# CREI

# Discussion Paper Series

# Economic Inequality in Japan and Recent Business Trend toward Stock Holders' Priority

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Graduate School of Economics,
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March 31, 2008
Discussion Paper No. 11

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経済格差研究センター(CREI)は、大阪市立大学経済学研究科重点研究プロジェクト「経済格差と経済学－異端・都市下層・アジアの視点から－」（2006~2009 年）の推進のため、研究科内に設置された研究ユニットである。

# Economic Inequality in Japan and Recent Business Trend toward Stock Holders' Priority*

Mario Oshima

This paper gives a brief sketch of the debate on economic inequality in recent Japan and suggests that a sense of inequality is widely held among ordinary Japanese people now. It then points out that business trend for stockholders' priority having prevailed in Japan is causing astonishingly high rise of stock dividends and executives' salaries and bonuses in company profit and must be one factor for the above mentioned general sense. In fact Japan experienced that business trend in prewar times when criticisms on greedy stockholders and company executives went very high. Thinking about Peter Drucker's fundamental insight into the ownership of a joint stock company and Japanese people's preferences for a company with even priorities for employees, management and stockholders, the author of this paper thinks that it is dangerous to put too much stress on stockholders' priority in company management.

## 1. Growing Economic Inequality in Japan

About ten years ago, in the midst of economic depression after the burst of "the bubble",[1] growing inequality in Japanese society began to be noticed and became a topic of public concern. Since then, a significant number of books and special journal volumes were published on that issue. New and trendy words describing inequality or poverty, such as "kakusa-shakai", meaning a society of disparity, "karyu-shakai", underclass-society, were coined and used frequently. Japanese people, having been long accustomed to think themselves as an all-middle-class society, got shocked at the fact, for example that the average parents' income of Todai students, the most prestigious university in Japan with relatively low tuition, was higher than private Keio University which had been recognized as a college for rich families. People became worried that Japan might be becoming a society where the rich were becoming richer and the poor poorer.

But, despite intense public concern and the heat of journalism, discussion among

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* This is an enlarged version of my paper read at the 8th Joint Symposium between Chonam National University Korea and Osaka City University held in Osaka on Nov. 20, 2007. I would like to thank Charles Weathers for correcting my English expressions.

[1] Economic boom characterized by speculative price rising in land and stock market during late 1980s.

economists on this issue does not seem to have been deepened. One reason for that was an influential labor economist Otake Fumio at Osaka University analyzed the Gini coefficient of income distribution, the most common signal of economic inequality, and concluded that the increase of the coefficient could be explained mostly by population aging,[2] meaning implicitly that it was not a topic of economics but of sociology. In line with his analysis, in January 2006, the cabinet of Prime Minister Koizumi announced a very political statement, when criticism of Koizumi's economic reforms for enlarging social disparity heated up, that increased inequality was just an appearance, meaning that there had been no change in substance and that criticisms of Koizumi's reforms were ill-targeted.

It is natural that an increasing ratio of retired people, who typically get much less initial income (before income redistribution) than the working generation, causes the Gini coefficient go up, meaning growing income disparity. Most of this disparity should be compensated by pension payments. Differently stated, inequality is just an appearance. But we should realize that the data from which Japan's Gini coefficient was calculated was only 5000-6000 samples picked up from about 50 million households all over Japan, less than 1 sample per 10 thousand households or 25 thousand people. The samples were too small in number and too geographically scattered, for example, to analyze regional inequalities between Tokyo and rural areas. And the data report household income only, so we can not know the scale of growing wage disparity among individuals. Given these limits of the data, to say growing inequality is just an appearance is an inadequate extension of results.

On the other hand, scholars who focus on inequality and poverty tend to take "just look at this" stance. Iwata Masami at Japan Women University who represents this stance says that we have to bring new types of poverty to light. Those types are growing in Japan and other advanced societies and no one would be able to dismiss them. But about economic and social factors which cause these miserable conditions, she just refers to "the change of labor market as a result of post-industrialization and globalization" and goes no further.[3]

Economics tells us that individual income is a reward for the use of resources put into production process. In contemporary economies new patterns of economic growth are emerging and economic resources used are increasingly varied and diversified. Deregulation of labor markets or financial activities has changed the

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[2] Otake Fumio, *Nihon no Fubyoudou: Kakusa-shakai no Gensou to Mirai(Inequality in Japan: illusion and future of social disparity in Japan* , Tokyo: Nihon Keizai Shinbunsha, 2005.

