A THEORY ON THE BUSINESS CONCENTRATION IN JAPAN

by

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1) Sphere and definition of the problem

Analysis of "'business concentration" in Japan may be said to have great significance at the present stage of her economic development, since it has become a definite tide following the enforcement of liberalization policies on trade, exchange and capital transaction. The clarification of the contents, characteristics and contradictions involved in the business concentration which is going on under such situations in Japan, seems very meaningful in order to grasp the mechanism of behaviors of Japan's big businesses, or monopolistic enterprises, as well as to define the present stage of the capitalism in Japan.

For the business behaviors of big businesses that form the central axis of the capitalism in Japan could be perfectly recognized only in respect of the business concentration, in addition to the "government-business relations".

The real state of concentration of such a significance, however, has not been put on theoretical realization until present.

It has been taken up as a subject for discussion only in connection with the implicated relations with liberalization; relations between liberalization and international business concentration on the one hand, and increases in international competition on the other.

(1) Broad lines of the arguments have been put as follows:

The first is to reexamine the scale of enterprise from the standpoint of international comparison. This has been taken up principally by the Reseach Committee on Industrial Structure, of the Ministry of International Trade and Industry (Division of Industrial Organization), putting focus on the course of the industrial reorganization in Japan.[1)]

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1) This argument for a new industrial organization has been already taken up by business circles in a form of "self-control", and especially Keizai Doyukai has proposed creation of the conference for industrial adjustment and closer cooperation between government and business. But the main current of the argument is in the "new organization", of a character of government-business cooperation, advocated by the subcommittee on higher industrial structure in connection with the Doubling National Income Plan, and urged by the Ministry of International Trade and Industry. It is to be noted that there are some discrepancies among these two views and that of Keidanren (Confederation of Business Organizations). The latter asserts the necessity of a third revision of the anti-monopoly law, and hence wants to leave business concentration at the natural flow of the matter amidst liberalization, namely at the compulsory law of capital.

The main themes there are to obtain the numerical state, scale and behaviors of enterprises from the viewpoint of efficiency of economic activities (low cost, adequate profit, operation rate of equipment), stability of business, and adoption of new techniques. Hence, the study is oriented to the enlargement of business scale, in its quantitative definition, proceeding ultimately to the problem of merger, cooperation and joint agreement among enterprises. The "new industrial organization" which is presently under discussion holds a scheme which asserts that primarily business scale is guided by the enlargement for the sake of business concentration, and for that purpose measures are taken for merger and consolidation.

The second takes up the point that the concentration in Japan has been advanced neither through consolidation of trusts nor formation of interest group, but rather by taking such a pattern as is represented by the diversity of cartels that are preceding stage of the former pattern.

This has been regarded as suggesting the characteristics of Japanese enterprises, and explained as being derived from the "declines in the degree of product concentration", by staffs of the Fair Trade Commission, for instance by Mr. Misonou.[2] The decline in degree of product concentration is represented by the fact that the "aggregate concentration ratio indices" of upper one, three and five enterprises of each industrial section have decreased fairly, and that the downward trends are similar among sections. On the contrary, as regards upper ten enterprises, degrees of the concentration ratio have shown rises, although fractionally.[3] It is to be noted that while such indices in the United States and in Germany are showing upward trends, it is downward in Japan. The view of the Fair Trade Commission is attempting to find the particularity of the concentration in Japan by this actual, quantitative indices.

The third rejects the above views which characterize the concentration only taking the indices by industrial sections as being inaccurate, and also points out that the measurement of degree of monopoly using outputs only will become difficult since transactions will be more invisible following concentration: and thus performs measurement using weight of enterprise groups within each financial linkage by asset positions.[4]

As the result of such measurement almost all of bigger enterprises within a given number in each industrial section are found to belong to powerful business groups respectively. Hence, although apparently numerous enterprises are competing in each industrial section, in fact, big enterprise are subordinated to a few numbers of groups, being combined into linkages through financing. In this way, downward trends are seen in the degree of product concentration,

2) Office of Fair Trade Commision ed.: Concentration of Production Capacities in Major Industries, 1949–58. (in Japanese)
3) Hitoshi Misonou: Monopoly in Japan. (in Japanese) p. 90. Data used by Misnou are mainly from Fair Trade Commission. The aggregate concentration ratio indices are obtained by the method used by National Bureau of Economic Research, "Business Concentration and Price Policy". 1955.
4) Giichi Miyazaki: Monopoly Trends in Post-war Japan (in Japanese), Keizai Seminary, June 1961.

despite the distinct capital concentration.[5)]

As shown above, existing views on the business concentration have been developed mainly in the form of arguments for "enlarging business scale", "declining product concentration ratio" and "developing of capital concentration". However, in all these discussions emphasis has been laid upon "quantitative definition", and as the result, "qualitative", internal relations have been almost neglected.

This article intends to clarify theoretically the qualitative side. But before entering into the subject, as an introduction to the main points of the discussion, I shall clarify the definition of the concept of concentration, and analyze its historical lineage in Japan, and finally explain its foundations.

(2) By clarifying the concept of concentration, we must theoretically reconstitute the area that has been discussed only formally until now as a problem of "forms of enterprise".

As it is well known, capital accumulation produces capital concentration necessarily when it reaches a certain stage. This takes a form of concentrating capital into a number of big capital and denies numerous individual capital. This causes, in turn, counteractions to foster capital accumulation.[6)]

There are two forms of capital concentration. The first is concentration by the form of corporation, especially by the mobilization into stock on the grounds of joint stock company. And the second takes such forms as syndicate, trust and interest group to be constructed on the foundations of cartel. The business concentration includes all of these forms.

In other words, business concentration does not confine itself merely to forms of capital concentration but proceeds to higher levels of evolution, in accordance with the development of capitalism.

Furthermore, in the phase of state-monopoly partnership between state and business, even within public enterprises and government enterprises, concentration can be seen.

Next I shall indicate several points regarding the contents of business concentration, as a part of capital concentration.

The first point is that it is meaningless to discuss syndicate, trust or interest group only formally and on a same ground, as a problem of enterprise forms. Rather the major point lies in the forms of enterprises as the phases of historical development; that is, development through cartel-syndicate-trust-interest group, and not in the individual form itself. In other words, forms of business concentration are decided according to the development processes of capital accumulation; thus phases of development of business concentration must be taken up.

Secondly, what should be derived from the above mentioned first point is that there is a marked difference between cartels and syndicates before the formation of interest group and those after it, although syndicates are the problem in the phase of industrial capitalism, especially in the phase of mon-

5) Giichi Miyazaki: Problems on the Measurement of Monopoly Degree (in Japanese), Kosei Torihiki, Jan. 1962.
6) K. Marx: Das Kapital, Bd. I, S. 660.

opoly foundation.

Of course, in both the former and the later stages, their characteristics are common whether it is syndicate or trust, at least regarding their fundamental features. But a distinction must be recognized in their emerging characteristics or phenomenal forms. The difference naturally exists since the one represents syndicates or trusts as independent, germ forms, while the other represents those that form a link in the chain of interest group.

The third point is that while cartel-syndicate-trust are forms that are established in a single section of industry, combination-combinat has correlations over a number of industrial sections (in this, capital correlation-unification makes a natural attendant fact, although centering around technical correlation), and interest group consolidates a wider sphere of economy (including not only industrial sections but also circulation processes as transportation and communication) through financial method.

As explained above, the business concentration contains capital concentration of a high degree, being accelerated by connections with the state.

