

Title	Recent trend of the small business problem in Japan : an analytical viewpoint
Sub Title	
Author	Sato, Yoshio
Publisher	
Publication year	1964
Jtitle	Keio business review Vol.3, (1964. ) ,p.77- 94
JaLC DOI	
Abstract	
Notes	
Genre	Journal Article
URL	<a href="https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260481-19640000-03919633">https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260481-19640000-03919633</a>

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# RECENT TREND OF THE SMALL BUSINESS PROBLEM IN JAPAN

— An Analytical Viewpoint —

by

*Yoshio Sato*

## *1. Characteristics in the Present Phase of the Problem*

The recent "rapid growth" of the Japanese economy, particularly since the beginning of the thirties of Showa Era (since 1955), through its process of changing into higher composition of industrial structures, namely intensification of heavy and chemical industries, has accompanied increased round-about production, more manifold middle markets, changes of consumption structures, equipment investment, and mass production. In aggregate it has inevitably resulted in the development of production power into a higher stage. However, in so far as this rapid growth is founded on investment demands and middle demands, not on final consumers' demands or foreign markets, in other words founded on unbalanced demands, the exclusively expanded production power will be compelled to face with the problem of final consumer market, sooner or later.

On the other hand, various new phases have been born on the side of capital, the bearer of rapid growth, too. However, the degrees of concentration of production power in individual industries and markets are still relatively low, although groups of big enterprises are consolidating respective camps, stepping out of customary Zaibatsu-like closedness and pointing to capital groups of new type. Substantial development of "oligopolistic mutual dependency" is not yet to be seen. The organization of capital is not yet accomplished, so as to meet the rapidly expanded production power and renewed industrial correlations. It is on the way of progress to a big reorganization. And, in parallel with this reorganization of capital, in other areas such as medium-small enterprise, agriculture, labor and so on, transformations are going forward too, resulting in structural changes respectively. To speak broadly, the Japanese capitalism is standing on "the process of changing from the monopoly of closed Zaibatsu-type to that founded on the new level of

production power, with competition in world markets<sup>1)</sup>; namely a transit phase."

The characteristics of the present phase of the small business problem must be set forth as a facet of such over-all changing of the Japanese capitalism. For, this is the reason why the problem has been put to the fore today, synthetically and systematically as never seen before.

It makes the general factor that defines the present-phase characteristics of the problem, that such over-all changing, produced under the condition of rapid growth, has unavoidably involved unbalanced developments among industrial sectors, areas and enterprise scales. Although such unbalanced developments are nothing but a general law, to be seen at every epoch of capitalistic development, it has been acting most vigorously under rapid growth, and piercing itself with resulted sharp contradictions and peculiar effects.

In this process, the transformations in the sphere of medium-small enterprises are also extremely divergent, and simple generalization is impossible. However, through possible quantitative-statistical survey of the matter (see Table 1), we could find widening differentials of productivity between big and medium-small enterprises and narrowing differentials of wages, mainly owing to wage increase in small and little enterprises.<sup>2)</sup>

As the major themes concerning the transformations, represented in the figures of the Table, we can illustrate following points.

- 1) Development of middle scale enterprises belonging to growing sector

**Table 1.** Trends of Per-capita Added Value and Wages and the Differentials  
(unit 1000 yen, in parenthesis indices with enterprises of over-1000 workers as basis)

Scale	Added Value				Wages			
	1958	1959	1960	1960/59	1958	1959	1960	1960/59
All scales	567.1 (68.1)	643.6 (67.3)	756.2 (64.9)	133.3 (113.5)	225.2 (67.1)	231.6 (69.8)	254.1 (70.9)	112.8 (102.8)
30-49	348.1 (41.8)	367.7 (38.5)	433.2 (37.2)	124.4 (105.6)	151.4 (45.1)	160.1 (48.2)	179.7 (50.2)	118.7 (105.8)
50-99	393.6 (47.2)	432.5 (45.2)	491.6 (42.2)	124.9 (109.9)	164.2 (48.9)	174.9 (52.7)	193.6 (54.0)	117.9 (106.5)
100-199	470.9 (56.5)	500.1 (52.3)	585.3 (50.2)	124.3 (106.2)	181.6 (54.1)	188.1 (56.7)	208.5 (58.2)	114.8 (103.0)
200-299	569.1 (68.3)	597.3 (62.5)	684.1 (58.7)	120.2 (105.0)	205.9 (61.4)	212.1 (63.9)	231.5 (64.6)	112.4 (103.0)
300-499	613.7 (73.6)	718.6 (75.2)	734.7 (63.1)	119.7 (117.1)	224.7 (67.0)	232.1 (69.9)	250.3 (69.8)	114.4 (103.3)
500-999	639.6 (76.8)	776.7 (81.3)	928.6 (79.7)	145.2 (121.4)	251.9 (75.0)	254.9 (76.8)	281.9 (78.7)	111.9 (101.2)
1000-	833.3 (100.0)	955.9 (100.0)	1,164.8 (100.0)	139.8 (114.7)	335.6 (100.0)	331.1 (100.0)	358.4 (100.0)	106.8 (98.9)

Source: Compiled from Ministry of International Trade and Industry, Census of Manufactures.

- 1) H. Nakamura; "The Transit Nature of Japanese Big Business" (in Japanese), Nihonkeizai-bunseki, 1962, p.93.
- 2) Oshikawa, Nakayama, Arisawa, Isobe, ed. Structural Changes of Medium-Small Enterprises in the Process of Rapid Growth (in Japanese), 1962, p.15.

—especially growth of many “elite small enterprise” (“chuken-kigyō” in Japanese).

