

BOOK REVIEW

The Development of Japanese Business, 1600–1973 by Johannes Hirschmeier and Tsunehiko Yui, London, George Allen & Unwin, 1975, 340 pp.; and Japanese edition, *Nihon no keiei-hatten: kindai-ka to kigyō-keiei*, Tokyo, Tōyō-keizai-shimpōsha, 1977, xv + 489 pp.

I

This book is perhaps the first comprehensive history of Japanese business not only in Japan but also overseas. It covers developments from 1600 the beginning of the Tokugawa shogunate when the Japanese economy began laying foundations for development until just before the oil crisis of 1973. *The Development of Japanese Business* was published first in 1975 and two years later a Japanese edition was produced through the prodigious efforts of the authors.

While a number of reviews have been published on both editions, we have four on the English edition.¹ Since the book is now available in both languages, this review, it is hoped, will be relevant to both. Accordingly, it is first necessary to elucidate the differences between the two editions, and this will perhaps also prove of interest to those readers who will not have the opportunity or occasion to read the Japanese edition.

The most outstanding feature of the Japanese edition is that, more than merely a translation of the English, it has been extensively rewritten for a different audience. The introduction to the Japanese edition says that the book was rewritten to eliminate much of the material included in the English edition for international comparative purposes which would already be familiar to the Japanese reader, and to give supplemental information to enhance the Japanese audience's appreciation of implied international comparisons. For example, the English edition's explanations of Japanese value systems, manners, and mores were considerably abbreviated while case studies and reference materials on corporate management were substantially expanded.

In somewhat more detail, the biggest changes between the English and the Japanese editions are in Chapter 5. As exemplified by the change in chapter title from "Summary and Conclusions: The Japanese Model of Modernisation" to "Conclusions: Present Situation and Perspective," the Japanese edition eliminates the summary of the preceding four chapters and the descriptions of ways in which the Japanese model is not an example for emulating by many developing countries. Instead it includes a discussion of the problems facing Japanese business and the available solutions now that rapid growth is no longer feasible.

¹ See, K. Taira's article in *Journal of Economic History* (September 1976), S. Crawcour's in *Monumenta Nipponica* (Spring 1976), K. Yamamura's in *Business History Review* (September 1976), and W.D. Burton's in *Pacific Affairs* (Winter 1975/76), as cited on p. 480 of the Japanese edition.

With other chapters, Chapter 1 has been relatively unaltered while Chapter 2 has been extensively changed. In Chapter 2, an eight-page subsection "Background and Behavior of the Entrepreneur" has been added, and portions on heavy industry, railroads, and mining in subsection 2 have been expanded. In subsection 5, the description of the formation of the two top *zaibatsu*, Mitsui and Mitsubishi, has been extensively strengthened.

Although space does not permit a more detailed description of other adaptations major and minor in the Japanese edition, it should be noted that the two are substantially the same in content, with the possible exception that the English edition's schematic depiction of Japanese value systems has been somewhat altered.

The free rein accorded the translation of this book, rich as it is with distinctively Japanese concepts not readily amenable to expression in a Western language, means more information is available to Japanese readers in more understandable form. The main reason that such freedom was possible is that the work is that of a Western and Japanese scholar working in perfect collaboration. In this sense too, it stands out from the many scholarly works to date on the history of Japanese economy, and the joint authorship of *The Development of Japanese Business* is what gives the book its unique quality. This gives the second distinctive feature to the book. Indeed, Japan is the nation linguistically and culturally almost perfectly homogeneous, and very different from others, one which has remained largely incomprehensible in so many ways to people overseas, especially those in the West. It is fitting that a history of Japanese economy is jointly authored by two highly qualified authors, eminently knowledgeable in their respective areas. Both have taken the initiative in areas in which they enjoy particular competence and advantage. *The Development of Japanese Business* succeeds admirably in the task it has set for itself.