(3) In order to characterize the present phase of the business concentration in Japan, it is necessary to clarify the specific, historical lineage of business concentration, besides its meanings in general. The writer has previously explained the details of the historical lineage, the essential points of which could be shown as the followings. The historical lineage must be examined so far as it contributes to the recognition of its present phase.

In this regard, the contents of the Essential Industries Controlling Act, enacted at the period of the severe depression of the 1930's, must be examined. One may find in it the primary pattern of the "new industrial organization", presently under discussion. They include cartelization, merger, consolidation, reunification into interest group and promotion of business concentration through medium of the state. In fact, amidst the scene of the great crisis, interest groups have completed and reorganized themselves on main industrial sectors, utilizing "family-control" and holding company as the apex of pyramid.

During the Second World War a new economic organization was established, and the cooperation between government and business was carried on to a thorough-going degree under state monopoly.

The business concentration in those days was succeeded by the "new organization" today, as a reprint, although under the Occupation policies and by the dissolution of Zaibatsu they have been partly paralyzed and reorganized.

In this article I do neither intend to appreciate the dissolution of Zaibatsu nor inquire profoundly into the Occupation scheme, but put main emphasis on clarifying the characteristics of the present concentration situations.

In the following, I shall first analize, theoretically and in dynamic way, the development of capital concentration and the feebleness of its internal structure. Next, I shall inquire into the characteristic relationship between the capital accumulation = high rate growth and the business concentration, and further the effects of the industrial reorganization upon the concentration. Then I shall explain the relations between liberalization and business transformation, synthesizing them with the above mentioned first point.

2) *Development of Capital Concentration and Feebleness in its Internal Structure*

In this section, I shall proceed to lay emphasis upon a criticism and development of the "quantitative definition", and ascertainment of the problems to be considered.

Firstly, let us consider the inferiority in the business scale[1] in Japan compared with that in international level (small scale)[2], in spite of its recent advance, because the analysis of the actual positions and substances of the concentration, on the basis of stock company, would be imperfect without reexamination of the business scale.

The smallness of the business scale in Japan has been derived from the following reasons. (Scales in cement, shipbuilding and textile industries are comparable to those in international levels, but in other sections they are very small. Examples for the latter are chemical and auto sections.)

It has been caused, for one thing, by the existence of a large number of medium and small scale enterprises, based on the low level of wages, which in turn are restraining business concentration in Japan. Another reason is in the fact that the expansion of production by big enterprises has not been in parallel with the rapid growth of home market.[3]

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1) Generally business scale corresponds to production scale or managerial scale, or comprises both. The former is popular in West Germany and the latter in the United States See: Nürunberger Abhandlungen zu den Wirtschaft-und Sozialwissenschaften, Heft 10. "Betriebsgrösse und Unternehmungs-Konzentration" 8,1959, S. 71. Edward S. Mason: Economic Concentration and the Monopoly Problem, 1959, p. 19.

2) Comparison of Business Scales in Several Industries (in Millions of dollars)

Japan	Foreign Country
Chemicals	
Sumitomo Kagaku 122. Mitsubishi Kasei 112.	DuPont 2,169. ICI 1,563. Badisch 616. Monticani 256.
Oil refinery	
Nihon Sekiyu 299. Maruzen Sekiyu 204.	Standard Oil N.J. 8,034. Royal Dutch 7,486.
Cement	
Onoda Cement 82. Nihon Cement 66.	Permanent Cement 72. Portland Cement 94.
Steel	
Yawata Seitetsu 567. Fuji Seitetsu 413.	US Steel 3,648. Schneider 477. Chase Investment 707. Krupp 764.
Aluminum	
Showa Denko 101. Nihon Keikinzoku 44.	ALCOA 861. Reynolds 438. ALCAN 353.
Automobile	
Toyota Jidosha 285. Nissan Jidosha 231.	GM 12,736. Ford 5,237. Rolls Royce 267. Fiat 861. Volkswagen 647. Renault 602.
Electrical machinery	
Hitachi Seisakusho 624. Tokyo Shibaura Denki 427.	GE 4,197. Westinghaus 1,955. Associated 602. AEG 374.

(Note: Sales amounts for 1960.)

3) Masaharu Yoshimura: Liberalization and Japanese Economy (in Japanese) p. 117.

The business scale is thus limited, but it should be noted that it is rather under-evaluated. Because, while in the United States business scales are measured on the basis of consolidated statements, such statements are not presented in the case of Japan. Hence the real position in Japan is not clear, but obscurity does not imply that it is not true. Perhaps, actually, scales in Japan may be larger than represented by the figures.

Anyhow, it is clear that limitation has been put upon the enlargement of scale in respect of capital and industrial sections. Then, what are the reasons for that?

Generally the reason is sought in the over-competition in connection with the excess-multitude and over-diversity of cartels.[4] The over-competition has been, on the other hand, a reason for the declines of the production concentration degree, which implies a contrast of the logic against the reality.

However, I should like to point out rather that bases for the restraints on the business scale are born from the declines in business concentration.[5] Fundamentally the small scale has been derived from the structural characteristics of Japanese capitalism, but within each industrial section it is rather the declines of production concentration that is limiting the enlargement of scale.

Over-competition is not the source of the declines in the business scale, but only a factor fostering it. It is not the reverse.

However, two theoretical developments have emerged regarding the reasons for the declines in production concentration. The first view is shown by Mr. Uchida and others[6] who assert that four big enterprises with different

4) Hitoshi Misonou: Monopoly in Japan (in Japanese), p. 93, p. 114.

5) do.: p. 91.

Aggregate Concentration Ratio Index

Years	Upper one company	Index	Upper three companies	Index	Upper five companies	Index
1952	28.3	100.0	56.5	100.0	69.5	100.0
1953	28.1	99.3	55.7	98.5	70.1	100.8
1954	28.1	99.0	55.5	98.3	68.3	98.2
1955	27.1	95.7	54.1	95.7	65.2	93.8
1956	26.3	92.9	52.9	93.6	65.6	94.4
1957	25.7	90.8	52.1	92.2	64.6	93.0
1958	26.2	92.8	51.7	91.5	64.2	90.9

Note: Average figure for 40 industrial sections for 1952-54, and 81 sections for 1955-58, based on the concentration degrees by the Fair Trade Commission.

6) Masami Uchida: Industrialization in Japan and Contradictions of Big Enterprises (in Japanese), Keizai Hyoron, Feb. 1960. Mr. Uchida argues as follows; The particular patterns of existence are presented by (1) big enterprises of public nature (nine electric power companies and two steel companies, Yawata and Fuji), (2) enterprises linked with foreign capital (four to five oil refinery companies), (3) enterprises linked with former Zaibatsu (Mitsui, Mitsubishi, Sumitomo and Furukawa), and (4) independent big enterprises (Hitachi, Nissan, Kubota, etc.). This situation becomes an obstacle for concentration. Other obstacles are in the fact that conzerns are of commercial and loan capital nature; the fundamental sections of heavy and chemical industry are of public character and under influences of foreign capital; concentration through severe business cycles as in Europe has not been experienced; and the dissolution of Zaibatsu and elimination of concentrative powers are affecting.

characters are existing respectively in industrial sections in particular patterns, forming an obstacle for the concentration in each group, or the vertical merger among related sections. The other view is represented by M. Miyazaki who argues that capital concentration is proceeding despite the declines in production concentration, presenting an unbalance; the gap between the two is the result of investment activities by "one-set" commander of each business linkage.[7)]

These two views are suggesting truely the foundations of the declines in production concentration in each sense, but they are not sufficient. The reasons pointed out by Mr. Miyazaki may be appropriate in the case of new industries such as petrochemical, but it cannot explain the reason for the incompleteness of merger in the existing heavy and chemical industries, such as three engineering companies of Mitsubishi group and three chemical companies of Mitsui group.

