, Administration Machinery, and Small Business Organization).

The Small Enterprises Standards Law is of a constitutional nature which seeks to show the small enterprise its way and destination. Expressions used in the law are, for instance, very vague as it often says, "The necessary steps shall be taken," and a reference should always be made to related laws for concrete measures.

In addition, emphasis is put on Chapter 2, Modernization. Almost all of the related laws, which were passed at the time of the 1963 budget, stipulate policies for modernization and improvement of the industrial structure. Stipulations are so vague and ambiguous in Chapter 3 and in subsequent chapters, particularly concerning the relations with big enterprises about which small enterprises had sought appropriate measures (pressure on subcontractors, division of production spheres, adjustment of one-sided heavy monetary concentration and unbalance in the tax system, securing bids for public works, special measures for petty business, retailing and services), that even the Government parties expressed dissatisfaction with the law.

There are hardly any related laws prepared for legislation this year, though there are some laws which are no longer in effect, for instance, the Subcontractors' Bill Payment Promotion Law and the Department

Store Law,

This is in sharp contrast with the Opposition parties' plan which puts more emphasis on the latter part of the law and calls for securing a certain portion in monetary, financial, and public works measures. At the Diet public hearings, many representatives of small enterprises joined me in requesting that the Government plan be revised with part of the plan of the Opposition parties added. But the revision was so slight that the basic character of the draft prepared by the Government underwent practically no change.

It is therefore necessary that the law-conscious small enterprises exert their efforts to render the laws related to Chapter 3 and the following chapters effective.

2. The related laws which were passed in 1963 include: the "Small Enterprises Modernization Promotion Law" aimed at an effective implementation of expansion promotion laws for each industry with a concentrated and effective financial support; the "Small Enterprises Modernization Subsidy Law" which stipulates detailed measures for such a Government subsidy (including the Special Account for Modernization Funds); the "Small Enterprises Orientation Law" centring around the Small Enterprise Orientation Centre; and the "Small Enterprises Investment Development Companies Law" especially aimed at expanding "medium-sized" firms capitalized at less than ¥ 50 million to the rank of companies listed in the second section of the Stock Exchange with a capital of more than ¥ 100 million.

This is part of the Government project seeking to establish a new industrial setup in the sphere of small enterprises while it subsidizes big enterprises by the "Specific Industries Promotion Law." Despite the fact that the small enterprises budget has sharply increased in 1963, it is only ¥ 9,200 million, or 0.3 per cent of the national budget. It is evident that such a petty budget cannot afford to improve the conditions of small enterprises effectively, and therefore it could characteristically be taken as "genius educational."

Though the Government retains ¥ 130,000 million for small enterprises in its financial investment and loans programme, it is only 12 per cent of the whole programme. The upper limit of capital for the small enterprises, to which the Small Enterprises Standards Law is applicable, has been raised to ¥ 50 million from ¥ 10 million in the case of industrial concerns. If no larger budget is assigned to the small enterprises, chances are that the limited funds will be concentrated at

the upper stratum. So that the Government's policy will sound like: "Heaven helps those who help themselves."

In this way, highly-efficient, growth industries and those eager to modernize structurally will prosper, and old-fashioned firms with no desire or enthusiasm to explore new markets and modernize themselves will be left behind. In the Government's combat with rising commodity prices, the Small Enterprises Standards Law will not offer a helping hand to enterprises which have no countermeasures for their low productivity in the face of manpower shortage and rising wages.

As the Government's policy in correcting the "dual structure" is to help only those who are capable of escaping from predicament by themselves and not to worry about others, it is necessary by all means for small enterprises to awaken to the situation and to make strenuous efforts for structural modernization in co-operation with others within the group. They must also try *en masse* for promotion of the implementation of Chapter 3 and following chapters in the Standards Law.

CONCLUSION

From an objective point of view, it can be said that the high growth and structural changes in the Japanese economy have partly corrected the "dual structure." There has also been a change in the base for the existence of small enterprises.