[3] Iwata Masami, *Gendai no Hinkon: Working poor, homeless and seikatsu-hogo (Poverty in contemporary Japan)* , Tokyo: Chikuma shobou, 2007.

structure of rewards for labor or capital. Macroeconomic policies such as extraordinarily low interest rates continued for over ten years in Japan, causing long-lasting effects on the whole income structure of the society. Globalization of financial business has had strong influence. In Japan now these multiple factors changed the structure of rewards for factors of production, such as labor, human capital, physical capital, management skill, technological inventions, organizational innovations, social capital etc. and most people are becoming concerned about economic disparities among individuals or becoming uneasy about their future prospects. Social conditions in which people experience inequality are not the increase of Gini coefficient at macro level income distribution, still less the one calculated from only 5000-6000 household samples.

Among those multiple factors a shift of companies' ways of distributing value-added earned through their comprehensive activities (production, marketing, sales, management etc.) may be one I think important. In short that is a trend in management toward stockholders' priorities. In this paper I would like to focus on this topic.

## 2. Trend toward Management for Stockholders' Priority

*Nihon Keizai Shimbun* (*Nikkei*), Japan's business newspaper, of July 8, 2007 carried a small article called "*Country Ruining Joint Stock Companies*"[4]. This title came from a book published in 1930 written by a famous economic journalist Takahashi Kamekichi[5]. In this book Takahashi pointed out that in the late 1920s economically depressed Japan there were many companies whose ill-intentioned executive officers and stockholders jointly exploited company assets. The usual method of exploitation was distorting company financial reports and making up false profit and then inviting them between company executives and stockholders as special bonuses and high dividends. They abused their limited liability privilege and brought companies into bankruptcy. Creditors suffered large financial losses and company workers lost their livelihoods suddenly. Takahashi accused stockholders and executives of greed, worrying that the joint stock company system with limited liability of stockholders would devastate the whole economic system and finally ruin the country itself.

The purpose of the writer at Nikkei newspaper was to use this historical episode as a hint for thinking twice about the recent business trend toward "management intended for stockholders' priority."

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[4] Suemura Atsushi, "Kabushiki Gaisha Boukoku Ron", *Nihon Keizai Shimbun*, July 8, 2007.

[5] Takahashi Kamekichi, *Kabushiki Gaisha Boukoku Ron (Country Ruining Joint Stock Companies),* Tokyo: Banrikaku, 1930.

Maybe most people still remembers the names of Horie Takafumi, or Horiemon, who was the president of Livedoor, and Murakami Yoshiaki, who was the leader of Murakami investment fund. In history of Japanese stock exchange market, the year 2006 will be long remembered by two battles, Livedoor's attack on Nihon Housou broadcasting company and Murakami's pressure on Hanshin Railway. Their common weapon was newly acquired large stockholdings of target companies. Seemingly they proposed new management programs and pretended that they were not so-called green-mailers, but their true aims were for Nihon-housou and Fuji-TV, or Hanshin Railway, to buy back their stocks at high rates and gained enormous profits. Both of them were arrested and accused of insider transactions. In 2007 Tokyo district courts ruled them guilty and sentenced them to about two years imprisonment.

But it is true that they represented a new trend in the Japanese business world and were actually heroes of the times. The period of stable silent stockholders based on mutual holding practices has ended and stockholders are getting more and more vocal. Good old days for company managers have long passed. Horie's and Murakami's arrests and imprisonment made slight changes in this trend but the trend itself seems not questioned at all. We know that the stockholder now is no longer a typical rich man described in cartoons, such as a very fat man wearing formal coat and high hat, walking arrogantly with a cigar in hand. Going into an aging society, investment and enlargement of our pension fund is getting ever more important. Also effective management of personal financial assets is indispensable for everyone facing long retirement, especially in this age of low interest rates in Japan. Not only Nikkei, but also Asahi, the most leftist paper among the five national papers, have criticized the recent revival of mutual stock holding among big steel makers and automobile manufacturers, and advocate they should maintain the way of company management toward stockholders' priority. Actually "stockholders' priority" is now in Japan an irresistible trend in the business world.

But the above mentioned small article that appeared in Nikkei reminded us of a history of "corporate devastation" caused by greedy vocal stockholders in 1920s Japan. So the stockholders' priority should be kept in certain limits. But what limits? Nikkei's article referred to the German experience of mutual decision making between management and labor, or postwar Japanese management practices of stable mutual stockholding and suggested that the recent so-called Anglo-American "global standard" should not be taken for granted. But to get to the point I think we have to fundamentally reexamine stockholder's rights in companies. We have to ask why such people who have acquired large volumes of a company's stock yesterday can say today something on very important decisions which would influence employees' living seriously who have been working there for many years.