Indeed capital concentration has developed remarkably as a whole in each interest group.[8)] However, a reexamination of them with respect to "capital concentration" itself is necessary. For the declines in production concentration are not only the result of investment activities of "one-set" commander of each interest group, but also closely defined by the substances of capital concentration.

Table 1-(1) Number of Enterprises to which Each Bank Stands as 1st Rank Creditor

Bank	With Increased Share of Loan	With Decreased Share of Loan	With Unchanged Share of Loan
Mitsui	55	38	8
Mitsubishi	47	46	13
Sumitomo	52	40	12
Fuji	51	44	9
Daiichi	25	27	10
Sanwa	32	33	4
Kangyo	19	10	2
Tokai	15	16	2
Daiwa	14	6	1
Kobe	3	5	3
Kyowa	7	2	—
Tokyo	3	4	1
Hokkai Takushoku	3	6	—
(Prefectural Bank)	37	48	15
(Long-Term Loan Bank)	14	3	—

Note: The share is to the total borrowing of each enterprise.
Source: Study on Business Linkage (in Japanese) 1962, p. 37.

7) Giichi Miyazaki: Logics and Realities of Over-competition (in Japanese), Economist, Nov. 10, 1962, special edition.
8) Giichi Miyazaki: Problems on the Measurement of Monopoly (in Japanese), Appendix Table 2.

Under internal correlations between a financial group and enterprises under its influences (conzern), linked loans, stock holding, stock interchange and personnels dispatch have shown marked advances.

Table 1-(2) Enterprises with Linked Loan.—1 per cent or More of Total Loan of Each Bank

Bank	Enterprise	Proportion in Total Loan, end of 1st half, 1961 % (Billion yen)	Proportion in Total Borrowing, end of 1st half, 1960 %	Proportion in Total Borrowing, end of 1st half, 1961 %
Mitsui	Mitsui Kozan	1.1 (3.1)	24.73	23.65
	Tokyo Shibaura Denki	2.1 (5.9)	16.70	19.06
	Mitsui Kagaku	0.9 (2.5)	53.30	46.93
	Onoda Cement	1.2 (3.3)	21.61	36.26
	Mitsui Bussan	7.1 (20.4)	25.03	27.89
	Toyo Rayon	1.1 (3.2)	30.52	29.22
	Mitsui Fudosan	0.9 (2.5)	43.37	48.15
	Tokyo Denryoku	3.4 (9.8)	9.76	10.92
Mitsubishi	Mitsubishi Zosen	1.4 (5.7)	21.34	24.27
	Mitsubishi Nihon Juko	1.1 (4.7)	37.48	38.64
	Honda Giken	0.9 (3.7)	60.92	55.96
	Mitsubishi Denki	1.5 (6.2)	31.63	30.11
	Asahi Glass	1.0 (4.0)	38.20	39.89
	Mitsubishi Shoji	3.9 (15.8)	29.44	28.83
	Tohoku Denryoku	1.0 (4.1)	3.38	3.88
	Shin Mitsubishi Juko	1.8 (7.5)	28.18	28.86
Sumitomo	Toyo Kogyo	1.1 (4.1)	27.33	29.58
	Nihon Denki	1.4 (5.2)	42.54	46.05
	Sumitomo Kagaku	1.1 (4.3)	31.72	41.60
	Asahi Kasei	1.3 (4.7)	28.07	28.39
	Daishowa Seishi	0.9 (3.4)	15.37	22.22
	Itochu Shoji	3.0 (10.9)	31.47	28.35
	Sumitomo Shoji	3.0 (10.9)	53.26	60.42
	Adaka Sangyo	2.7 (9.8)	56.78	51.72
	Kyushu Sangyo	1.0 (3.8)	4.90	4.39
	Chugoku Denryoku	1.3 (4.6)	9.72	9.69
Fuji	Nihon Kokan	2.0 (8.2)	19.75	18.72
	Nissan Jidosha	1.1 (4.3)	19.11	20.46
	Showa Denko	1.2 (4.8)	25.26	26.69
	Nihon Cement	1.3 (5.2)	42.01	43.83
	Taisei Kensetsu	1.0 (4.2)	38.32	52.19
	Marubeni Iida	3.7 (15.0)	32.97	31.86
	Yawata Seitetsu	2.8 (11.3)	10.03	10.28
	Hitachi Seisakusho	2.9 (11.6)	11.17	11.89

Source: Study on Business Linkage, p. 36.

For instance, linked crediting between trunk banks and subordinate enterprises are developing, as seen in the concentration of their loans to these enterprises. (Table 1)

Table 1-(3) Changes in Linked Loans

Main Linked Enterprise	September, 1961			March, 1958		
	Total Borrowing	Trunk Bank	Linked Finance Institution	Total Borrowing	Trunk Bank	Linked Finance Institution
(Mitsubishi group)	(Billion yen)	(%)	(%)	(Billion yen)	(%)	(%)
Mitsubishi Shoji	65.2	24.2	28.8	34.5	29.3	31.0
Shin Mitsubishi Juko	44.8	16.8	28.5	19.8	21.5	29.5
Mitsubishi Denki	36.2	17.1	30.4	9.9	39.0	48.7
Mitsubishi Nihon Juko	21.2	21.4	40.7	5.5	28.6	43.1
Mitsubishi Zosen	11.8	35.2	36.1	24.2	14.3	17.6
Asahi Glass	11.8	34.0	39.9	7.2	36.4	39.2
Mitsubishi Sekiyu	12.9	30.0	56.6	10.1	55.4	66.8
(Sumitomo group)						
Itochu Shoji	38.9	27.9	28.3	25.0	31.3	31.5
Sumitomo Shoji	27.1	36.6	56.5	9.2	38.3	51.2
Adaka Sangyo	20.4	45.8	52.0	8.9	51.6	57.6
Nihon Denki	23.6	22.2	42.2	6.0	28.2	38.2
Asahi Kasei	19.9	23.8	28.6	8.9	36.6	37.8
Sumitomo Denki	10.7	28.5	59.9	4.5	31.2	61.2
Sumitomo Kinzoku	44.3	4.5	24.2	16.0	22.1	41.0
(Mitsui group)						
Mitsui Bussan	77.7	17.2	19.0	32.4	24.9	28.3
Mitsui Kagaku	8.5	29.5	46.9	2.4	45.8	53.2
Toyo Seikan	12.9	18.5	29.5	6.5	12.1	21.3
Hino Jidosha	13.2	15.5	19.0	7.9	15.7	17.3
Nihon Seikosho	8.7	22.9	35.4	7.2	27.0	37.3
Mitsui Zosen	6.2	25.1	33.2	2.3	26.4	26.4

Source: Analyst (in Japanese) Oct. 1962, p. 14.