- 2) Apparent emergence of stagnation in stagnant sectors.
- 3) Intensified technological connections with big enterprises—reorganization of sub-contract and linkage relations.
- 4) Changes of the structure of labor force market; the most basic grounds of all changes—labor shortage.
- 5) Advance of business rationalization in medium-small enterprises in general.
- 6) New progress of government's policies on medium-small enterprises—enactment of the Basic Law concerning medium-small Enterprise.

Of course these themes are not to be placed on a same plane, nor are they appearing separately with a same weight. I shall treat these problems more concretely in connection with my angle of analysis to be explained in the following sections, but for the present pick up three points and make some broad consideration below, which will serve to clarify the present-phase characteristics of the problem typically.

- (1) Patterns of existence of medium-small enterprises, and growing and stagnant sectors.

Table 2. Patterns of Medium-Small Enterprises

De- mands	Room for improve- ment of physical produc- tivity	Relations with big enterprises	Not com- petitive	Competitive	Subcontract to		Subtotal	Total
					Commercial capital	Industrial capital		
				A	B	C	D	
Stag- nant, De- crease		V	590 (52)	124 (13)	103 (9)	63 (3)	880 (77)	1,357 (99)
		W	19 (2)	368 (15)	81 (2)	9 (3)	477 (22)	
Increase	Small	X	429 (28)	150 (6)	114 (17)	34 (5)	727 (56)	6,566 (262)
	Moderate	Y	838 (41)	1,135 (53)	1,219 (45)	1,800 (41)	4,992 (180)	
	Large	Z	50 (2)	251 (6)	91 (2)	455 (16)	847 (26)	
Subtotal			2,006 (125)	2,028 (93)	1,608 (75)	2,361 (68)	7,923 (361)	
Total			4,034 (218)		3,969 (143)			

Note: (1) Figures are compiled from Census of Manufactures (Ministry of International Trade and Industry).

- (2) Figures in parentheses show numbers of industrial sections by small grouping, and figures above represent proportions of workers as per 10,000 to total 4,592,581 persons employed in enterprises with employment of 3-300 persons. The total does not add to 10,000 because of exclusion of big-enterprise fields and residual miscellaneous sections.

The Council of Basic Policy for Medium-Small Enterprise (Medium-Small Enterprise Agency) has tried a formulation of existence patterns of medium-small enterprises, from the viewpoint of grasping productivity problem through two angles of "physical productivity" and "ability to realize value" (power of price formation).<sup>3)</sup> (Table 2)

In the Table, so to speak, vertical axe is taken to show the patterns of growth, stagnation or decline as V, W, X, Y, and Z, while horizontal axe shows patterns of independence or subordinate positions (to big enterprise); and at the cross points of both axes, numbers of industrial section and their employment are shown.

V-sections without prospect of demand increase.

W-sections without prospect of demand increase for medium-small enterprises due to advances of big enterprises.

X-sections where demands to medium-small enterprises are increasing, but room for rise in physical productivity is narrow.

Y-section where demands to medium-small enterprises are increasing and room for rise in physical productivity is moderately large.

Z-section where demands to medium-small enterprises are increasing and room for rise in physical productivity is large.

A-Medium-small enterprises are existing without direct connections with big enterprises.

B-Medium-small enterprises are existing, competing with big enterprises in production.

C-Medium-small enterprises are in sub-contract connections with commercial capital.

D-Medium-small enterprises are in sub-contract connections with industrial capital.

Names of industrial sections are not clarified, and there is a fault of unnatural grouping of sections of diversified nature. In addition it is a static analysis for only one year, 1959. In spite of these limitations, however, it suggests many things.

(1) Industrial sections with stagnant demands count about 100, 27%, with employment of 500,000.

(2) Sections grouped under Y, that is, with increasing demands and moderate room for productivity improvement, are highest in proportion, occupying half the total number of sections, and also half the total employment, about 2,290,000 workers.

(3) Sections with hopeful future by possible increases both in demands and productivity count 26 (7%), with employment of about 390,000.

(4) Independent and sub-ordinate sections are at the ratio of 218: 143. In employment they are almost similar, each with 40% (about 1,820,000-1,840,000).

(5) The future of independent sections is generally less hopeful, and

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3) Medium-Small Enterprise Agency, Chusho-kigyo (monthly). Vol. 14~No. 8 and Vol. 15~No. 2.

increase of BW group is to be foreseen.

(6) The absorptive power of labor force is strongest in the sections depending on sub-contract to industrial capital, into which the most hopeful Z group are gathering.

To summarize, it may be said that: "More numbers of declining sections are found in independent areas; and sections of powerful growth are under sub-contract linkage with big enterprises, numerically more compared with other sections."<sup>4)</sup> It must be noted that, in this pattern-grouping, characteristics by enterprise scales and classes within each section are not shown.

The above shown pattern-grouping is useful to explain the correlation between the ways of connection with big enterprise and the positions of growth-stagnation. Indeed the fact that such grouping has been discussed for policy planning, in itself, directly reflects the real situations that growing sector and stagnant sector are emerging in contrast.

While those higher class enterprises in growing sector, through the process of structural changing under rapid growth, have positively adapted themselves to the changes, have developed markets of their own, have consolidated technological relations or mutual dependency with big enterprises, and have established themselves as "elite" enterprise, those in stagnant sections have come to be faced with a serious crisis, amidst unfavorable surrounding of stagnant demands, excessive competition, wage increase and shortage of materials. The distinct emergence of this contrast makes a significant particularity of the problem today. Along with this basic trend, unbalanced developments by sections and scales, scale changes in medium-small enterprises, or "scale differentiation", are recognized, as shown in retardation of petty enterprises, general advance of middle scale class (though divergent by sections as stated above), and growth of many that have overridden customary frameworks of medium-small enterprise.