## 3. Anxiety of Professor Ronald Dore

In 2006, an always innovative prominent writer on Japanese society, Ronald Dore, published a handy book on Japanese companies. It was written in Japanese and he seems having been eager to send an alarm to Japanese people who were failing to notice the dangerous business trend toward "stockholders' priority." Its title is "For whom should companies be run?" [6]

He seems very frustrated to see Japanese companies, once celebrated for their Japanese style management, now having totally lost confidence in their own practices, and hurriedly import American style management saying this is global standard. He even presents critical examples from history when Japan started its thoughtless war against America in 1941. At that time because of strong government control over the freedom of speech there were no statesmen, scholars or journalists who stated publicly that America also had some merits Japanese people had to learn. Japan then was a totally closed country. On the contrary in Japan now public speech and book publishing must be totally free but there is no voice heard to demand that Japanese style management has some merits still now. He complained that Japan now seems to have become a totally opened country paradoxically. In his view someone should speak openly that, "It is our corporate culture that does not accept the stockholder's absolute right as owner of a company," or "It is natural to build institutions to support a company with balanced priorities for every stakeholder."

Dore's fear is not groundless. Table 1 cited from his book shows that from 2001 to 2004 Japanese economy was recovering significantly and grew steadily as the

Table 1 Toward Stockholders' Paradise

| | Increase(2001-2004, %) | | |
|---|---|---|---|
| | Total | Large company | Small company |
| Sales | 3 | 5 | 10 |
| Value added | 7 | 11 | 7 |
| Executives' Salary+Bonus | -4 | 59 | -4 |
| Employees' Salary | -6 | -5 | -7 |
| Dividends | 84 | 71 | 29 |

Source：R. Dore, *Dare no Tame no Kaisha ni Suruka* , p.152, table 4. Originally, Corporate Enterprise Statistics by MOF.
Note1：Sales, Value added, Dividends: per a company, Executive Salary + Bonus, Employees' Salary: per one person.
Note2：Large Company=capital of 1billion yen or more, Small Company=capital of 10million yen or less.

[6] Ronald Dore, *Dare no tameno Kaisha ni suruka*, Tokyo: Iwanami-shoten, 2006.

amount of sales and value added shows, but on the other hand employees' salaries at all levels and executives' salary at small level decreased by several points during the same three years. On the contrary stockholders' dividends at all levels and executives' salaries and bonuses at large companies increased astonishingly. Dore calls this situation "stockholders' heaven". Executive officers' position seems to be shifting away from employees' top to an agent of stockholders.

Table 2 presents even more striking figures. It shows executive officers' salaries and bonuses of 8 automobile companies in Japan in fiscal year 2004. Every entry carries an average amount of each company. What impresses us most is the surprisingly high results of Nissan. Its average salary is over 8 times bigger than Toyota's, the world's number 2 automobile manufacturer. Nissan had been a co-leading car maker in Japan with Toyota until 1970s but since then when exhaust gas

Table2 Executives' salary and bonus in automobile companies
(2004, per a person, 10thousabd yen)

| | Salary | Bonus | Total | performance |
|---|---|---|---|---|
| Toyota | 3,474 | 2,214 | 5,688 | ○ |
| Nissan | 28,888 | 5,571 | 34,459 | ○ |
| Honda | 3,428 | 1,855 | 5,283 | ○ |
| Matsuda | 3,850 | 0 | 3,850 | ○ |
| Mitsubishi | 1,491 | 0 | 1,491 | × |
| Suzuki | 1,338 | 514 | 1,852 | ○ |
| Daihatsu | 1,890 | 400 | 2,290 | ○ |
| Subaru | 2,742 | 1,228 | 3,970 | × |

Source: Nikkei Sangyo Shimbun, June 20, 2005.