Table 1-(4) Degree of Dependency of Linked Enterprises upon Trunk Banks

Major Linkage		1953	1954	1955	1956	1957	1958	1959
		(%)	(%)	(%)	(%)	(%)	(%)	(%)
Mitsubishi	(41 corp.)	21.9	20.7	19.5	20.2	23.8	23.2	21.6
Mitsui	(37 corp.)	21.9	21.9	20.6	20.1	24.2	19.2	17.1
Sumitomo	(25 corp.)	24.4	26.8	21.3	15.9	22.7	21.8	18.2
Fuji	(31 corp.)	20.4	22.9	25.7	22.7	27.7	26.4	23.1
Daiichi	(36 corp.)	24.7	24.7	20.4	18.9	22.9	19.9	17.5
Sanwa	(21 corp.)	25.5	28.0	24.8	23.4	25.6	27.8	26.1

Source: Economic Planning Agency; Liberalization and Business Linkage (in Japanese), June 1961.

However, it must be noted that in the first half of 1961 finance demands for equipment investment marked a further expansion in succession to the previous year, resulting in the relative scarceness of sources of fund from banks that had been recognized already in 1960.[9] In other words, while the loans from trunk banks are increasing and also the ratios of such loans are rising,[10] on the other side, the ratios of borrowing of these enterprises from trunk banks have become smaller, representing a gap against the demands for large investment.

This gap is becoming more and more remarkable through the process of capital concentration, suggesting a feeble point of the internal structure of Japanese capital concentration. The result has been the increases in loans to linked enterprises and the strengthening of linkage, in order to cover the gap. Further, to supply funds for the advances into combinats and new areas by linked enterprises, and also for their outside investments, relative scarceness of sources of trunk banks is unavoidably becoming more distinct (also being fostered by the stagnant deposits).

On the other side, how are the positions of stock holding and stock interchanges among linked groups?

As shown in Table 2-(1), the ratio of stock holding in respective groups are rising, except in case of Mitsui, Mitsubishi and Daiichi groups. However, so far as seen in Table 2-(2) interchanges of stocks within respective groups

Table 2-(1) Stock Inter-holding within Linked Enterprises

Group	Number of Enterprises	1 st half, 1960 (%)	1 st half, 1961 (%)	Increase or Decrease in Ratio (%)
Mitsui	54	11.59	11.23	△ 0.36
Mitsubishi	54	21.28	21.27	△ 0.01
Sumitomo	55	22.17	22.94	0.77
Fuji	53	12.47	13.10	0.63
Daiichi Bank	43	13.37	12.71	△ 0.66
Sanwa Bank	39	7.89	8.43	0.54

Source: Study on Business Linkage, 1962, p. 96.

9) Keizai Chosa Kyokai: Study on Business Linkage, 1962, p. 96.

10) Recent trend has indicated rather the decline in loan ratio, resulting in intensification of the Heels of Achilles.

Ratio of Loans to Enterprises of Primary Priority

Trunk Bank	Ratio of Loan		Number of Enterprises with Changed Ratio	
	1959	1961	Rise	Decline
Fuji	26.7	25.2	27	39
Mitsubishi	21.6	22.9	28	40
Sanwa	29.0	24.6	16	26
Sumitomo	25.6	24.9	18	29
Daiichi	21.0	20.9	19	20
Mitsui	22.0	21.3	22	20

Source: Toyo Keizai Tokei Geppo, Vol. 22, No. 2, Feb. 1962.

Table 2-(2) Changes in Stock Inter-Holding (a)

	Mitsui	Mitsubishi	Sumitomo	Yasuda
Before Zaibatsu Dissolution				
Head corp.	63.8	47.8	83.3	90.9
Linked corp., direct	69.0 (10 corp.)	40.5 (11 corp.)	37.8 (15 corp.)	28.1
Linked corp., indirect	57.5 (12 corp.)	32.7 (16 corp.)	29.7 (16 corp.)	
End of Sept., 1954	9.9 (18 corp.)	17.1 (22 corp.)	16.4 (14 corp.)	
End of March, 1958	12.2 (18 corp.)	20.2 (22 corp.)	19.8 (14 corp.)	

Sources: Before dissolution; Zaibatsu in Japan and Their Dissolution (in Japanese): Post-war; Toyo Keizai Shimpo, Nov. 5, 1958.

Table 2-(2) Changes in Stock Inter-Holding (b)

	1 st half, 1959	1 st half, 1960		1 st half, 1961	
Group	A	A	B	A	B
Mitsubishi	20.65	21.44	21.28	21.95	21.27
Mitsui	11.57	11.53	11.59	10.9	11.23
Sumitomo	18.86	21.08	22.17	22.40	22.94
Fuji	10.39	14.19	12.47	—	13.10

Note; Numbers of corporations are;

	Mitsubishi	Mitsui	Sumitomo	Fuji
A	41	48	34	42
B	54	55	55	53

Source: Compiled from the data in Study on Business Linkage.

after the second World War are unquestionably low compared with prewar times.

Among others, the weights of banks' holdings are generally high as shown in Table 3-(1), (especially extremely high in Sanwa and Fuji groups), and during the period between the first half of 1960 to the first half of 1961 banks could be said to turn themselves into holding companies.

This mechanism of interrelations will become clearer by Table 3-(2). As seen in the ratios of total stock holding of ten enterprises, including banks, within each group, the roles played by banks at present are as large as in the past. This shows in reverse the weak combination among subordinate enterprises-linked enterprises to each other. (Typical ones are Sanwa and Fuji, the ratio of stock holding of the former being 19.6 per cent and the latter 13.7 per cent.)

This second side (horizontal side) is suggesting the feebleness in the cross combination among enterprises (over-competition).[11]

11) Keizai Chose Kyokai: Study on Business Linkage, 1962, p. 97.

Table 3-(1) Importance of Financial Institution in Enterprise Group (Percentage of its holding to total stock inter-holding within group)

Group	1 st half, 1960		1 st half, 1961		Change	
	Banks	Others	Banks	Others	Banks	Others
Mitsui	16.9	83.1	20.1	79.9	3.2	△ 3.2
Mitsubishi	11.6	88.4	11.9	88.1	0.3	△ 0.3
Sumitomo	16.8	83.2	17.7	82.3	0.9	△ 0.9
Fuji	27.9	72.1	30.0	70.0	2.1	△ 2.1
Daiichi	17.3	82.7	18.7	81.3	1.4	△ 1.4
Sanwa	42.9	57.1	44.3	55.7	1.4	△ 1.4

Source: Study on Business Linkage, 1962, p. 97.
Note: Including financial institutions other than banks, and business corporations.
△ Decrease

Table 3-(2) Degree of Aggregate Concentration of Total Stock Holding of Ten Major Corporations in Each Group

Group	Ratio of Total Holding	Holding of Bank (A)		Holding of Other Nine Corp.	Aggregate Degree
	(%)		(%)	(%)	(%)
Mitsui	11.23 (100)	Mitsui	20.1	53.2	73.3
Mitsubishi	21.27 (100)	Mitsubishi	11.9	68.1	80.0
Sumitomo	22.94 (100)	Sumitomo	17.7	66.3	84.0
Fuji	13.10 (100)	Fuji	30.0	53.0	83.0
Daiichi	12.71 (100)	Daiichi	18.7	66.4	85.1
Sanwa	8.43 (100)	Sanwa	44.3	40.2	84.5

Source: Study on Business Linkage, 1962, p. 97.

These facts tell that while, after the War, capital concentration has developed in an enormous magnitude on the one hand, the weak point of its internal structure has revealed itself on the other.

The Heel of Achilles of the internal structure of capital concentration is represented in the relative shortage of loan capacities of trunk banks as sources of huge investment, as well as in the imperfectness of stock interchanges among linked enterprises.