The third distinctive feature of this work is its use of the interdisciplinary approach, incorporating, as already noted, analyses of Japanese value systems and mores. The authors have refrained from applying European development models based upon the value system fundamental to the West commonly known as (at least by Japanese economists) "the development of capitalism" and instead depict a Japanese modernization in its own right. The guiding spirit shaping Japanese modernization, as authors postulate it, is "the ethics of functional role expectation," a hypothesis Hirschmeier originally offered in a 1970 paper.²

The authors go on to detail the three dimensional aspects of the ethics of functional role expectations, the vertical, the horizontal, and the depth in sense of time continuity. The vertical value regulates relations between different classes and individuals according to status. The horizontal value is the commitment of the individual to the many groups in society to which he is a member. The third, the time-depth dimension is the value of continuity and governance by tradition. It was the ethics of functional role expectation based upon the human nexus which gave the Japanese its structure

² See, J. Hirschmeier, "The Spirit of Japanese Enterprise," *Business History Review* (Spring 1970). T. Yui later formulated it more systematically in his "Edo-jidai no kachi-taikei to kanryōsei" [The value system and bureaucracy of the Tokugawa era], in *Edo-jidai no keieisha katsudō* [Entrepreneurial activities in the Tokugawa era], ed. M. Miyamoto (Tokyo: Nihon-keizai-shimbunsha, 1977).

of ethic as opposed to that which prevailed in the West the individualistic or Christian (Protestant) absolutist criteria centered on the relationship between man and God.

Moreover, Hirschmeier and Yui see this distinctively Japanese value system as perfected in the Tokugawa era (at least) and basic to Japanese business even today, albeit with some modification. From this ethical perspective, they divide Japan's modernization into four phases (or chapters) of business development according to the groups who headed that development.

1. 1600–1867: The Merchants of Tokugawa Japan.
2. 1868–1895: The Meiji Entrepreneurs.
3. 1896–1940: The College Graduates as Successors.
4. 1946–1973: The Organizers of the Japanese Miracle.

Although some may criticize this categorization because of the first period's length, it does not seem unreasonable from a four-hundred-year perspective of Japanese modernization.

II

The authors consider the most important characteristics of the Tokugawa era to be its superior social organization and the development of a supportive value system. Both of these factors made possible a feat which has never been equalled by any other nation over two hundred years of internal peace. Japanese political organization at the time was not despotic nor was tension-ridden and class-oriented rather the society was "a highly integrated, homogeneous entity with values shared by all classes" (English edition, p. 44). Even when the value system, the structural principles underlying this homogeneity and integration, was influenced by foreign thought in the form of Chu Hsi neo-Confucianism, it did so in an essentially creative way adapting it to suit the Japanese context. Of course there were some contradictions and tensions, but they were neatly controlled by a hard-working, loyal, capable bureaucracy made up of men from the samurai (military) class which was pivotal to the social framework.

Agricultural production boomed in this well-governed, stable society, generating the emergence of creative entrepreneurs (usually of the merchant class) and the rapid development of a commercial and monetary economy. Without exception, the management of the major merchant houses of this period adhered to established Japanese practice, and virtually all achieved remarkable commercial development, all the time maintaining loyalty to the *bakufu* ("shogunate government") and the *han* ("daimyo-administered local governments"), showing reverence to their ancestors, and respect for the regulations of guilds and other collective bodies. Nevertheless, unlike the Western experience, the merchants soon abandoned ambitious plans for diversification and turned to a management for stability, preserving the traditions of the *ie* ("house") and emphasizing the values of honesty and frugality. The authors attribute the difference in development patterns to the differing natures of cities, the different roles of religion, and the absence of a rationalistic, individualistic spirit, so that Japanese society did not develop the bourgeois spirit of the West. By the same token, this difference is also a reflection of two different value systems.

When external pressures compounded and internal contradictions and a stagnating agricultural production brought to a head socioeconomic anomalies, Tokugawa Japan reached an impasse and the socioeconomic modernization of the Meiji Restoration was initiated, not by the merchants but by the lower-ranking samurai class. However, Tokugawa social values remained and contributed to modernization even after the Restoration, in a form adapted to new circumstances.

Although the Meiji Restoration was a time of considerable peril for Japan, the nation was able to survive by virtue of clear-cut, widely publicized objectives, and a strong leadership which mobilized the entire population to achieve them. The samurai class, so much more important in sustaining the feudal order in Japan than in the West, ceased to be major obstacle to progress after the Satsuma Rebellion of 1877 was crushed, and became a major source of talent for modernization. Although the bulk of the merchant class were conservative during most of the Tokugawa era and unable to adapt to new circumstances, the pioneers of modern business emerged from all classes to develop the incorporated stock company (*kabushiki-kaisha*), the financial *zaibatsu* cliques and various business associations such as the Chamber of Commerce and Industry.