regulations were strengthened it began to lag behind and now is placed third below Toyota and Honda. In the 1990s the crisis of Nissan deepened and in 1999 it was acquired by French automobile giant Renault and Mr. Carlos Ghosn was sent in to restructure and revive it. After that it began to show good performance and Mr. Ghosn enjoyed great popularity. But now it faces some difficulties such as lack of new advanced technology like hybrid engine or attractive new models. On the other hand it is well known for its high salary and bonuses of executives after Renault's acquisition. Actually it is not announced formally but supposed widely that Mr. Ghosn's pay amounts to more than 1 billion yen per a year. If an average worker gets 5 million yen, Ghosn's is 200 times higher than that. In other words it is 200 years' pay for one average worker. *Nikkei Sangyo Shimbun* newspaper, which carried the table cited above, said that, "There are two opposite opinions, one says that even this amount is much smaller than those in US and suggesting further raises, but the other side worries that too high pay for executives would undermine the morale of middle and lower rank employees. Actually because of Ghosn's restructuring, a number of Nissan workers had to go out from the company and search for new jobs. On table 2, companies other than Nissan seem to keep modest pay for executives and still following Japanese style management path.

But corporation statistics conducted by Ministry of Finance show that large companies as a whole are making really history-breaking sharp rises in executives' salaries and bonuses, and stock dividends. Fig.1 shows executives' annual per capita salary. Fig.2 shows executives' per capita bonuses. And fig.3 shows total stock dividends of all companies of each rank. Look at very sharp rise of the three from 2002 until now, especially executives' bonuses and stock dividends in fig.2 and fig.3. These figures tell us that the recent business trend in Japan is going not only toward "stockholders' priority" but also toward "executive officers' priority." I am afraid that Japan is approaching to another age of "country ruining joint stock companies" characterized by collusion between stockholders and executive officers.

Figure 1 Executives' salary annual per capita
(made by M. Ichikawa)

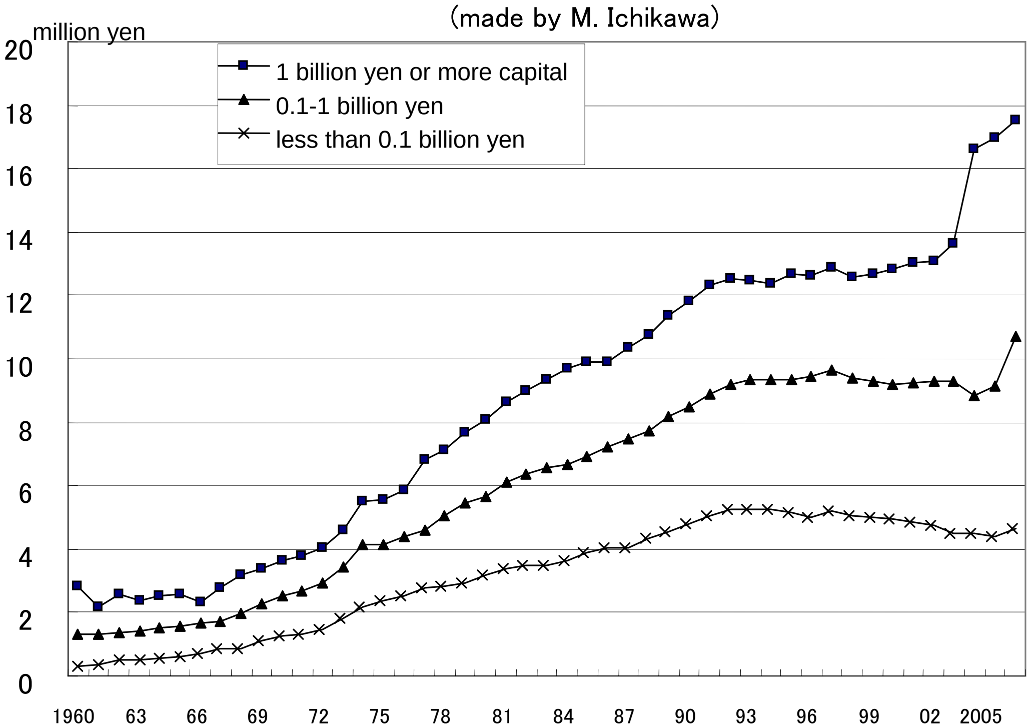


Figure 2 Executives' bonuses per capita
(made by M. Ichikawa)