This internal feebleness of capital concentration is enforcing limits upon merger and consolidation of enterprises, and further making a reason for the declines in production concentration. (Although the mushroom of new enterprises in the newly born sectors is the result of one-set investment of linked groups.) And, the feebleness does not only limit merger and consolidation, but also hinders development of trust, and thus confines the expansion of business scale.

In this manner, the small business scale—decline in production concentration—feebleness in internal structure of capital concentration are related internally through a link of mechanism.

However, it is the historical factors of Japanese capitalism that sets forth ultimately the internal feebleness of capital concentration. The characteristic ones are the inheritances from the prewar times, dissolution of Zaibatsu after the War, structural changes of finance under the Occupation, expansion of domestic market, equipment investment, and its dependency on external capital.

3) *Capital Accumulation=High Rate of Growth and the Characteristics of Business Concentration in Japan*

In the preceding section we have clarified the feebleness in the business concentration in Japan amidst the development of capital concentration, in respect to its internal structure. However, the correlations must be inquired more substantially.

So in this section we shall examine the shift of weight = reorganization regarding the characters and forms of business concentration, that have been achieved through the mechanism of capital concentration, particularly intense capital concentration.

As it is well known, the index of "intense" capital concentration can be recognized in the gigantic development of equipment investment. (See Table 4—1. 2. 3.)

Table 4-(1) Equipment Investment by Major Industrial Sectors (Million yen)

Industrial Sectors	No. of Corp.	1960 (actual)	1961 (est.)	1962 (plan)	1961/60 (%)	1962/61 (%)
Electric power	22	338,419	395,076	468,333	117	119
Shipping	37	37,874	47,922	73,937	127	154
Steel	48	224,830	281,858	315,386	125	112
Coal minig	18	24,060	24,559	27,652	102	113
Chemicals	315	202,786	290,176	387,952	143	134
Engineering	206	219,789	291,539	332,664	133	114
Textile goods	97	61,966	67,774	79,728	109	118
Others	280	339,203	429,364	489,682	127	114
Total	1,023	1,448,927	1,928,268	2,175,334	126	119

Note: Chemicals includes oil refinery and rubber products. Engineering includes machinery, electrical equipment, transportation equipment and precision instruments.

Table 4-(2) Equipment Investment by Classes of Capital Amount

Capital (Million yen)	No. of Corp.	1960 (actual) (Billion yen)	1961 (plan) (Billion yen)	Increases (Billion yen)	Share in Total Increase (%)	1961/60 (%)
100-499	1,107	196.3	330.7	134.4	16	168
500-999	226	100.7	178.6	77.9	9	177
1,000-4,999	338	465.6	807.0	341.4	41	173
5,000-	83	912.4	1,203.3	290.9	34	132
Total	1,754	1,675.0	2,519.6	844.6	100	150

Table 4-(3) Trend in New Equipment Investment

	2nd half, 1961		1st half, 1961		1st half, 1962	
	Amount (Billion yen)	Rate of Increase(%)	Amount (Billion yen)	Rate of Increase(%)	Amount (Billion yen)	Rate of Increase(%)
All industries	834.1	10.6	754.1	10.9	679.8	26.2
Manufacturing	523.0	3.5	505.5	21.6	415.6	22.3

This large amount of investment has not only expanded domestic market and furnished grounds for high rate growth, but also increased absolute amount of fixed assets as well as its index (Table 5-1). (However, index of increases in tangible fixed assets are declining relatively compared with increases in external investment, mainly to linked firms).

The expansion of fixed assets by industrial sections, especially as regards the number of enterprises with capital amounts of 100 million yen or more respectively, reveals the huge investment-expansion of tangible fixed assets (Table 5-2).

As the result, enterprises assets composition have grown large (of course the rate of increase is declining compared with absolute amounts), and proportionally amount of fixed assets are increasing.

By the way, sources for gigantic capital composition have been supplied, for the latter half of 1961, from internal funds, 20.1 per cent (internal reserves 4.6 per cent) and from external funds, 79.9 per cent (borrowing 32.6 per cent). Namely, the funds are depending more on owned capital than external capital. Hence, as seen in the ratios of owned capital in Table 6-2, they have shown a declining trend after they had reached the peak in the latter half of 1954.

So to speak, "capital composition" has been worsened. This is caused by sustained investment surpassing internal reserves, not by the absolute scarceness of reserves.

Table 5-(1) Value of Fixed Assets

Year	Amount (Billion yen)	Index	Tangible Assets(%)	Intangible Assets(%)	Estate (%)	Investment (%)
1951	1,377.4	100	92.8	0.9	2.5	3.7
1952	1,862.6	135.2	90.6	1.4	2.4	5.6
1953	2,463.9	178.8	90.0	1.4	2.7	5.9
1954	3,466.3	251.7	89.5	1.3	2.9	6.3
1955	3,989.9	289.7	86.9	1.5	3.9	7.7
1956	4,674.2	339.3	85.8	2.0	3.9	8.2
1957	6,049.1	439.2	84.6	1.7	4.2	9.5
1958	7,204.5	523.0	85.5	1.6	4.5	10.4
1959	8,179.9	593.8	81.4	1.7	5.2	11.7
1960 (1st half)	7,990.7	—	81.6	1.6	4.8	12.1

Source: Study on Business Linkage, 1961, p. 7.

Table 5-(2) Expansion of Fixed Assets

Industry	No. of Corp. with Capital of More than 100 Mil. yen	Tangible Fixed Assets (A) (Billion yen)	Investment (B) (Billion yen)	Upper Rank Corp.	Tangible Fixed Assets (a)	Investment (b)	a/A	b/B
Coal mining	35	352.6	80.4	Mitsui Kozan	2,033.7	373.1	5.8	4.2
				Mitsubishi Kogyo	1,540.6	436.6	4.4	5.4
Textile	109	183.0	35.9	Toyo Boseki	2,035.2	500.3	11.1	13.9
				Toyo Rayon	3,492.9	340.3	19.1	9.5
Chemicals	167	291.1	47.3	Sumitomo Kagaku	2,096.3	519.7	7.2	11.0
				Showa Denko	1,933.6	441.2	6.1	9.3
Steel	71	631.3	73.3	Yawata Seitetsu	12,159.8	1,142.0	19.3	15.6
				Fuji Seitetsu	7,324.8	1,150.1	11.6	15.7
Engineering	79	55.8	13.0	Komatsu Seisakusho	370.2	59.2	6.6	4.6
				Fujikoshi Kozai	361.2	41.8	6.5	3.2
Electrical equipment	75	206.7	69.2	Hitachi Seisakusho	3,738.2	2,029.3	18.1	29.3
				Tokyo Shibaura Denki	3,049.1	642.1	14.8	9.3
Shipbuilding	24	336.9	78.8	Shin Mitsubishi Juko	1,706.8	235.3	5.1	2.9
				Mitsubishi Zosen	1,009.9	230.3	3.0	2.9
Electric power	14	9,837.0	186.2	Tokyo Denryoku	31,626.0	679.4	3.0	3.6
				Kansai Denryoku	25,818.1	543.7	2.6	3.0
Gas	13	729.1	54.2	Tokyo Gas	4,057.6	319.3	5.6	5.9
				Osaka Gas	3,752.4	181.9	5.1	3.4

Source: Study on Business Linkage, 1961, p. 7.