However, some factors which serve to accelerate the "dual structure" have not yet been eliminated; among them are the downward "pressures" in the stratum of business, concentration of capital in the upper part of the business ladder, and inequality of capital distribution. The Government is extremely reluctant to take steps towards corrective policies related to the "dual structure."

As *The Economist* pointed out,¹ the secret of Japan's high economic expansion lies in helping only efficient and growing industries and offering no assistance to stagnant or small enterprises, the primary consideration being the efficacy of economic policies. It seems that the Government's stand is to eliminate the "dual structure" while accelerating the natural selection or the "survival of the fittest" in a capitalistic society.

Such a policy would produce many victims and its pressure on society would be extremely grave. Inadequacy of social policies involving the social security issues would hence be called into question.

¹ "Consider Japan," *The Economist*, Sept. 1 and 8, London, 1962.

Table 1. COMPARISON OF THE SCALE OF ENTERPRISES IN JAPAN, BRITAIN, THE U.S., AND WEST GERMANY BASED ON THE NUMBER OF WORKERS EMPLOYED

| Country | Employees (in percentage) | | | | | | Employees Total (in thousand persons) | Sub-total for Small Enterprises Employing 1-199 persons (in percentage) |
|---|---------------------------|--------------------|-------|----------------------|----------------------|---------|---|--|
| | 1-9 | 10-49 | 50-99 | 100-199 | 200-499 | 500-999 | | |
| Japan (1957) | 15.1% | 29.1% | 11.1% | 9.7% | 11.8% | 7.1% | 16.1% | 65.0 |
| Comprehensive and Basic Survey of Japanese Small Enterprises (1957) ¹ | 17.8 | 28.5 | 9.3 | 7.0 | 8.0 | 5.0 | 25.4 | 61.6 |
| Britain (1951) | (1-10 persons) | (11-49 persons) | 10.0 | 12.6 | 20.0 | 13.0 | 29.2 | 37.8 |
| W. Germany (1955) ² | 4.2 | 11.0 | 10.0 | 12.1 | 18.8 | 13.1 | 32.0 | 36.2 |
| U.S. (1954) | 2.7 | 11.4 | 10.0 | (100-249 persons) | (250-499 persons) | 12.6 | 32.6 | (1-249 persons) 42.3 |
| | 3.9 | 13.5 | 9.4 | 15.5 | 13.5 | 15.651 | | |

Sources: Japan—Office of Prime Minister, Bureau of Statistics, 1957 *Establishment Census of Japan*, Vol. 1, Tokyo, Table 2, pp. 86-99. Britain—*Census of Production for 1951*, Summary Tables, Part 1, Table 4, London, pp. 96-97. W. Germany—*Statistisches Jahrbuch, 1957*, Stuttgart—pp. 216-218. United States—*Census of Manufactures for 1958*, Vol. 1, Summary Statistics, Washington, D.C., 1961, p. 2-2.

Notes: 1. Figures in the column entitled "Comprehensive and Basic Survey of Japanese Small Enterprises (1957)" are those based only on a survey of enterprises as a unit, while the rest of the statistics are all based on establishments (plants) as a unit. In the case of business offices as a unit, the branch factories of big enterprises are classified as small establishments (plants) in case they are small in scale. Therefore, it must be pointed out here that the ratio between big and small enterprises is not accurately indicated.

2. Figures for West Germany are those for industries other than those classified as "Handwerk" which are peculiar to West Germany.

Figures for the *handwerk* industry are indicated in a separate table. The position which the *handwerk* industry occupies in all industries is 84.3% of the total enterprises in all industries, with an average of 5 employees per enterprise. In regard to manufacturing industries, the number of employees in the *handwerk* industry constitutes 27% of the entire number of employees in the manufacturing industries and comprises 16% of total production. A "Handwerk" enterprise does not necessarily mean that it has less than 10 employees, but because a considerable portion of such enterprises has less than 10 employees, it can be said, as indicated in the figures above, that West Germany, similarly to Japan, is a country with a considerable number of petty enterprises.