(2) On the development of the so-called "elite small enterprises" ("Chūken-kigyo" in Japanese).

Putting aside the theoretical problem of defining the categories of the "elite" small enterprises for the present, the fact and noticeable points of their birth and growth can be summarized as follows.<sup>5)</sup>

1) The growth of such enterprises that have developed beyond customary frameworks of medium-small enterprise makes one of the most remarkable phenomenons, to be seen in the structural changing of this class of enterprises after 1955.

2) The symbolic ones of these are independent enterprises of medium scale with capital amount of 100-1,000 million yen, for which capital raising

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4) T. Ito; "Economic Growth and Structural Changes of Medium-Small Enterprises, Pt. I," (in Japanese); Mita-gakkai-zasshi, (Keio Univ.), Vol. 56, No. 5, p. 17.

5) Owing much to H. Nakamura; "Problems on the Elite Enterprises", (in Japanese), Senshudaigaku-ronshu, No. 30. do; "Problems around Modernization of Medium-Small Enterprises" (in Japanese), Kokuminkeizai, No. 84.

from wider sources has become necessary and possible, following the listing of their stocks on the newly born "second" security market or as counter shares.

3) The grounds of the growth of such group lie in the quantitative expansion and qualitative changing of market, corresponding to the rapid growth and structural advance of industries. Although factors that have produced such growth are diversified by sectors and sections, they have been numerously born, by numerical order, in industries of electrical machines, machinery, chemicals, construction, steel and metals, and foods.

4) Generally they have special techniques and devices of their own, mass production system, large share in market, wide sphere of customers not confined to particular ones, rivalling power against monopsony power by big enterprise, and obtained high rate of profit.

5) Such favorable market conditions, however, have not yet come to form barriers to new comers, substantially in contrast to the monopoly by big enterprise. They are provided with a certain extent of conditions that enable them to eliminate competition from other medium-small enterprises, and to discriminate their products from others. In other words, the favorable market conditions have been utilized for their growth, accompanied by efforts to check advance and domination by big enterprises on the one hand, and to differentiate themselves from competition among medium-small enterprises on the other. Mostly such efforts have found their ways in the growth as specialized makers.

6) Their level of wages is lower than that of big enterprises; rather near to that of medium-small class. But the labor conditions as a whole are surpassing usual levels, and the impact of labor shortage is as strong as to big enterprises.

7) Their management sides are distinguished from those of big enterprises in that the nature as personal or family-partnership company is still retained, although utilization of wider capital source is not impossible through joint stock system. On the other hand they are essentially different from medium-small enterprises in general in the invitation of outside director, somewhat separation between ownership and management, specialized staff, research institution and modernized management system.

Anyhow the growth and behavior of such particular group of medium-small enterprises that have achieved active advances into respective fields with specialized techniques and products, has a significance as a side of the present-phase characteristics of the problem. Of course the whole picture of the problem is not to be grasped from simple angle of growth, being dazzled by the growth of such group. But we can find a positive significance in the realization of the growth of "elite" small enterprises, as a symptom of the peculiar, parallel development of the two trends, namely, the widened differentials between big and medium-small enterprises as a natural result of rapid growth on the one hand, and growth of medium-small enterprises following intensified social division of labor on the other.

(3) On the enactment of the Basic Law for Medium-small Enterprises.

Following the beginning of rapid growth, the problem of medium-small enterprise was treated as the problem of "dual structure" of our economy in the field of national policy. This was derived from the fact that the buoyant equipment investment centering on big enterprise in the period of "Jimmu" boom (1956~8) had resulted in unbalanced developments between big and smaller enterprises, and consequently even for the interest of big enterprises themselves, the existence of stagnant, "pre-modern" sector had become a problem to be solved as "structural problem". However, what was therein discussed was not the resolution of dual structure in general, but a requirement from the standpoint of big enterprise that, "in view of the necessity of more intensified systematization of production power, required by technological advances, big enterprises are wishing development being balanced with medium-small enterprises, for the sake of improving techniques and maintaining market."<sup>6</sup>) The modernization was expected to those medium-small enterprises, that could serve to secure the development of big enterprises. In other words, under the name of general policy for resolving dual structure, a pretending policy was advocated, in order to meet social and economic fears born from structural discrepancies. The Law for Organization of Medium-Small Enterprises, enacted for the control cartels against excessive competition, had nothing to do with the policy of resolving dual structure. The policy was formulized in the "Doubling National Income Plan" (Feb. 1961) for the first time, and in connection with the policy of heightening industrial structure, therein set forth, the Basic Law for Medium-Small Enterprises was enacted, following the Basic agricultural Law and the Principle of Labor Policy.

The Law is literally a basic law that "clarifies new course for medium-small enterprises, and presents objectives of policies thereupon" (foreword), and states to "take necessary measures" for a wide sphere of problems including modernization, technological improvement, management rationalization, optimum scale, organization, business conversion, prevention of excessive competition, fairness in sub-contracting, secured public demands, export promotion, import control, finance, petty enterprise, labor problem and so on. These items are to be materialized by respective enactments one by one, and until now "Act to Promote Modernization", "Act for Subsidies for Modernization", "Act for Special Account for Financing Structural Improvement of Industries," "Act of Investment Promotion Company" and other acts concerning small business have been submitted. Details of these measures must be omitted here; the characteristics of the Law is as follows.