Table 5-(3) Rate of Increase in Main Assets, Liabilities and Capital Items, and their Percentage Composition

	2nd half, 1961		1st half, 1961		2nd half, 1960	
	Increase	Composition	Increase	Composition	Increase	Composition
	(%)	(%)	(%)	(%)	(%)	(%)
Current assets	12.9	48.9	13.8	48.4	16.2	47.7
Floating assets	12.0	26.3	12.0	26.2	21.4	26.2
Cash & deposit	8.5	6.8	1.3	7.0	26.1	7.8
Sales credit	14.2	18.6	17.6	18.2	17.8	17.3
Inventory assets	11.5	15.1	13.6	15.1	7.5	15.0
Fixed assets	10.6	50.7	11.0	51.2	11.1	51.9
Tangible fixed assets	9.9	41.8	9.7	42.5	10.0	43.6
Investment	14.9	8.4	17.4	8.5	17.3	7.8
Deferred account	4.2	0.4	13.8	0.4	26.9	0.4
Total assets (liabilities)	11.7	100.0	12.4	100.0	13.5	100.0
Liabilities	11.7	72.1	13.7	72.0	15.4	71.1
Current liabilities	13.7	47.5	15.5	46.6	15.1	45.3
Purchases debit	16.2	17.3	20.4	16.7	18.3	15.5
Short term borrowing	15.5	16.8	10.7	16.2	11.9	16.5
Fixed liabilities	8.1	24.6	10.6	25.4	15.9	25.8
Long term borrowing	10.0	15.5	8.1	15.8	9.2	16.4
Debenture	4 0	6.6	15.5	7.1	41.3	6.9
Owned capital	11.7	27.9	9.0	28.0	9.2	28.9

Therefore capital accumulation has been advanced not on the ground where asset composition and capital composition are proportionate to each other, but in an inverse movements by both. This has tended to make capital composition worse.

These processes of capital accumulation = high rate growth have induced business cycles that are named "equipment investment inducing pattern", that have increased dependency upon external capital for investment. This mechanism works so as to compensate the relative shortage of external capital by public investment and finance,[1] and to reinforce it by foreign capital.[2]

1) Shigeru Aihara: Capital Accumulation (in Japanese).
2) Keizai Hyoron, March, 1962, p. 162–173.

Inducement of Foreign Capital after the War

	Inducement of Techniques (No.)	Security (1000$)	Loan (1000$)	Total* (1000$)
1949—50	21	3,824	26	3,850
1951	92	13,332	3,999	17,331
1952	142	9,923	34,457	44,405
1953	102	4,870	49,362	54,232
1954	79	4,047	15,265	19,312
1955	78	4,350	47,054	51,411
1956	147	9,550	93,651	103,216
1957	117	12,224	123,979	136,203
1958	93	11,120	231,473	242,621
1959	153	27,290	127,615	154,935
1960	327	75,409	128,199	203,628
1961	320	115,912	387,708	504,977

* Including beneficiery securities, debentures & etc.

Table 6-(1) Uses and Sources of Funds (All Industries)

	2nd half, 1961			1st half, 1961			2nd half, 1960		
	Amount (Billion yen)	Composition (%)	Increases or Decreases (%)	Amount (Billion yen)	Composition (%)	Increases or Decreases (%)	Amount (Billion yen)	Composition (%)	Increases or Decreases (%)
Uses of Funds									
Fixed assets	994.2	52.6	7.8	922.2	51.5	12.8	817.7	47.6	26.8
Inventory assets	224.1	11.9	△3.9	233.1	13.0	96.1	118.9	7.2	△23.5
Sales credit (incl. bills)	420.6	22.3	△7.5	454.7	25.4	26.8	358.5	21.8	30.3
Cash, deposit	76.8	4.0	550.9	11.8	0.7	△93.6	184.5	11.2	1,190.2
Others	173.2	9.2	2.2	169.4	9.4	0.5	168.6	10.2	133.8
Total (uses & sources)	1,888.9	100.0	5.5	1,791.2	100.0	8.7	1,648.2	100.0	41.8
Sources of funds									
Internal funds	380.5	20.1	7.1	355.4	19.8	14.7	309.9	18.8	11.9
Internal reserves	87.9	4.6	4.2	84.4	4.7	1.1	83.5	5.1	15.5
Depreciation	292.6	15.5	8.0	271.0	15.1	19.7	226.4	13.7	10.6
External funds	1,508.4	79.9	5.1	1,435.7	80.2	7.3	1,338.3	81.2	51.2
Stock	312.2	16.5	58.8	196.6	11.0	10.2	178.4	10.8	97.1
Debenture	60.2	3.2	△52.2	126.0	7.0	46.3	234.5	14.2	274.0
Borrowing (incl. bills)	614.6	32.6	33.9	458.9	25.6	10.0	417.2	25.3	8.1
Purchases debit	347.4	18.4	△ 4.3	363.0	20.3	33.0	272.9	16.6	33.6
Others	174.0	9.2	△40.3	291.2	16.3	23.8	235.3	14.3	65.4

Table 6-(2) Changes in Ratios of Owned Capital (%)

Year		All Industries	Manufacturing
1951	1st half	36.93	31.34
	2nd half	36.47	31.93
1952	1st half	35.89	33.13
	2nd half	35.24	33.52
1953	1st half	34.71	34.24
	2nd half	36.70	36.96
1954	1st half	39.13	38.28
	2nd half	39.75	39.97
1955	1st half	39.17	39.87
	2nd half	38.09	39.93
1956	1st half	36.62	37.83
	2nd half	35.14	35.95
1957	1st half	32.85	33.05
	2nd half	32.78	33.29
1958	1st half	32.87	33.90
	2nd half	32.51	33.88
1959	1st half	30.75	32.33
	2nd half	30.30	32.17

And, the latter fosters international business concentration through impact investment.

On the other side, the absolute and relative increases in external funds have introduced increases in linked loans by main banks, and as the result have reproduced in a larger degree the declines in the ratios of linked loans and the insufficiency of stock inter-holding among subordinate enterprises. Thus it acts as an element to weaken the internal structure of the capital concentration.

Here, again, the declines in product concentration as explained in (1), have promoted over-competition, resulting in excess investment. This mechanism, as a vicious cycle, has finally decreased profit rate on the grounds of increases in fixed capital, or more concretely tangible fixed assets.

The decreases in profit rate have caused decline in rate of returns on total capital, to speak more substantially.

Here, counteractions by capital in various ways emerged to cover the declines in net rate of returns and profit rate (net returns rate to total capital as for individual capital, and profit rate for social capital) by the volume of profit.

There are various counteractions to prevent the declines in rate of returns but here we shall explain it laying emphasis upon the peculiar Japanese pattern regarding private monopoly-business concentration.

It should be stressed that the counteractions by business concentration work, at the same time, as reinforcing actions. If counteractions were such that mainly points to overcome the internal feebleness of capital concentration,

Table 7 Rates of Profit and Capital Revolving in Manufacturing (%)

	Net Profit Rate to Sales	Net Profit Rate	Total Capital			Revolving Rate to Total Capital
			Profit Rate Before Deducting Interest	Profit Rate Before Deducting Tax & Interest	Profit Rate Before Deducting Tax, Interest & Depreciation	
Japan						
1935 2nd half	9.94	7.15	8.11	9.18	11.25	0.72
1959 1st half	3.94	3.82	6.67	9.15	10.55	0.98
United States (196 companies) 1956	7.14	8.74	—	—	—	0.98

Source: Compiled from statistics in Mitsubishi Keizai Kenkyujo; Enterprise, Growth, Profit, p. 48, 58.

they would be directed to enlarge scales of trust further through merger and consolidation. However, in actual state cartels are diversified, providing grounds for counteractions against over-competition=excess investment=declines in returns rate. Cartels of various kinds, such as government sponsored cartel=inducing cartel, depression cartel, boom cartel, self-control cartel have been utilized to cope with over-competition.[3]

By the way, the cartel systems centering on government sponsored cartel =inducement cartel are tending to be dissolved and, instead, a cooperation scheme by the officials and business, with self-control cartel as its core, is taking their place.