Table 2. AMOUNT OF VALUE ADDED PER WORKER PER YEAR (A), AMOUNT OF CASH PAID AS WAGES PER WORKER PER YEAR (B), AND THE AMOUNT OF GROSS PROFIT (A-B)
(Unit: 1 pound sterling equivalent to ¥ 1,008)

| By Scale | 10-19 persons (Japan) | | | 30-49 persons (Japan) | | | 50— | | | 100— | | | 200— | | | 300— | | | 500— | | | 999 | | | More than 1,000 | | | Average for smaller enterprises 10-299 persons (Japan) | | | Average 11-299 persons (Britain) | | | 4—9 | | |
|--------------------------------------|-----------------------|-----------|-----------|-----------------------|------------|------------|------------|------------|------------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|-----------|-----------|-----------|-----------|-----------------|------------|------------|--|------------|------------|----------------------------------|-----------|--|-----|--|--|
| | (A) | (B) | (A-B) | (A) | (B) | (A-B) | (A) | (B) | (A-B) | (A) | (B) | (A-B) | (A) | (B) | (A-B) | (A) | (B) | (A-B) | (A) | (B) | (A-B) | (A) | (B) | (A-B) | (A) | (B) | (A-B) | (A) | (B) | (A-B) | | | | | | |
| Amount of value added by manufacture | 263 (36%) | 316 (44%) | 375 (52%) | 461 (64%) | 542 (75%) | 587 (82%) | 673 (93%) | 724 (100%) | 488 (62%) | 330 (45%) | 246 (34%) | 584 (82%) | 605 (85%) | 630 (89%) | 656 (92%) | 677 (95%) | 716 (101%) | 711 (100%) | 712 (100%) | 682 (96%) | 639 (90%) | 332 (81%) | 340 (83%) | 343 (84%) | 349 (85%) | 350 (85%) | 357 (87%) | 372 (91%) | 409 (100%) | 370 (90%) | 344 (84%) | | | | | |
| Amount of cash paid as wages | 144 (32%) | 184 (41%) | 229 (51%) | 298 (66%) | 363 (80%) | 398 (88%) | 456 (101%) | 451 (100%) | 279 (62%) | 199 (44%) | 136 (30%) | 584 (82%) | 605 (85%) | 630 (89%) | 656 (92%) | 677 (95%) | 716 (101%) | 711 (100%) | 712 (100%) | 682 (96%) | 639 (90%) | 332 (81%) | 340 (83%) | 343 (84%) | 349 (85%) | 350 (85%) | 357 (87%) | 372 (91%) | 409 (100%) | 370 (90%) | 344 (84%) | | | | | |
| Gross profits ²⁾ | 252 (83%) | 287 (87%) | 287 (87%) | 307 (101%) | 327 (108%) | 327 (108%) | 359 (119%) | 303 (100%) | 326 (108%) | 295 (97%) | 108 (37%) | 252 (83%) | 287 (87%) | 287 (87%) | 307 (101%) | 327 (108%) | 327 (108%) | 359 (119%) | 303 (100%) | 326 (108%) | 295 (97%) | 108 (37%) | 252 (83%) | 287 (87%) | 287 (87%) | 307 (101%) | 327 (108%) | 327 (108%) | 359 (119%) | 303 (100%) | 326 (108%) | 295 (97%) | | | | |

Sources: Japan—Smaller Enterprise Agency, *Handbook of Smaller Enterprise Statistics for 1958*, Tokyo, pp. 42-45.

Britain—Census of Production for 1951, Summary Table—Part 1, Table 4, London, pp. 96-97.

Notes: 1. Figures for Japan are for 1955, those for Britain, 1951.

2. The amount of gross profits was calculated by subtracting the amount of cash paid as wages to employees from the amount of net output (value added by manufacture). Since depreciation and others are not included, it is not accurate to call it gross profits. However, this term has been used for convenience sake. In regard to Britain's net output, in order to avoid duplication of other departments with the amount of production, the amount of raw material, fuel, power was subtracted from the amount of gross profits. Therefore, the net output can be considered as generally the same as Japan's value added by manufacture.