The law is implicitly intended, so we must criticize, to subordinate the problem of dual structure forcibly to the policy of high tempo growth, and to reorganize and improve the structure of medium-small industries in line with policies of monopolistic big enterprises, particularly through the process of widening differentials between growing and declining industries and be-

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6) Economic Planning Agency; Survey of Japanese Economy, 1957, p. 117.



tween high and low classes of enterprises.<sup>7)</sup>

In this way, the policy for medium-small enterprises in Japan has now stepped out of fragmental and opportunistic policy with unclear character, such as financing, organization or management diagnosis (in a sense with nature of relief or social policy), and clarified its character as drastic policy on industry and enterprise. There are nothing of precautions measures for job conversion or unemployment to be expected. The enforcement of such policy must be recognized as a chain of the link of efforts to put an end to the rapid growth in a form most advantageous to monopolistic big enterprises, being faced with actual trade liberalization, international overseas competition and participation in OECD.

Following the above broad survey of the characteristic of the present phase,<sup>8)</sup> we must now turn to the primary theme of the study, and clarify our angle of analysis.

## ***2. An Angle of Analysis of the Problem***

"The massive existence of medium-small enterprises, based on extremely low wage labor, and excessive competition among them, are serving to big enterprises for utilization and exploitation of them, and are enabling rapid growth. In turn, the exploitation by big enterprises is impeding capital accumulation and development of production power by medium-small enterprises, and is acting to fix and promote low wages and bad labor conditions. Such interwinding, or a vicious cycle, has been the fundamental of the problem of medium-small enterprises, and further that of industrial structure, namely structure of exploitation, through pre- and postwar periods."<sup>9)</sup> That this basic current has been persistently reproduced, and it has been rigidly recognized as a peculiarity of the Japanese capitalism, make the cause of the emphasis that hitherto many students have put upon the diversification and stagnation of medium-small enterprises. Thereby, the angle is straightly directed to the forms of domination and exploitation by monopolistic capital, and hence to the round-about exploitation of labor (double exploitation). Such an inelastic grasp upon the exploitation mechanism might be an obstacle for correct analysis, if it means a preconception that ignores the movement of medium-small enterprises amidst the dynamic process of economic progress.

Our study of the problem of medium-small enterprises is intended to find out correct way of breaking down such structure of exploitation, the vicious

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7) As for the significance and nature of the Basic Law, see T. Ito; "Economic Policy and the Problem of Medium-Small Enterprises" (in Japanese), Keizai-seminar, No. 84, July, 1963.

8) The "present phase" is, to define broadly, that of rapid structural changing under rapid economic growth and development of the policy of Basic Law, the latter accelerating the former.

9) I. Kitahara; "Medium-Small Enterprises in Capital Accumulation Movement" (in Japanese). Koza-chusho-kigyo, 1960, p. 93. This is a noteworthy work that clarifies theoretical grounds of analysis from Marxian viewpoint.

interwinding. For this purpose, simple, inelastic grasp is not satisfactory. The angle of analysis must be oriented to clarification of the contradictions among social classes, their growth and maturing, through over-all revealing of the exploitation mechanism, to be presented in the complex relations between monopolistic big enterprises and medium-small enterprises.

Here, in order to clarify the basic angle, I shall firstly summarize the theoretical standpoints of studies, that have been performed up to present, from the standpoint of Marxian economics.<sup>10)</sup>

The Marxian angle tries to grasp the problem, not as a peculiar problem of the Japanese economic structure, but as a part of general problem underlying in the modern capitalism. The viewpoint is increasingly influential that takes the problem as a facet of the structural contradictions of modern capitalism, not solely those of the Japanese capitalism. Major arguments are pointed to: theoretical reexamination of the law of concentration (the basic law of capital accumulation and concentration pierces itself amidst inter-cross of contradicting trends such as persistence of small capital or emergence of it in new fields); relative consolidation of the differentiation among strata of capital and profit (capital accumulation in monopoly phase is achieved through mechanism of widening differentials by capital scales, confined capital movements between capital strata, widened differentials of profit rate, further widening differential in capital scale). The essence of the problem of medium-small enterprises (exploitation of medium-small capital by monopolistic big capital) is also defined on the grounds of this mechanism. As a general thing these must be realized as structural contradictions of monopoly capitalism (contradictions of capital as well as of labor). From such standpoint studies on those fields that hitherto have been neglected in the Marxian theory on monopoly, such as "monopoly" itself, mechanism of capital accumulation movement or relation between market structure and monopoly, on one hand, and researches on labor problems such as labor market, employment structure and wage differentials on the other, have been promoted. Upon synthesization of these studies, more profound realization of the problem of medium-small enterprises is to be expected. It is through this theoretical development that the problem, hitherto being regarded only as incidental or applied problem of economics, has come to occupy an essential position in the analysis of modern capitalism.

Such theoretical angle is essential especially for analysis of the problem in our country today. Truly, in the present realities coexistence of old and new forms of the problem is seen. Amidst the old figure of the problem, in which exploitation upon medium-small enterprise and labor has been performed without paying consideration to reverse effects upon the monopoly capital itself, a new phase of the problem has been born that, "the rapid growth, founded on the dual structure, has begun to dig down its own grounds; the relation has become clear that utilization and exploitation of medium-small

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10) As an aggregate of such studies, see H. Nakamura; Problems of Medium-Small Enterprises in Japan, 1961.

enterprises have begun to restrain growth and international competition power of big enterprises."<sup>11)</sup> Of course, simple conclusion must be avoided that such new figure has instantly transformed the "particularity" of the problem in Japan. Rather, it is to be foreseen that the old figure would be intensified under the pressure of slow-down of rapid growth or international competition. However, even in such situation, problems will be born within the new structures to be created on the grounds of present changes; and, the character of the problem there is still unknown quantity to be settled by policies of monopolistic big capital, government, and confronting influences from reformist groups. It is necessary, therefore, to pay careful attention to the positive side of the changes.