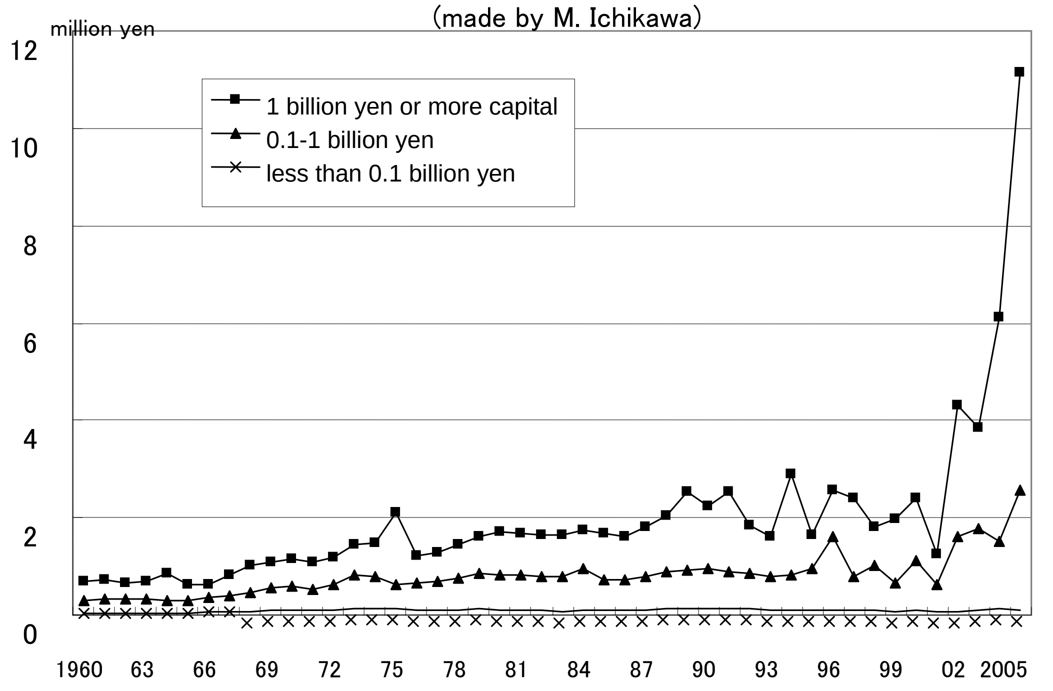
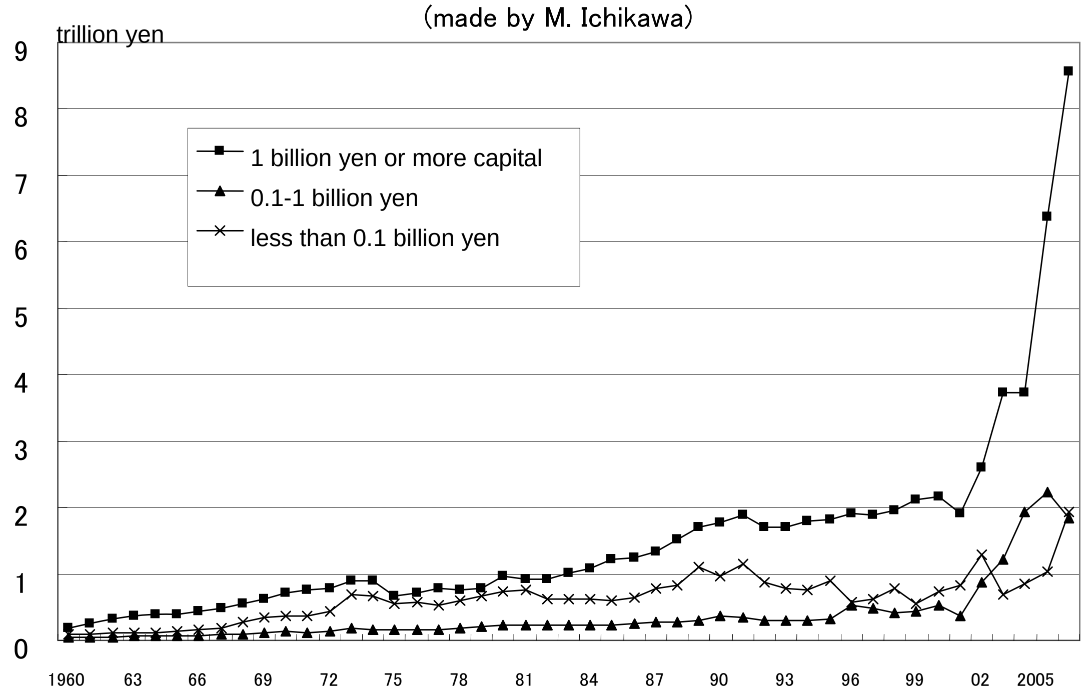



Figure 3 Stock dividends (total)
(made by M. Ichikawa)




Source (Figures 1-3): Corporation statistics, MOF. http://www.mof.go.jp/1c002.htm

## 4. History looks like now

The above-mentioned Takahashi's book made reference to Ishiyama Kenkichi's book titled *Gendai Juyaku Ron*, or *Executive Officers at the Present Age*, published in 1926. Ishiyama was the founder of long lasting business journal *Daiyamondo* and its publisher company. He was an expert on financial analysis of companies for stock investors. He opened the book with the following passages.