Attached Table: Value Added by Manufacture per Regular Employed Worker per Year in American Manufacturing Industries Classified by Scale (in U.S. dollars).

| Scale | 1-19 persons | 20-99 | 100-249 | 250-499 | 500-999 | More than 1,000 |
|-------|--------------|-------------|-------------|-------------|-------------|-----------------|
| | 6,310 (77%) | 6,267 (75%) | 6,850 (84%) | 7,230 (88%) | 7,570 (92%) | 8,180 (100%) |

Source: Compiled from, *Statistical Abstract of the U.S.*, Washington, D.C. 1957, pp. 797.

Table 3. THE POSITION OF SMALL ENTERPRISES IN JAPAN'S INDUSTRIAL STRUCTURE

(The actual number of small and medium-size business offices, the number of employees and the ratio they occupy in the nation's industry as a whole)

| | Number of small and medium-size business offices | | | Number of employees in small and medium-size business offices (1) | | | Scale of small and medium-size enterprises (2) in each sector of the industry (As classified by the number of employees) | | |
|----------------------------|--|-----------|---------------|---|-------------------------------------|-----------|--|-----------|---------------|
| | 1957 | | 1960 | | 1957 | | 1960 | | Ratio (%) |
| | Actual Number | Ratio (%) | Actual Number | Ratio (%) | Actual Number (in thousand persons) | Ratio (%) | Actual Number (in thousand persons) | Ratio (%) | |
| Total of Small Enterprises | 3,437,316 | 99.3 | 3,525,527 | 99.0 | 15,589 | 79.6 | 17,415 | 75.2 | |
| Mining | 10,065 | 99.1 | 9,783 | 99.1 | 314 | 59.8 | 294 | 58.1 | 1-999 persons |
| Construction | 175,758 | 99.9 | 195,220 | 99.8 | 1,097 | 88.4 | 1,424 | 83.7 | " |
| Manufacturing | 543,128 | 99.8 | 549,778 | 99.4 | 5,474 | 73.5 | 6,264 | 70.3 | " |
| Wholesale and retail | 1,795,887 | 99.4 | 1,832,637 | 99.1 | 5,274 | 88.4 | 5,650 | 83.2 | " |
| Finance, insurance | 45,848 | 90.7 | 44,942 | 87.6 | 280 | 46.2 | 280 | 36.7 | " |
| Real estate | 23,009 | 99.3 | 38,263 | 99.4 | 47 | 77.4 | 74 | 79.8 | " |
| Transport, communications | 66,466 | 99.5 | 66,101 | 99.3 | 799 | 82.4 | 945 | 76.1 | " |
| Public utilities | 6,397 | 98.6 | 7,563 | 98.8 | 108 | 70.1 | 116 | 69.9 | " |
| Service | 770,757 | 99.2 | 781,240 | 98.9 | 2,192 | 84.0 | 2,367 | 79.2 | " |

Source: Office of Prime Minister, 1957 *Establishment Census of Japan*, Table 2, pp. 72-225, and 1960, Vol. 1, Table 2, pp. 84-275.

Notes: 1. In regard to enterprises which are classified under this scale (small or medium-size enterprises), in case they have only one business office, the number of employees in such office has not been included in the figures.

2. The scale of small enterprises has been based on the standards indicated in the Smaller Enterprise Agency's *Handbook of Smaller Enterprise Statistics for 1961*, Tokyo, pp. 12-13.

Because the table indicates business office statistics and does not show statistics classified by enterprises, we would like to point out that figures for small and medium-size business offices of large enterprises have been included.

The data in this table indicate the actual figures of small and medium-size business offices, whereas the ratios (%) are those between the actual figures of the whole which include those of large-size business offices (this figure is not listed in the table) and the actual figures for small and medium-size business offices.