Analysis of the problem in the present phase must not fall into simple pursuit of phenomena or inelastic, conceptional definition, as a mere form of monopolistic oppression; it must be an objective and comprehensive analysis on material development of contradictions of the Japanese capitalism, in line with the above stated theoretical angle.

In the previous, conventional analysis of the problem, the angle has been confined to explanation of the straight-line combination between the essentials and forms of monopolistic domination and the resulting contradictions; they have been lacking in comprehensive angle of grasping the complex movements of medium-small capital and class contradictions, through clarification of the mechanism of movement and structure of monopolistic domination; they have been of the nature of sociology rather than of economics. This is the reason why insistings from the side of reformists have not been influential in the real. The contradictions surrounding the problem of medium-small enterprises (monopolistic big capital—medium and small entrepreneurs—labor) can be placed on its proper position only through realistic analysis of counter—dependent relations between monopoly and non-monopoly in the monopolistic stage, especially between monopoly and medium-small enterprises, and analysis of complicate contradictions within medium-small enterprises themselves. Concrete and theoretical explanation of the patterns of movements of medium-small capital makes a necessary premise for that purpose. Needless to say, the movements of medium-small capital are defined by those of big capital, so long as they are proceeding within monopoly capitalism. Hence the analysis must not be objective one for the sake of itself; it must be made from the viewpoint of contradictions between capital and labor, fundamentally being defined by contradictions between capital and capital in the present stage. Theoretically, of course, the problem of the movements of medium-small capital stands foremost, by which material grasp of the contradictions between social classes would become possible. On the other hand, the foremost problem of the movements of medium-small capital is not the forms of domination and exploitation upon them, but the competition relations surrounding them. The former, forms and substances of domination and

11) T. Ojio; "International, Historical and Structural Angle for Realization of the Problem of Medium-Small Enterprises" (in Japanese), *Mitagakkai-zasshi*, Vol. 56, No. 5, p. 50.

exploitation, could be placed on proper position by the latter. The essentials of the problem, that is, direct and indirect exploitation by the monopoly, could be grasped with theoretical profoundness and in line with the theory of development, downwardly starting from the analysis of competition forms within medium-small enterprises.<sup>12)</sup>

### 3. *Market Structure and the Problem of Medium-Small Enterprises*

I want to explain more concretely our angle that the analysis of the problem is rendered positive and realistic by clarifying the competition structure of medium-small enterprises. The present, necessary task is to gaze the actual competition structure, since the structural changes must be grasped as changes of competition structure firstly.

(1) The changes in medium-small enterprises under rapid growth have been generally grasped with an expression of rapid "modernization". The meaning of modernization, however, is vague. Its meaning, in real sense, is "movement toward capitalism". It is used as an indication of "relative" progress, and with a sense of "Sollen."

(2) The modernization of medium-small enterprise is spoken of with

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12) Below I shall introduce noteworthy literatures on the problem, with notes on respective significances as theoretical works. (All works are written in Japanese.) (1) T. Komiyama; Study on Medium-Small Enterprise in Japan, 1943. This is the first theoretical work that has taken up the problem from the viewpoint of industrial production. Analysis is made on the foundation of the writer's view on the peculiar and distorted establishment of Japan's industrial capital, and mainly directed to those enterprises subordinate to big capital. (2) K. Fujita, ed., Subcontract Industries, 1943. This makes a critic to Komiyama, defining sub-contract as a pattern born on the linkage of governing by commercial capital in monopoly stage. (3) A. Yamanaka; Substance and Development of Medium-Small Enterprise, 1948. This is a work from the standpoint of social and economic policy, with wide and profound theoretical sense. (4) K. Fujita and T. Ito, ed.; Substance of Medium-Small Industry, 1954. (5) T. Ito; on Medium-Small Industry, 1957. Both are systematic discussion on the problem. (6) G. Suematsu; Management of Medium-Small Enterprise, 1956. This is a study on the direction of modernization and rationalization and the optimum scale, from the viewpoint of business economics. (7) N. Tatsumi; Medium-Small Enterprise in Monopoly Stage, 1960. A typical work from the viewpoint that monopolistic capital retains subordinate and differentiated medium-small enterprises through direct domination. (8) Koza, Medium-Small Enterprise, 4 volumes, 1960. A compilation of theoretical and positive researches at the phase of rapid growth, including 1. History and Substance, 2. Monopolistic Capital and Medium-Small Enterprise, 3. Problems of Management, 4. Labor Problem. (9) H. Kawaguchi and others; Basic Structures of Japanese Economy, 1962. This includes discussions on the dual structure from the standpoints of modern economics and Marxian economics. (10) A. Yamanaka and others; Economic Growth and Medium-Small Enterprise; 1963. This includes study on the structural change in comparison with foreign cases. Above works make, so to speak, the largest common measure of the studies as a whole. For historical survey of the discussion, see T. Ojio; History of Discussion on the Problem of Medium-Small Enterprises in Japan. ((8) above, 1.)

respect to the growth of a minor group of medium-small enterprises (with elite enterprise as its apex), introduction of new technology and equipment, adoption of new management systems, business rationalization and improvement of labor conditions, in short, growth side. From the viewpoint of objective, economic analysis they are to be realized as strengthened competition power. Since competition has divergent significance to each particular market, an approach to the problem of modernization merely by over-all statistical analysis of labor-equipment rates, degrees of capital concentration, productivity or relative share of labor cannot be useful for realistic grasp of dynamic changes in structures and competition patterns, although it may have some meaning in clarifying differentials by scales of enterprises, or the dual structure, broadly.