It was also during this period that the old vertical and horizontal web of relations encompassing not only the merchant class but all society was subjected to severe trial, the nation underwent major spiritual crisis and individuals were incorporated throughout society into new organizational forms. By the same token, there were changes in the value system so that the new organizational structures could be maintained and supported. While the principle of individual merit which emphasized attainment in education was introduced, the principle of collective order emphasizing harmony within the group was also there as a horizontal value, and the linkage between two apparently contradictory principles was subsequently strengthened and it remains in force even today. One of the perpendicular values was that even entrepreneurs inherited the samurai's attitude of disdaining material values and the pursuit of private (*shi-teki*) profit. A third set of traditional values supporting these first two was the increasing attention paid on the macro level to the roles of the emperor (*tennō*), Shintoism, and *bushidō* ("the samurai moral code") and on the micro level to the role of ancestors.

The third period (1896–1940) was replete with tensions and contradictions as Japan pursued modernization. The response to stalemate was to revise the value system so that the emperor-centered polity would be reconstituted, ultimately leading to disastrous military adventure. Indeed, this period may even be divided into two distinct parts with 1920 as the dividing point. In the 1896–1920 period, Japan improved its industrial capability through three wars (Sino-Japanese, Russo-Japanese, and World War I). Yet it was beset by severe recession in the 1920s, which prompted the big companies to rationalize, give less heed to public service, and solidify the *zaibatsu* structure. At the same time, the pace of development in agriculture and traditional small industries fell behind and a more distinct dual structure appeared in the economy. This in turn led to discontent with the social order and nourished the tendency to ultra-nationalism and chauvinism. It was also at this time that the second generation of managers in large corporations (most of them college graduates)

began adopting lifetime employment and other changes in the labor-management relations system bequeathed by the first generation.

In the fourth period (1946–73), the second time since the breakdown of the *bakufu* Japan needed to totally overhaul its value system. Yet in the absence of viable alternatives, Japan borrowed the West and made economic growth its national goal. Neither perpendicular nor horizontal values were substantially altered in the return to traditionalism and firm maintenance of the ethics of functional role expectations. The new national goal was effectively achieved under the peacetime economy: business scored fantastic success with the emergence of a new managerial class oriented more to growth and social direction than short-term profit, labor organizations were formed along corporate lines, various social welfare provisions were enhanced, and competitive business groups were established.

III

That is a general synopsis of *The Development of Japanese Business*, a volume which I feel is a success as a history of Japanese business or economies. Yamamura³ criticizes the book saying the authors have tried to cover far too much ground, a view which seems to me to lose sight of the significance of a work like this using value models and an interdisciplinary approach. Ultimate judgment of this work should be centered on the legitimacy of its model: ethics of functional role expectations. The question of whether *ie* or *mura* (“village community”) principles have been dominant in the organization of business management, or whether some third set of principles are more important, has been discussed by Hazama, Iwata, Tsuda and others.⁴ Roughly speaking, the *ie* principle is a *tate* (“vertical”) relationship of paternalism and control from the top while the *mura* principle is a *yoko* (“horizontal”) relationship of mutual cooperation and regulation, and both have their own strong points. Given this distinction, the authors’ “ethics of functional role expectations” may be thought to have the greater emphasis on *mura* principle, yet the model is very comprehensive, able to embrace both sets of principles. The very fact that such a comprehensive explanation is possible is in itself indicative of the suitability of this model. Although I would like to spend more time exploring the various questions which the model might pose as a functional working hypothesis, there is no denying that for an interdisciplinary analysis, especially one which analyzes the workings of three distinct value dimensions as this one does, there will obviously be some lack of analytical clarity. This reminder is also relevant for the analysis in *The Development of Japanese Business* (especially the explications of different values).

There are two or three points which I feel the book deals with erroneously or fails to treat adequately. The first has to do with the lopsided economic development

³ See, K. Yamamura’s review in *Business History Review* (September 1976), p. 101.