> unfair large rewards for executives
>
> If someone asks who are the laziest and the most selfish people working very little and receiving the most handsome rewards in modern Japan? Every one would answer without hesitation they are company executives. There must be some of them who are talented, diligent and least self-serving, but those are very minor and overwhelming majority are guys who behave selfishly despite enjoying the biggest pay. And if someone asks who is doing the most difficult job, answer should be government ministers. How much they are paid? Actually the Prime Minister receives 12 thousand yen per annum and ordinary ministers get 8 thousand yen only. On the other hand company executives get far higher salaries and bonuses. In Mitsui Bank managerial directors (jomu) get 175 thousand yen bonuses and top of them is paid about 250 thousand yen. In Tokyo Electricity bonuses for president amounts to 300 thousand yen and one for vice president was 220-230 thousand. Other than those bonuses they get monthly salaries much smaller though.[7]

Table 3 carries bonuses and average salaries at well known companies in Japan around 1923 estimated by Ishiyama. He said that the presidents of large companies were paid on average about 200 thousand yen and ordinary executives received about 150 thousand yen. These amounts were almost 10 times bigger than that for the Prime Minister. And if we take 1200 yen, the lowest limit for income taxation at that time as a base, average companies' presidents' pay was about 166 times bigger than that. Moreover we have to remember that working people who paid income tax were very few. It was about 7% of gainfully working people, meaning the other 93% earned less than 1200 yen.

Ishiyama described average executives' time schedule for one workday and criticized their laziness. They came to their office very late around 11 AM after enough morning sleep and lengthy dressing up. Ishiyama commented they should have arrived at latest at 10, one hour later than ordinary employees. At 12:30 they went to lunch in a restaurant or club and spent one and half or two hours eating

[7] Ishiyama Kenkichi, *Gendai Juyaku Ron (Executive Officers at the Present Age)*, Tokyo: Daiyamondo-sha, 1926, pp.1-5.

Table 3 Executives' Salaries and Bonuses (1923, estimated by Kenkichi Ishiyama, 10 thousand yen)

| occupation | company/position/personal name | | salary (annual)*1 | bonus (annual) and others | total (annual)*2 |
|---|---|---|---|---|---|
| business | Mitsui Bank | president, Gen'emon Mitsui | 1.00 | 10.00 | 11.00 |
| | | managing director, Shigeaki Ikeda | 1.00 | 24.00–25.00 | 25.00–26.00 |
| | | other managing directors | 1.00 | 17.00–18.00 | 18.00–19.00 |
| | | ordinary directors | 1.00 | 2.00 | 3.00 |
| | Tokyo Dentou Electric | president, Kyoichi Kando | 1.00 | 30.00 | 31.00 |
| | | vice president, Shohachi Wakao | 1.00 | 22.00–23.00 | 23.00–24.00 |
| | | managing director, Tachisaburou Koshiyama | 1.00 | 17.00–18.00 | 18.00–19.00 |
| | | ordinary directors | 1.00 | 1.50–1.60 | 2.50–2.60 |
| | Dai-Nihon Beer | president, Kyouhei Magoshi | 1.00 | 20.00 | 21.00 |
| | | vice president, Sumisaburou Uemura | 1.00 | 14.00–15.00 | 15.00–16.00 |
| | | other managing directors | 1.00 | 8.00–9.00 | 9.00–10.00 |
| | Nippon Yusen Kabushiki Kaisha | president, Yonejirou Ito | 1.00 | 14.00–15.00 | 15.00–16.00 |
| | | vice president, Mr. Ishii | 1.00 | 8.00–9.00 | 9.00–10.00 |
| | | managing director, Mr. Yasuda | 1.00 | 6.00–7.00 | 7.00–8.00 |
| | Kanegafuchi Bouseki | president, Sanji Mutou | 1.00 | 14.00–15.00 | 15.00–16.00 |
| | | managing directors | 1.00 | 7.00–8.00 | 8.00–9.00 |
| | | ordinary directors | 1.00 | 5.00–6.00 | 6.00–7.00 |
| | large companies | president | | | 15.00–20.00 |
| | | managing directors | | | 7.00–15.00 |
| | medium and small companies | executives | | | 3.00–10.00 |
| government | prime minister | | 1.20 | | 2.00–3.00 |
| | ministers | | 0.80 | | 2.00–3.00 |
| | governors | | 0.52–0.60 | | |
| | governor of Tokyo, Shinpei Goto | | 2.50 | | |
| | the coverer-general of Korea | | 0.80 | | |
| | the governor-general of Taiwan | | 0.75 | | |
| military | general and admiral | | 0.75 | | |
| academic | university president | | 065–0.70 | | |
| | professor | | 0.12–0.45 | 0.06–0.18 | 0.57 |