(3) Competition by individual enterprises is performed within respective markets, and its contents are divergent according to the structure and conditions of market. The strengthening of competition conditions may have effects of growth, production concentration or high rate profit in some cases, but in others it may be impossible to cut away the vicious cycle of stagnation, excessive competition, and low rate of profit. Of course in the latter cases primary premises for modernization are not provided, but the requirement of rationalization is nonetheless strong due to changes in the grounds of labor. The strengthening of competition power may have only negative effect of some softening of crisis.

(4) The differentiation between growing and stagnant sectors is basically defined by degrees of relation with spiral development of economy, accompanying intensified round-about production, changes of demand structure, more manifold middle markets, formation and expansion of new middle markets, multiplication of social division of labor, diversification and voluminous production of final products. Unbalanced developments among sectors are inevitable, so long as the heightening of industrial structures implies breaking off of the existing pattern of industrial correlations. From the viewpoint of the problem of medium-small enterprises, the differentiation and unbalanced developments between growing and stagnant sectors can be grasped as changes of market structure, or market conditions, that must be determined by relations with big capital, occupying its position in each significant sector of production, or monopolistically controlled key industries.

(5) By usual analysis of industrial correlations, the structure of round-about production takes form of two frameworks and three steps: the one is the flow of fixed capital formation—investment—starting from I (extraction industry, import), being connected by pipes of II (energy industry, coal, electric power, gas, oil) and V (incidental sectors such as transportation, construction), through III (production of capital goods materials such as iron, steel, non-ferrous metal, ceramics, metal goods, rubber, coal products), flows toward III' (capital goods such as electrical machines, precision instruments, general machines, ship, car, automobile, and some consumer goods such as sewing machine, camera, watch, home electrical goods): the other is the flow of household consumption, from IV (production goods for consumer goods—chemicals, spinning, paper, woods, foods) toward IV' (consumer goods—foods,

home appliances, printing, paper goods, sundry goods). The key industries are placed at major joint points of the structure, or critical cross points of production lines, as suppliers of materials or equipment of general use. They are almost coinciding with the sectors composed of big enterprises. Also some sectors of consumer goods and durable consumer goods, with low grade of round-about production, are occupied by big enterprises. In contrast, medium-small enterprises are engaging in those sectors outside of basic sectors or only indirectly relating to these, in other words, residual sectors; industries with small scale demands, more fluctuation of demands and high speciality of products; customary industries based on local demands; parts and components industries for basic industries based on assembling.<sup>13)</sup> The heightening of industrial structure means development of production goods sectors more rapid than consumer goods sectors. So long as competition is performed among capital in the process of such changes of industrial correlations, capital accumulation and concentration proceed corresponding to the changes of market.

(6) The changes of market structure (market structure means aggregate of conditions in a market that defines price formation of the market)<sup>14)</sup> must be examined with respect to ① market concentration in each sector and ② changes of technological relations.

① A. The market concentration is the index to show market shares of individual enterprises in a market. (Generally it is measured by number of enterprises, their distribution by scales or market shares of some upper-rank enterprises.) It is especially essential with a market, where big capital and medium-small capital are competing. In the fields of coal mining, fishery, flour milling, soy, sewing machine, bearing, and cotton spinning, a certain degree of market concentration is seen, with superiority of big enterprises over smaller ones. However, the competition is differentiated into that among big enterprises and that among medium-small enterprises respectively each other, due to quality of products (high class, large volume goods vs. low class, diversified, small volume goods), sphere of market (export or home market, national or local market), discontinuity of techniques (qualitative difference in basic techniques or production methods),<sup>15)</sup> labor power and so on. The pattern of market composed of "oligopolistic core and surrounding smaller enterprise group"<sup>16)</sup> is generally seen. However this discontinuity of competition should not be taken as firm one, because efforts for enlarging market shares by big enterprises are increasingly narrowing room for smaller enterprises. Within groups of medium-small enterprises, founded on diversity and diffusiveness of consumption, structural changing is becoming inevitable, due to the intrusion of big enterprises and changing framework of

13) Ref. C. Kotani and others; *Industrial Capital in Japan*, 1960.

14) I. Kitahara; "Market Structure and Price Control", *Keiogijuku-keizaigakkai, Keizaigaku-nenpo*. 1961, No. 5.

15) "Technological discontinuities" is suggested in P.S. Labini, *Oligopoly and Technical Progress*, Harvard University Press. 1962, pp. 35-36.

16) For instance, a grasp as "oligopoly with a quasi-competitive fringe" in H. G. Vatter; *Small Enterprise and Oligopoly*, 1955. Review of this work by the writer is in *Mita-shogakukenkyu*, Vol. 4, No. 3, 4, Vol. 5, No. 1.

labor. Sub-contract system of finished goods, or comprehensive sub-contract, derived from monopolistic control of marketing channel by big enterprise, is also a case of such dismissal of smaller enterprise, although somewhat exceptional. This makes an example of sweeping domination and oligopsony by big enterprises, under the condition of actual or potential excessive competition among medium-small enterprises (for instance, some sorts of electrical goods and foods such as ham, sausage and canned foods). It enables monopolistic enterprises to economize capital, to obtain extra profit by monopoly, and expand shares in market as a whole, and hence is being earnestly promoted as a form of linkage (all-inclusive linkage).