Table 4. CHANGES IN THE SCALE COMPOSITION OF JAPANESE INDUSTRIES AND DISPARITY IN VALUE ADDED BY MANUFACTURE

| Classified by number of employees | Number of business offices | | Number of employees (in thousand persons) | | | | Amount of manufactured goods delivered, etc. (in million yen) | | | | Amount of value added by manufacture (business offices with more than 4 employees) | | | | Disparity in the amount of value added by manufacture 1) as classified by scale of enterprise (per regular worker and per year) (in thousand yen) |
|-----------------------------------|----------------------------|-----------------|---|---------------|---------------|---------------|---|-----------------|-----------------|----------------|--|----------------|--------|---------|---|
| | 1955 | 1958 | 1960 | 1955 | 1958 | 1960 | 1955 | 1958 | 1960 | 1955 | 1958 | 1960 | 1955 | 1958 | |
| Total | 432,694 (100.0) | 455,372 (100.0) | 487,050 (100.0) | 5,511 (100.0) | 6,664 (100.0) | 8,169 (100.0) | 67,694 (100.0) | 101,122 (100.0) | 155,786 (100.0) | 20,985 (100.0) | 28,653 (100.0) | 48,371 (100.0) | 469 | 56.3% | |
| Less than 3 persons | 56.8% | 53.5% | 51.0% | 10.0% | 8.2% | 6.9% | 3.1% | 2.3% | 1.8% | —% | —% | —% | —% | —% | |
| 4-9 persons | 19.8 | 19.9 | 19.9 | 9.9 | 8.8 | 7.7 | 4.9 | 3.9 | 3.2 | 5.1 | 4.6 | 3.7 | 225 | 27.0 | |
| 10-19 persons | 12.9 | 14.1 | 14.6 | 13.6 | 13.1 | 11.8 | 8.5 | 7.4 | 6.3 | 8.4 | 8.1 | 6.7 | 269 | 32.3 | |
| 20-29 persons | 4.2 | 5.0 | 5.4 | 8.5 | 8.2 | 7.7 | 5.7 | 5.5 | 4.9 | 5.5 | 5.8 | 5.1 | 307 | 36.9 | |
| 30-49 persons | 3.1 | 3.6 | 4.2 | 9.1 | 9.3 | 9.3 | 7.5 | 7.0 | 6.8 | 7.2 | 7.5 | 6.9 | 348 | 41.8 | |
| 50-99 persons | 1.8 | 2.3 | 2.7 | 9.6 | 10.8 | 11.1 | 9.5 | 9.7 | 9.3 | 9.2 | 9.9 | 9.2 | 394 | 47.3 | |
| 100-199 persons | 0.8 | 0.9 | 1.2 | 8.2 | 8.8 | 9.8 | 10.0 | 9.9 | 10.1 | 9.7 | 9.7 | 9.7 | 471 | 56.5 | |
| 200-299 persons | 0.2 | 0.3 | 0.4 | 4.7 | 5.1 | 5.3 | 6.9 | 7.0 | 6.4 | 6.6 | 6.8 | 6.1 | 569 | 68.3 | |
| 300-499 persons | 0.2 | 0.2 | 0.3 | 5.6 | 5.8 | 6.2 | 9.3 | 8.8 | 8.2 | 8.7 | 8.3 | 7.7 | 352 2) | 42.3 2) | |
| 500-999 persons | 0.1 | 0.1 | 0.2 | 6.2 | 7.0 | 7.4 | 11.1 | 11.7 | 12.4 | 12.2 | 10.4 | 11.7 | 614 | 73.7 | |
| More than 1,000 persons | 0.1 | 0.1 | 0.1 | 14.6 | 14.9 | 16.8 | 23.5 | 26.8 | 30.6 | 27.4 | 28.9 | 33.2 | 833 | 100.0 | |

Source: Ministry of International Trade and Industry, *Census of Manufactures*, every fiscal year.