Source：Kenkichi Ishiyama, *Gendaijuuyaku-ron* (Executive Officers at the Present Age), Tokyo:Daiyamondo-sha, 1925.

*1 Ishiyama estimated average company executive's monthly salary 5-10 hundred yen. It means 6-12 thousand yen annually. He focused on their big bonuses and did not mention to monthly salary. In this table I take 10 thousand yen as their average annual salary.

*2 Sum of bonus and estimated average salary (10 thousand yen).

and chatting with friends. Returning to his office, sitting at his desk and meeting visitors only for a few hours, it would be getting dark outside. Then they went out for "machiai", traditional meeting, eating, drinking place with service by *geisha* women, and came back home very late at night. In short they spent the least time for business every day. So employees' morale would be destroyed and the performance of companies would go downward. Nevertheless they got extraordinarily high incomes. Of course we know now Mr. Ghosn at Nissan starts to work very early in the morning and spend very busy days, but at least I feel some hesitation to accept his high pay 200 times higher than ordinary employees as reasonable.

On the contrary in postwar Japan executive officers came down to the highest rank in a community of fellow employees. In early 1980s they still remained there. Let me refer to an article on *Nikkei Sangyo Shimbun* newspaper in 1982. It said that the average pay (salaries plus bonuses) for executives calculated from the data of all the companies listed on the Tokyo Stock Exchange was 9.94 million yen, which was only twice as big as the average pay of all employees, 4.85 million yen. But it must have been too low because executives listed on the data included part-time executives whose pay was very low usually. Other statistics done by the National Personnel Authority (Jinjiin) in 1979 said that average pay for full time executives in large companies (258 companies, about 7000 executives) amounted to 18.59 million yen, which was about 4 times bigger than average employees', and 12 million for executives also working along with employees and 10.38 million for those without representation rights. The newspaper concluded that in Japanese business world the compensation systems for executives were constructed along the seniority line of ordinary employees and the top executives of large companies would get about 30 million yen per a year. The newspaper said, under highly progressive taxation on income then in Japan, over half of their income would be taken away as income tax and local tax, so to keep their face as an executive was not an easy task.

## 5. Reexamining the Stockholders' Right in the Company: Toward company as an employees' community

Article 105 of Japanese company law says that stockholder's rights are (1) to share the surplus, (2) to share the remained assets, (3) to vote at stockholders' meeting. The stockholders' meeting discusses annual business reports and financial reports, decides distribution of the surplus, elects executives and decides amount of pay for executives. If someone acquired over half of the stocks, he or she can control the results at stockholders' meetings. So it is true by law that the stockholder is the owner of a company. But it is not clear why someone who owns just company's static assets can control the whole dynamic business activities or decide the distribution of their achievements.

I think Peter Drucker's early works on "*The End of Economic Man*"[8] or "*The Future of Industrial Society*"[9] still give us insightful perspectives on this issue. His point was comparison between commercial society and industrial society. In commercial society company's assets were typically in large part merchandise bought somewhere far away home and now being under way home at the risk of sea wrecking or pirates' attacks. It is natural that stockholders have right to share profit or to share remained assets. But in industrial society company's assets consist not only of visible physical assets but also of invisible ones like employees' morale, their collaborative ability, management skill, marketing know-how, ideas for new products etc. and etc. So in Drucker's view joint stock company system originally evolved in commercial society should not be applied to companies in industrial society. And he said that company is a property neither of stockholders (in bourgeois capitalist case) nor of those who own means of production (in Marxian socialist case) but of a community of working people.