B. The structural changing of medium-small enterprises is typically shown in the higher market concentration in the sections primarily of medium-small type nature. In each of these sections, there are seen some enterprises that have achieved growth and share expansion, through specialization to new products distinguished from customary ones and new mass production systems, or through shift to new sections born with the rapid growth. This has resulted in higher market concentration as a whole. The so-called "class-differentiation" among medium-small enterprises means, in the real, wider differential in capital volume, technological level and financial positions in a same sector; and more definite faults among enterprise groups (under different condition of pricing), due to non-sequent order of business. In machinery industry, for instance, groups have become more distinct as specialized central makers, independent-type medium-small enterprises with nation-wide markets, subcontracters of big enterprises, independent enterprises in local industries, local ironworks or local products makers.<sup>17)</sup> Similar grouping is to be seen with regard to other industries too. Special attention to these groupings, and analysis of concrete incentives to differentiation, are necessary for the sake of explaining the present changing. It must not be looked over that the shifts to specialization and mass production by "growing" enterprises have been supported by "linkage", to be explained below, and utilization of stagnant petty firms with simple techniques of processing.

② A. The so-called linkage, a new phase of combination between big and small capital, may be regarded as a special form of oligopoly and oligopsony, born from intensified relations, in fore- and after stage of production, between oligopolistic industries with high market concentration and industries mainly borne by medium-small enterprises. In the fore-production combination, big enterprise purchases parts and components from medium-small enterprise and accomplish final goods (for instance, automobile, electrical goods, machine tools), technological advance of the former requires corresponding advance of the latter, and thus accelerates growth of excellent medium-small enterprise. The fundamental relation therein is nothing more than exploitation through monopolistic purchasing (monopsony or oligopsony); the degree

17) An example case of machinery industry in Fukushima Prefecture. H. Nakamura; Problems on Modernization of Medium-Small Industry, Part I. (see, H. Nakamura, "Problems around Modernization of Medium-Small Enterprises", op. cit.)

of exploitation is decided by competition among purchasers, competition among suppliers themselves and possibility of independence from sub-contract relation. The latter form of combination, namely after-production combination, is the controlling by supplier of materials upon later, processing phase. It is a direct combination, excluding in-between commercial capital, and aiming at realization of monopoly price and expansion of market share (steel, cotton, spinning, chemicals, plastics, cement, etc.) The basic problem is monopoly or oligopoly and price realization, but it is to be noted, that the control over medium-small enterprise has been devised in order to cover the weakness of controlling power by the oligopoly in the sector of materials production and makes a chain of the link of efforts to strengthen its market position synthetically.

B. The direct combination between big and small capital involves such moments as utilization of cheap labor of medium-small enterprise, transfer of risk charge and economization of capital, on the grounds of difference of capital power.<sup>18)</sup> So long as the fundamental motive lies in domination-subordinate relation or exploitation, capital combination between both is avoided. However, the industrial side of combination cannot be denied, and hence there are not a few examples of those "elite" or high class medium-small enterprises, that, standing on the grounds of such combination, have successfully accumulated capital, achieved growth, and to some extent have retarded domination and exploitation. Truly the linkage has been an essential moment for structural changing of medium-small enterprises. It has promoted differentials between linked and non-linked enterprises, and accelerated the falling into subcontract or petty position of those that have lost chances of development. On the other side, against those enterprises that have failed in improving, requirements by big enterprises toward annexation have been strongly advocated, which would further promote structural changing.<sup>19)</sup>

(7) The structural changes of medium-small enterprises are corresponding to changes of respective markets, and diversified by direct and indirect relations with big enterprises. Anyhow, the grown, developed or modernized enterprises are those that have successfully strengthened competition power, corresponding to dynamic changes of market structures or conditions. However, such growth side is not the whole picture of the present phase. There are many other sides that must be taken into consideration that: contradictions and confrontations within capital, provided with extremely complex contents and characters corresponding to divergent conditions, have emerged (monopolistic big capital vs. medium-small capital, linked enterprises vs. non-linked enterprises, growing medium-small enterprises vs. stagnant ones, higher and lower classes inside medium-small enterprises, and so on); the grown, mod-

18) S. Sugioka; *Domination Structures in Postwar Japanese Capitalism*, Gendai-teikokushugi-koza, Part IV, 1963, p. 143.

19) There are many points to be discussed about the linkage and literatures are not few. For the present, see; Y. Kobayashi; *Koza-Chusho kigyo*. II. H. Misonou; "About Discussions on Business Linkage", *Kosei-torihiki*, June, 1961.