Notes: 1. The disparity in the value added by manufacture per regularly employed worker per year has been calculated on the basis of the same data (Small Enterprises Agency, *Handbook of Smaller Enterprise Statistics, for 1961*, Tokyo, pp. 82-83).

2) This figure represents the average of the total for Medium and Small-sized Enterprises with less than 300 persons employed.

Table 5. COMPARISON OF WAGE DISPARITY IN JAPAN, THE U.S., BRITAIN, AND WEST GERMANY BY SCALE OF ENTERPRISES

| Country | 1-9 persons 4-9 persons (Japan) | 10-49 persons | 50-99 persons | 100-499 persons | 500-999 persons | More than 1,000 persons |
|-------------------|---------------------------------------|------------------|------------------|--------------------|--------------------|-------------------------------|
| Japan (1955) | 40.0% | 45.7% | 53.5% | 64.8% | 79.1% | 100.0% |
| U.S. (1954) | 62.9 | 75.7 | 80.0 | 82.9 | 88.9 | 100.0 |
| Britain (1949) | — | 82.5 | 83.7 | 85.5 | 89.3 | 100.0 |
| W. Germany (1954) | 81.7 | 87.8 | | 91.6 | | 100.0 |

Sources: Japan—Smaller Enterprise Agency, *Handbook of Smaller Enterprise Statistics for 1958*, Tokyo, p. 27.

United States—*U.S. Census of Manufactures for 1958*, Vol. I, Summary Statistics, Washington, D.C., p. 2-3.

Britain—*Census of Production for 1950, 1949 and 1948*, Summary Tables—Part 1, London, 1953, p. 33.

W. Germany—*Arbeits-und Sozialstatistischen Mitteilungen*, 1954.

Table 6. LONG-RANGE CHANGES OF WAGE DISPARITY IN JAPAN'S MANUFACTURING INDUSTRIES AS CLASSIFIED BY SCALE

| Number of Employees | 1955 (monthly wage) | | 1925 (daily wage) | | 1909 (daily wage) | |
|------------------------|------------------------|-----------|----------------------|-----------|----------------------|-----------|
| | Amount | Disparity | Amount | Disparity | Amount | Disparity |
| More than 1,000 | ¥21,000 | 100.0 | 43 sen ¹⁾ | 100.0 | 34 sen | 100.0 |
| 500-999 | 18,200 | 86.7 | 39 | 90.7 | 32 | 94.1 |
| 100-499 | 14,400 | 68.7 | 36 | 83.7 | 33 | 97.1 |
| 50-99 | 11,900 | 56.7 | 36 | 83.7 | 32 | 94.1 |
| 30-49 | 10,800 | 51.4 | 35 | 81.4 | 32 | 94.1 |
| 10-29 | 10,000 | 47.6 | 37 | 86.0 | 33 | 97.1 |
| 4-9 | 8,900 | 42.4 | 39 | 90.7 | 34 | 100.0 |
| Average | 13,700 | 65.2 | 38 | 88.4 | 33 | 97.1 |

Source: MITI, *Census of Manufactures for 1909, 1925 and 1955*, *passim*.

Note: 1 yen equal to 100 sen.

Table 7. CHANGES IN WAGE DISPARITY IN JAPAN'S MANUFACTURING INDUSTRIES AS CLASSIFIED BY SCALE

(Enterprises with more than 500 employees=100)

| Year (average) | 100-499 persons | 30-99 persons | 5-29 persons |
|----------------|-----------------|---------------|--------------|
| 1950 | 84.2 | 67.3 | — |
| 1951 | 79.5 | 61.7 | — |
| 1952 | 79.1 | 58.8 | — |
| 1953 | 79.3 | 59.8 | — |
| 1954 | 77.6 | 59.9 | — |
| 1955 | 74.3 | 58.8 | — |
| 1956 | 72.1 | 56.1 | — |
| 1957 | 70.8 | 56.1 | — |
| 1958 | 69.7 | 54.7 | 43.6 |
| 1959 | 69.6 | 56.1 | 44.3 |
| 1960 | 70.0 | 58.9 | 46.3 |
| 1961 | 74.5 | 61.7 | 49.3 |

Source: Ministry of Labour, *Monthly Labour Survey*, every fiscal year.