⁴ See, H. Hazama, *Nihonteki keiei-shūdanshugi no kōzai* [Japanese business administration—the merits and demerits of groupism] (Tokyo: Nihon-keizai-shimbunsha, 1970); R. Iwata, *Nihonteki keiei no hensei-genri* [The formation principles of Japanese business] (Tokyo: Bunshindō, 1977); and M. Tsuda, *Nihonteki keiei no ronri* [The logic of Japanese business administration] (Tokyo: Chūō-keizaiisha, 1977).

policies adopted between the Meiji Restoration and World War II which generated the phenomenon of dual-structure or differential-structure economy. Although the authors seem to support the common contention that dual structure was one factor responsible for rapid economic development, my view, and a view gaining increased strength in recent years, is that, contrary to the big-push theory of economic development, it is preferable in the early stages to have agriculture and small business (including traditional industry) take the lead and work in a relationship of mutual dependence to establish markets and achieve balanced growth.⁵ Moreover, the desirability of industrial interdependence remains basically unchanged even at the most advanced stages and highest levels of development, even for the giant capital-intensive corporations.

Nevertheless, while the initial failure of the nationalized industries was turned to good advantage in Japan from the Restoration to World War II, massive and inefficient investment had to be given primarily to capital-intensive giant industries for the exorbitant military and colonial management expenses demanded by the Great Power system. Accordingly, because of the need for modern investment and to ensure that its resource-poor situation would not subject it to undue hardship in time of war, Japan was somewhat less than enthusiastic about raising the general standard of living and making domestic agriculture efficient. Government economic policies formulated with one eye on war also tended to make the Japanese economy inefficient in a number of ways.

Although these uneconomic, unbalanced growth policies were completely reversed after World War II to enable Japan to achieve an astoundingly rapid rate of growth, it is curious that the prewar Japanese economic experience has been appallingly misunderstood and held up as a model to be emulated by postwar developing nations. These misunderstandings are not corrected in *The Development of Japanese Business*.

My second note of dissent has to do with the fact that Japan's modernization was not a capitalistic development on the lines of the Western model. As already noted, improving mass welfare took a back seat in the formulation of Japanese economic policy before World War II, and not even industrial policy was set on the best lines. Accordingly, the modernization of industrial sectors closest to the basic mass needs was slighted and the drift to a dual, differential structure gathered strength. However, there was a factor which tended to alleviate social tensions: the power of Japanese paternalism. Despite the economic policy bias which was a major cause of Japan's differential structure, the forces of modernization did have some impact upon the agricultural and small-business sectors. Even though Japanese paternalism was subject to various constraints in the pursuit of national goals, it made it possible for these sectors to escape an increasingly impersonal process of modernization and accompanying social tensions. In consequence, the small business and farming sectors were by and large preserved as havens of traditional inefficiency and geniality.

For many years, in fact, Japanese economists have taken the rather ambivalent stand of, on the one hand, condemning this differential structure as indicative of

⁵ See, Y. Katō, *Kōshinkoku no bōeki to kaihatsu* [Trade and development of developing countries] (Tokyo: Sekai-keizai-chōsakai, 1969).

the backward state of Japan's economic development, and on the other advocating that its paternalism be preserved. It seems impossible to adequately understand Japanese economic development unless one considers this aspect of paternalism. While the authors do allude to it in Chapter 3, they should have given this factor more serious consideration.

Lastly, I would like to make a request vis-à-vis the English edition. Although the authors doubtlessly took considerable pains to supply the reader with a background knowledge of Japan, the book is deficient in a number of ways, all the more so in its claim to have adopted an interdisciplinary approach. For example, it will be difficult for Western readers to understand the Japanese economy unless they are given more detailed information on Japanese rice-farming culture, especially the peculiarities of a distinctively Japanese mode. It cannot be denied that many Japanese are sadly ignorant of the deceptively simple yet important differences separating East and West, and especially those setting Japan apart from the rest of the world, which may have to be elucidated. While this may be expecting too much from one book such as *The Development of Japanese Business*, one cannot but wish that some mention be made in the preface so that the gap be bridged. (Yoshiki Katō)