Also business circles around Keidanren (Federation of Business Organizations) are intending the full development and systematization of cartel through an amendment of the anti-monopoly law.

The second sort of counteraction is the advance which leads to trust and combination. The counteraction by way of trust is pointing to promote merger and consolidation, that have been rather stagnant, favored by treatment in taxation (usually called Tax Merger).[4] This is represented by the Engineering Industry Promotion Act. The other way of counteraction, by combination, acting on one hand for preservation of unmatured cartels, is trying to prevent the declines in rate of returns by multiple business over several industrial sections or by fostering combination with technical relationship.[5]

This process of fostering combination is going on in companies with old section for scrapping. For it serves as a check to decline in rate of returns by removing those sections that are showing decreases in sales and returns due to obsolescence of products, and by developing new sections with possibilities of increasing both sales and returns.[6]

3) Hitoshi Misonou: Japanese Cartels in New Phase (in Japanese), Analyst, June, 1956.
4) V. Parlo: The Empire of High Finance, p. 109.
5) P.M. Sweegy: The Theory of Capitalist Development, p. 108.
6) Joel Dean: Managerial Economics, 1951.

And, interest groups, the top form of business concentration are trying to overcome their weak points in internal structure by raising the quantitative weight of capital concentration. However, as merger and consolidation of enterprises within linkage are stagnant, investments for new sections have been made mainly through "joint company".[7] Through the joint company big enterprises within a linkage have become new sectors. This "one-set" investment is spreading over all linkages step by step.

Further, in order to supplement the relative smallness of credit capacity, financial institutions other than banks (life insurance, loss insurance, trust bank) and security business firms have been brought under their control through business cooperation and personnels dispatch. It is contributing to the strengthening of interest group as a whole and to raise total sum of returns.

However, it is obvious that, even through utilization of various patterns of business concentration, concentration must face limitations. One of the limitations is the weak foundation of cartels themselves, due to their unevenness and ultimately to over-competition.

Also, over-all systematization of cartels and syndicates by a third revision of the anti-monopoly law seems almost difficult to achieve for big enterprises, in view of the low degree of production concentration and market share.[8] As for the inducement cartel it is losing its functions amidst the current of liberalization, since its essense has become obscure.

In the case of interest group, the mechanism as mentioned above is carrying itself in another sense. In other words, a limitation on it will become more and more distinct following the development of capital concentration, since its internal weak points may be exposed.[9]

In these situations, a movement to overcome the limitations by "business and government relations" will become more intense.

7) Joint company has been created by Financial Interest Groups in the United States after the War. In Japan it has been born in the process of capital concentration to compensate merger and consolidation. Its main sphere includes atomic industry (need of cooperative research and unification of linked capital), petrochemical industry (risk diffusion in new sectors) and steel-chemistry (utilization of experiences of partner firms such as sales activity).

8) Of course there are exceptions. For instance, in glass industry three companies are occupying over 90 per cent with a possibility of systematization.

9) Merger and consolidation in Japan are going partly, though unmatured, through the following forms. 1. Merger of big enterprises within a same sector (three engineering companies of Mitsubishi group; three chemical companies of Mitsui group; though the latter is not final); 2. Merger of linked enterprises within a same capital group (Mitsui Zosen and Nihon Kaihatsuki Seizo, Ishikawajima Harima Juko and Ishikawajima Shibaura Seiki and Shibaura Mishin); 3. Merger of sales departments that have been independent firms for the rationalization of linkage (Ube Soda and Central Glass, Kanegafuchi Boseki and Kanebo Keshohin). However, business cooperation regarding production or sales as a preceding step is more popular. (Fujikoshi Kozai Asahi Seiko, and Osaka Bearing, Nihon Denki and Nihon Columbia; Meidensha, Fuji Denki and Yao Denki.)

4) Reorganization of Industrial Structure and its Effects upon Business Concentration

Here we shall study the effects of business transformation upon business concentration amidst the current of the reorganization of industrial structure,[1] as against its characters in the mechanism of capital concentration that we have stated in the preceding chapter. The former is the problem of horizontal relation and the latter is the vertical one.

Before coming into the materials of the effects, we shall examine the changes in the sectorial composition of industry, in general and in particular.

As the general characteristics, we could speak of the followings: (1) Lag in agriculture as compared with the rapid growth in industrial sector; (2) In industry, advances in chemical and heavy industries and newly developed sections, and lag in light industry sectors;[2] (3) Expansion in construction and transportation following active investments in equipment, industrial facilities and housing; (4) Rapid growth in tertiary sectors such as communication, trade and service, in parallel with the increase in unproductive population.

The particular, concrete characteristics are as follows:

(1) In energy industries, stagnation of coal mining and expansion of oil.
(2) Expansion of iron and steel industry.
(3) Growth of machinery industry at maximum degree.
(4) In chemical industry, changes in importance of products from fertilizer to synthetic textiles and resin.
(5) Increases in sub-contract production and medium and small scale enterprises.

These transformations represent the fact that as against the preceding development of production goods sectors (by demands from private investment, export and the public), consumer goods sectors that have been lagged until present (this corresponds to the general law of capitalism and reproduction) have shown marked developments owing to the growth of demands by the general public, increases in exports, mode of waste and luxury among business group, and new market that emerged by the agricultural reform. (The quality of several Japanese consumer goods such as television set, transistor radio, sewing machine, camera, textile goods and marine products are comparable to those of international levels, one of the bests or second to such goods.)

The reorganization of industrial structure has unavoidably transformed the patterns of business concentration. Characteristics in the concentration by industrial sections are as stated below.

Coal mining has stagnated, being affected by the establishment of oil trusts linked with foreign capital (mainly oil refinery), but a concentration to ten big enterprises is proceeding which is a distinguished fact. The big

1) Chiaki Kotani & others: Industrial Capital of Japan (in Japanese), p. 43.
2) Soichiro Giga: Monopolistic Enterprises in Modern Japan (in Japanese), p. 284.

trust of coal will possibly be maintained as a going concern, despite the widespread argument that coal mining is a "setting sun" industry.

As for electric power, a trust with a nature of public enterprise composed of nine companies exists,[3] the same as that of five companies in case of steel.

The most remarkable progress of trust in the present current of industrial reorganization is seen in the strategical sections such as electrical machinery, machines and chemicals.

On the other side, in all these sections diverse progresses of cartels and syndicates have been achieved. There are various forms ranging from depression or boom cartel, centering on inducement cartel, to syndicate. Self-control cartels have been also formed in accordance with the liberalization policies and depression.

And, the most distinguished pattern of business concentration in Japan is clearly engraved in the reconstruction processes of interest group.

It may be pointed out that the traditional three big interest groups (Mitsui, Mitsubishi and Sumitomo) are making big turns from the existing structures in which principal heavy-chemical sections such as oil, electric power, steel, aluminum, auto and electrical machinery are relatively weak, and emphasis is laid on coal and fertilizer. (Compare with the Financial Interest Group in the United States centering on oil and steel, and conzerns in Germany on coal, steel and machinery.) The turns are oriented to scrapping of the traditional stagnant sections and building of new, strategic sectors. This is a line that might lead to the adjustment of the unbalanced, disproportionate developments in the subordinate sectors.