Table 8. RATE OF HIRING OF NEW SCHOOL GRADUATES AS CLASSIFIED BY SCALE OF ENTERPRISE (AS OF MARCH, 1961)

| | More than 500 persons | 100-499 persons | 15-99 persons | Less than 14 persons |
|---------------------------|-----------------------|-----------------|---------------|----------------------|
| Jr. High School Graduates | 63.6% | 35.2% | 22.5% | 18.8% |
| Sr. High School Graduates | 52.7 | 45.2 | 36.9 | 33.7 |

Source: Same as Table 7.

Table 9. RATIO OF NEW SCHOOL GRADUATES FINDING EMPLOYMENT IN ENTERPRISES AS CLASSIFIED BY SCALE OF ENTERPRISE

(total for junior and senior high schools=100)

| | More than 500 persons | 100-499 persons | 15-99 persons | Less than 14 persons |
|-------------|-----------------------|-----------------|---------------|----------------------|
| March, 1956 | 26.7% | 12.1% | 21.8% | 39.4% |
| " 1957 | 16.4 | 21.0 | 34.2 | 28.4 |
| " 1958 | 13.4 | 19.3 | 35.4 | 31.9 |
| " 1959 | 15.0 | 20.4 | 36.2 | 28.4 |
| " 1960 | 23.3 | 27.5 | 32.0 | 17.2 |
| " 1961 | 28.2 | 31.4 | 28.5 | 11.2 |

Source: Same as Table 7.

Note: Indicated here is the scale composition of employment every year based on the total employment figures compiled by the Employment Stabilization Office and the Employment Stabilization Law's Articles 25, Item 3, as 100.

Table 10. MONTHLY STARTING SALARIES OF NEW SCHOOL GRADUATES

(Manufacturing industries, commuting workers)

| Scale | Male | | | Female | | |
|-----------------------|------------------|-----------------------|-----------------------|------------------|------------------|------------------|
| | College graduate | Sr. Hi. Sch. graduate | Jr. Hi. Sch. graduate | College graduate | Sr. Hi. graduate | Jr. Hi. graduate |
| Total | | | | | | |
| 1961 | 16,030 | 9,990 | 7,390 | 15,430 | 8,730 | 6,870 |
| 1962 | 19,130 | 12,740 | 9,040 | 17,300 | 10,920 | 9,000 |
| More than 500 persons | | | | | | |
| 1961 | 17,060 | 11,250 | 7,390 | 15,390 | 9,680 | 7,210 |
| 1962 | 19,480 | 13,210 | 8,880 | 17,590 | 11,280 | 9,150 |
| 100-499 persons | | | | | | |
| 1961 | 15,970 | 10,280 | 7,500 | 15,670 | 9,020 | 7,010 |
| 1962 | 18,490 | 12,410 | 8,990 | 17,240 | 10,870 | 8,980 |
| 15-99 persons | | | | | | |
| 1961 | 15,350 | 9,640 | 7,330 | 14,770 | 8,340 | 6,740 |
| 1962 ¹ | 18,360 | 12,320 | 9,170 | 16,820 | 10,600 | 8,700 |

Source: Ministry of Labour, Employment Stabilization Bureau, *Survey on Starting Salaries of New School Graduates, 1961 and 1962, passim.*

Note: 1. The figures for 1962, however, are based on 30-99 persons employed.