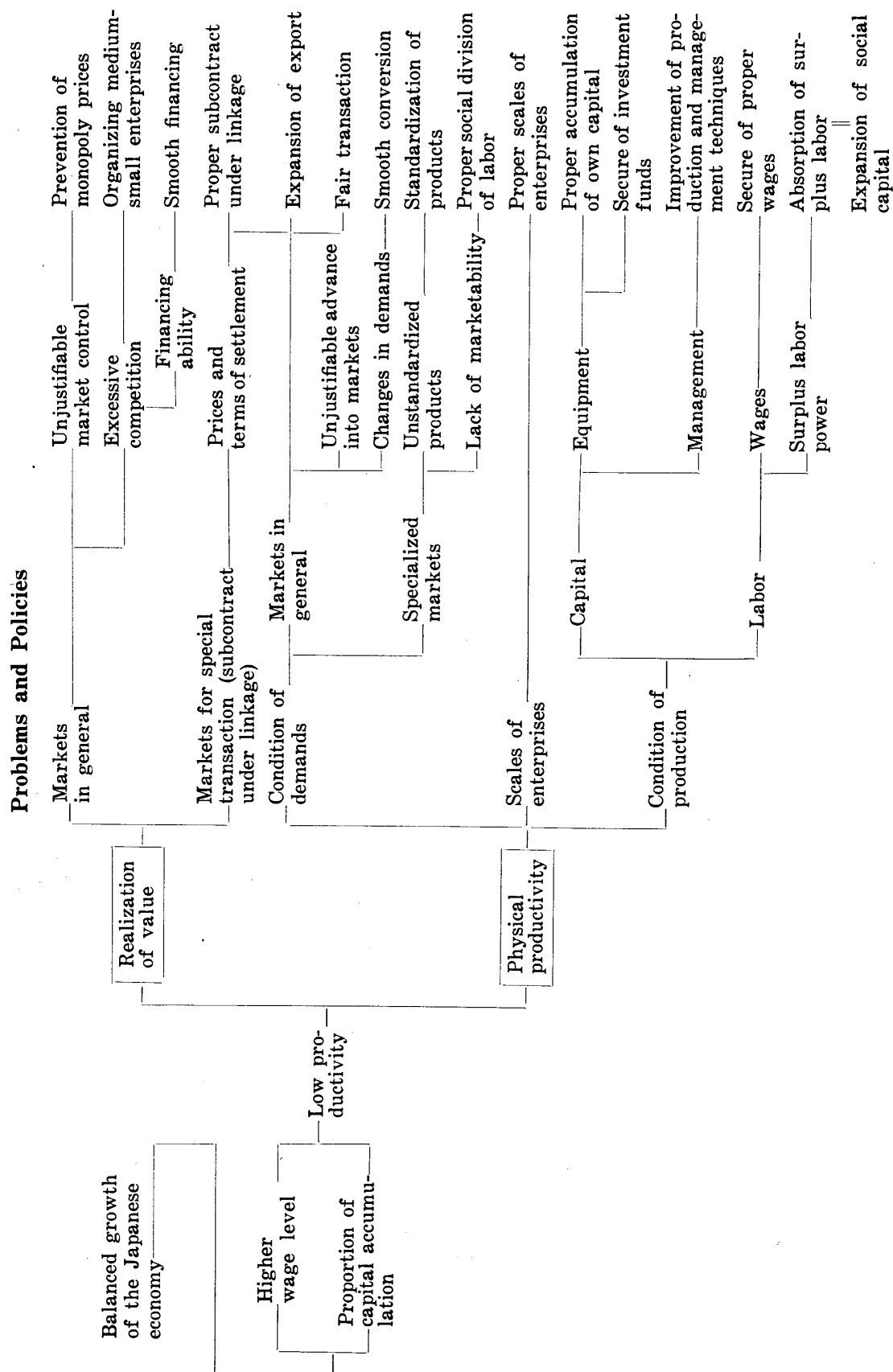


ernized enterprises have been generally based on low wages and remains to be so; rationalization of medium-small enterprises, that has become inevitable, is intensifying and "modernizing" exploitation of labor; organization of labor of medium-small enterprises has shown no advance, resulting in dissipation of the class-energy due to new type of personnel administration and growth factors of the company.

#### *4. For the Synthetic Analysis of the Problem*

In order to grasp the changes of structures of medium-small enterprises from the viewpoint of structural changes of market and competition, detailed examinations, for particular sector, must be made about median volume of capital, market concentration, barriers to new entry, diversification of products, technological level, profit rate, wage level, cost analysis, areal composition of market, marketing channel, public policies and regulations, trend of demands, sensitivity to business fluctuation, and further centrifugal or cooperative behaviors by individual enterprises or groups. Divergent contents and extents of mutual dependence or exploitation between big and medium-small enterprises, that are defined by market conditions, must be studied more concretely and realistically. Only through such process, we can correctly clarify the class structure of capital in the modern capitalism and the forms and contents of exploitation upon medium-small capital, fundamentally underlying therein. This makes the object of our intention to grasp foremost the competition relation, prior to exploitation relation, between monopolistic capital and medium-small capital. The problem must not be resolved into simple, flat analysis of the exploitation. It must be posited as a problem within the whole framework of the present state-monopolistic capitalism including public finance, public investment, exploitation through tax, labor policy, preference policy for monopoly and so on. The problem lies in the relation between medium-small enterprises and the postwar Japanese monopoly capitalism, that has achieved rapid development into technical innovation, high rate growth and international competition, stepping out of the postwar circumstance of Zaibatsu resolution, agricultural reform and loss of colonies; and the relation must be clarified with respect to its all facets of exploitation and mutual dependence.

Medium-small enterprises have been mobilized for the rapid growth of monopolistic capital. While capital accumulation and growth have been achieved in some higher class medium-small enterprises, unbalance between classes, sections or areas have been inevitably widened. Taking opportunity of a spontaneous birth of the clue for resolving the dual structure, policies for medium-small enterprises with nature of drastic industrial policy have been enforced, under a name of balanced development of the Japanese economy (smart picture of the policies may be seen in the Figure). It is bringing about "structural heightening of medium-small enterprises" as well as cut-off of petty enterprises. However, such dimension is unthinkable where the monopoly would have been ultimately freed from dependence upon the dual



structure. We must pay full attention to the patterns and contents of relations of utilization, exploitation and mutual-dependence surrounding medium-small enterprises in the prospective stage of "new industrial organization", that is, consolidation of monopoly and oligopoly systems.

Insistings from reformist camps would not become effective, so long as they remain at simple assertion of maintenance of current positions and protection for medium-small enterprises, or preserving such feeble enterprises depending solely on cheap labor. Assertions must be made in line with development of the realities.

In this connection, we must call to mind anew the historical experience that the typical problem of small enterprises in the nineteenth century's Great Britain, accompanying "modern manufacture—modern house labor", was solved not by intensification of industrial structures—economic growth, nor by changes of conditions of labor power, such as shortage of labor supply or disappearance of surplus population, but thoroughly by effective development of social legislation, with progress of labor movement and labor organization as its background.

(originally written in summer, 1963)