These situations are bringing about more severe competition among interest groups against each other (including new interest group), since they have come into new sectors in order to achieve long-rang stabilization of profit.

Particularly in those sections with critical significance such as petro-chemical and atomic power, every conzern is intending to advance, with a natural result of declining degree of production concentration.[4]

Furthermore, as enterprises in a same sector, subordinated to an interest group (many of them had been born as the result of Zaibatsu dissolution), will proceed to multiply their businesses, competition within a same linkage will also be intensified, which will cause similar declines in the degree of product concentration. (For instance, there are three heavy engineering companies in Mitsubishi group, and three chemical firms in Mitsui group.) And, competition in this case would be severer than in the former case, since it is performed inside the particular linkage. In this sense, over-competition is growing more distinct, through the bias of the structural reorganization of industry.

Such mechanism is presenting itself through the establishment of joint companies and combination-combinats, rather than business concentration laying emphasis on merger and consolidation.

On the other hand, the weight of general trading firms as the medium

3) Hoshimi Uchida: Keizai Hyoron, Nov. 1960, p. 41.
4) Giichi Miyazaki: Economist, Oct. 10, 1962, p. 125.

between the enterprises subordinated to an interest group and the trunk bank is decreasing. This has been derived from the fact that big enterprises of new industrial sectors or competing enterprises within a same linkage have set up sales departments or sales agents of their own to economize expenses.

Trading companies, in turn, have checked decline in their positions by including medium scale enterprises of the developing sectors into their links through investment. In this regard, trading firms under respective interest groups are becoming an indispensable element for the promotion of linkage (linkage concerning medium and small scale enterprises).

As explained above, the reorganization of industrial structure, fostering heavy and chemical industries, will bring about a phenomenon that interest groups will advance into new and growing sectors (sectors of high rate returnes or profit) under new forms (joint company, combinat), decrease in concentration degrees, and acceleration of over-competition and excessive investment.

As the result, a gigantic sum of funds will be required, in spite of the marked capital concentration, furnishing factors that will act to intensify the feebleness of the internal structure of capital concentration.

These changes will bring about various nuances upon interest groups. That is uneven developments among interest groups, as seen in the differentials between old and new ones. (For instance since about 1960 a difference has become clear between Mitsubishi and Sumitomo interest groups that have easily overcome the internal feebleness and Sanwa and Fuji group that have been unable to do so.)

Again, following the industrial reorganization the differentials between old interest groups and medium scale trusts have become larger, compared with those between old and new interest groups. This is illustrated by the Nitto trust that has been on the verge of collaps due to the business stagnation of Nitto Kagaku (chemicals) and Dainihon Seito (sugar). Output was suspended in Nitto Seishi (paper), Nitto Bussan Shoji (trading was absorbed by Itochu Shoji, and supports were given to Hokuriku Seien (salt) by Nihon Kokan (steel).

Another case as such is the Tokyu group that has been exposed to a crisis by a large sum of debit run by Tokyu Kurogane (auto cycle) amounting to over 10 billion yen. The group consisting of Shinnihon Chisso (fertilizer), Asahi Kasei (chemicals), Asahi Dow and Sekisui Kagaku (plastics) has been in a severe decline due to the sluggish business of Shinnihon Chisso. Also in Sanwa group, Maruzen Sekiyu (oil), the largest concern in it, has shown a dangerous state by a debit of 400 million yen that has been transfered to a foreign loan.

5) Liberalization and Transformation of the Business Concentration

The proportion of trade liberalization has marked 90 per cent (substantially 88 per cent) by the end of September, 1962. What kind of transformation of the business concentration has been emerged by the liberalization?

Liberalization concerns two spheres; that of trade and that of foreign exchange=capital transaction. The former means free competition in international trade, and the latter affects mainly upon international business concentration.[1]

However, in Japan foreign trade has an unbalanced structure, since more than thirty per cent of exports is directed to the United States[2] and, therefore, intensification of international competition has only a limited meaning. Hence, the problem of liberalization is centered on that of capital transaction.

Then, what are the conditions in our country to cope with liberalization? We have already examined the development of capital concentration, intense capital accumulation and internal feebleness of capital concentration in connection with the reorganization of industrial structure.

The internal weak point has become more and more distinct amidst the development of capital-reproduction scheme, resulting in an intensified inclination to cover it by government funds=public investment and finance. It is shown in the "Broad Program of Liberalization", "Government Investment through Official-Business Cooperation" and "Third Revision of Anti-Monopoly Law".[3]

However, the public investment and finance have not solved the problems concerning gigantic equipment investment, but rather they have widened the contradictions in relation to capital concentration. In order to deal with the contradictions, "introduction of foreign techniques" has been continued. Stock acquisition by foreign capital through security market has been also active.

Table 8 Trends in Technical Assistance Contracts and Stock Acquisition

Year	No. of T.A. Contract	Stock Holding		
		Through Market ($ 1000)	Others ($ 1000)	Total ($ 1000)
1950	27	—	3,150	3,150
1951	101	1,560	11,766	13,326
1952	133	2,106	8,017	10,123
1953	103	1,205	3,797	5,002
1954	82	1,268	2,702	3,979
1955	72	1,527	3,574	5,101
1956	144	3,155	6,365	9,520
1957	118	3,297	8,193	11,490
1958	90	5,133	6,217	11,350
1959	153	9,550	17,481	27,031
1960	327	21,960	45,708	67,668
Sub-total	1,350	50,761	116,970	167,731
1961 (Apr.-Sept.)	156	32,585	37,610	70,193
Total	1,506	83,346	154,580	237,924

1) Soichiro Giga: *Monopolistic Enterprises in Modern Japan*, p. 340.
2) Yoshikazu Furuhata: *Structures of Japanese Capitalism* (in Japanese), p. 20.
3) Proposed by Economic Planning Agency, MITI and Keidanren.

(Table 8)

The introduction of foreign capital has been made not only by reason of the internal feebleness of capital concentration, but in relation to the weakness of technical foundations. Direct foreign investment during the period from May, 1950 (enactment of the Foreign Capital Law)[4] to 1952 was mainly in oil, aluminum, electrical machinery and chemicals.

However, these forms of "joint business with foreign capital" through direct investment have been taken only after 1960, while the previous forms have been the economic assistance and loans by American government and private investments of techniques. The amount of foreign capital induced during the period amounts to $3,700 million, economic assistance being $2,000 million and private investment $1,700 million. In addition, special procurement by American Forces amounts to $600 million for 1951, $800 million for 1952 and 1953, and $500 to 600 million for each year since then (total about $5,000 million).[5] Among private investment, loans have been directed to electric power, steel, oil refinery and tanker building, while stock acquisition for business participation to oil refinery, chemicals, light metals, gum, electrical machinery and glass.

The higher weight of foreign capital following the liberalization has promoted international business concentration, in contrast to the imperfect concentration at home, thereby fostering merger and consolidation of the strategic sectors at home.

This is just the reason for the advances of the merger and consolidation in 1962-63, in spite of the internal feebleness of capital concentration.

4) Gaikokukawase Johosha, ed.: *Knowledge about Foreign Capital* (in Japanese) p. 17.
5) Shigeru Aihara, ed.: *Capital Accumulation in Present Japan* (in Japanese), pp. 116–7.