Table 11. THE RATE OF INCREASE FOR STARTING SALARIES OF NEW SCHOOL GRADUATES
(Manufacturing industries, commuting workers)

(in percentage)

| Scale | Male | | | Female | | |
|------------------------------|------------------|-----------------------|-----------------------|------------------|------------------|------------------|
| | College graduate | Sr. Hi. Sch. graduate | Jr. Hi. Sch. graduate | College graduate | Sr. Hi. graduate | Jr. Hi. graduate |
| Total | | | | | | |
| 1961 | 107.3 | 110.6 | 116.2 | 121.1 | 110.3 | 118.6 |
| 1962 | 120.3 | 121.5 | 122.8 | 121.1 | 118.5 | 121.0 |
| More than 500 persons | | | | | | |
| 1961 | 112.9 | 106.0 | 111.0 | 114.6 | 107.1 | 113.8 |
| 1962 | 116.4 | 121.6 | 115.8 | 119.7 | 116.1 | 111.8 |
| 100-499 persons | | | | | | |
| 1961 | 106.7 | 111.1 | 114.8 | 110.5 | 110.1 | 117.3 |
| 1962 | 121.0 | 123.4 | 122.1 | 121.6 | 118.4 | 119.0 |
| 15-99 persons | | | | | | |
| 1961 | 108.3 | 115.0 | 116.5 | 116.2 | 111.4 | 118.7 |
| 1962 | 118.4 | 120.8 | 123.6 | 118.6 | 118.3 | 121.9 |

Source: Same as Table 10.

Table 12. CHANGE IN WAGE DISPARITY BY SCALE OF ENTERPRISE
(Manufacturing industries, disparity in wages of employees in enterprises employing 10-99 persons with enterprises employing more than 1,000 persons taken as 100)

(in percentage)

| Age, Sex | | 1954 | 1958 | 1961 | 1962 |
|--|-------------------|------|------|-------|-------|
| 40-49 | male staff worker | 59.6 | 57.4 | 55.3 | 61.4 |
| | male labourer | 55.5 | 54.9 | 57.2 | 59.9 |
| 30-39 | male staff worker | 68.8 | 72.8 | 77.7 | 81.0 |
| | male labourer | 65.8 | 66.0 | 71.0 | 71.6 |
| 20-24 | male staff worker | 75.0 | 89.0 | 96.8 | 100.6 |
| Less than 18 years old male labourer | | 78.1 | 90.9 | 109.5 | 106.1 |
| More than 40 years old female labourer | | 50.2 | 46.5 | 57.9 | 57.6 |
| Less than 18 years old female labourer | | 74.9 | 80.7 | 100.1 | 90.5 |

Source: Ministry of Labour, *Labor White Paper*, Tokyo, 1963, p. 168.

Table 13. TYPES OF SMALL ENTERPRISES

| Demand | Relation with Big Enterprises | Independent | | Subcontracted | | Total |
|----------------------------|---------------------------------------|----------------|---------------|---------------|---------------|----------------|
| | | A | B | C | D | |
| Static or Decreasing | Declining | 590 (52) | 124 (13) | 103 (9) | 63 (3) | 880 (77) |
| | Encroached upon by Big Enterprises | 19 (2) | 368 (15) | 81 (2) | 9 (3) | 477 (22) |
| Increasing | Not so promising | 429 (28) | 150 (6) | 114 (17) | 34 (5) | 727 (56) |
| | Fairly promising | 838 (41) | 1,135 (53) | 1,219 (45) | 1,800 (41) | 4,990 (180) |
| | Very promising | 50 (2) | 251 (6) | 91 (2) | 455 (16) | 847 (26) |
| | Total | 2,006 (125) | 2,028 (93) | 1,608 (75) | 2,361 (68) | 7,923 (361) |

Source: MITI, *Census of Manufactures for 1959*, Tokyo, *passim*.

Notes: 1. As for the meaning of A B C D, see p. 18.

2. Figures represent the proportion of the employees of small enterprises having 4—299 workers to the total number (4,592,581), shown in %. The sum total is not indicated as 10,000, however, because those employees working in the enterprises which, though small, could be classified as big industry and "miscellaneous" are excluded from the table. Figures in brackets show the numbers of industry and trade minutely classified.
3. In some cases different kinds of work-type exist in one enterprise, and it is difficult to decide to which category they belong. These have been classified, however, under the category which is thought to be predominant.