In Japan a view that company should be a community of workers, managers and stockholders seems to have been prevailed rather widely. It was seen in Takahashi' book in 1930, also advocated in "A proposal for democratization of corporate enterprise: ideas for modified capitalism" in 1947 by Keizai Doyukai (Japan Association of Corporate Executives), and recently insisted by Itami Hiroyuki, a leading scholar on business management in Japan, in his book titled *Nihongata Kōporeto Gabanansu (Japanese style corporate governance)* in 2000.

Takahashi wrote the following in 1930. "Stockholders are the owners of business capital but not of business itself. The business itself is constituted from three factors, namely employees (including blue collar workers), executive officers and stockholders. Just like stockholders invest their capital into business, employees and executive officers invest their blood and muscle and construct production skills and management abilities of its company. Thus those who have strong relations to future prosperity of a company are not stockholders who might disappear tomorrow but employees and executive officers who invest their whole life into the business. Nevertheless it is totally unreasonable that meeting for company's highest decision making is occupied by stockholders only and executive officers and employees have no vote for themselves. In order to accomplish solid industrial development, it is essential that overly strong rights of absentee capitalists should be restricted and employees and executive officers' rights should be recognized properly. An organization for company's highest decision should consist of stockholders,

[8] Peter F. Drucker, *The End of Economic Man: A Study of the New Totalitarianism*, 1939.
[9] Peter F. Drucker. *The Future of Industrial Man: A Conservative Approach*, 1942.

executive officers and employees with equal votes."

What Takahashi wrote in 1930 was just repeated in the postwar reform atmosphere of business democratization in 1947 by Keizai Doyukai, and is echoed in Itami Hiroyuki's proposal in 2000. I think a company with even priorities for stockholders, employees and executive officers must be more acceptable for Japanese people than those with priority for stockholders only.

## 6. Going hybrid?

I think Japan is standing at an important crossroad now. One road is to keep or revive the line of Japanese style management established in the postwar era. But thinking of the fundamental changes of business environment happened in the last one or two decades, it is not easy, maybe impossible or even anachronistic to follow this road. The second one leads to so called Anglo-American line. But this road might be one Japan already had followed along until around 1940 when wartime economic control was strengthened and its fault was vividly described in above cited books of Takahashi or Ishiyama.

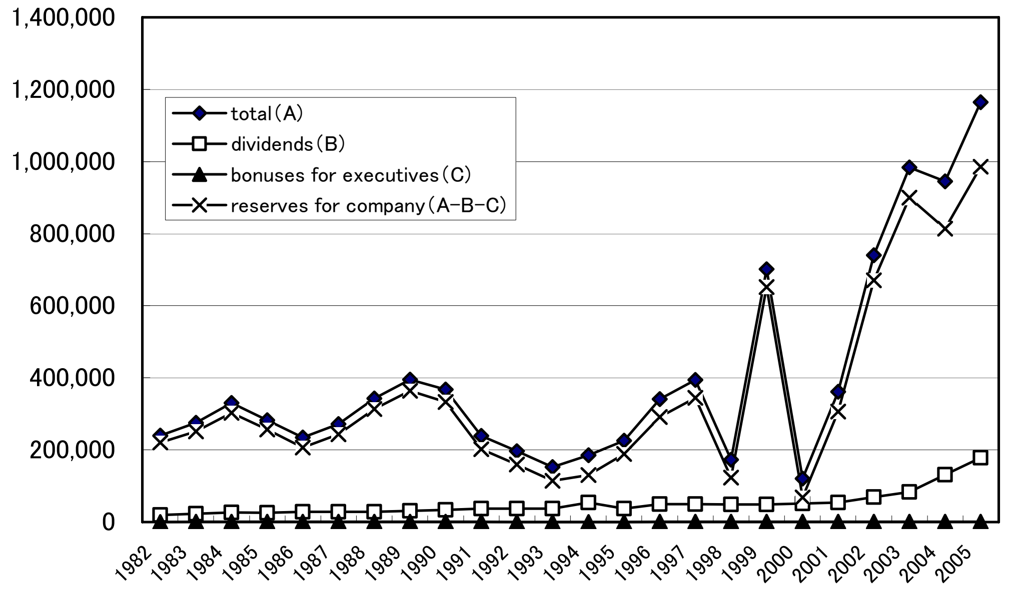
The November 29 issue of *The Economist* in 2007 carried a special report on Japan named "Jap-Anglo Capitalism." It means that Japan now, like a car equipped with a hybrid engine, seems to enjoy both merits of cooperative Japanese capitalism and competitive Anglo-American capitalism, and show renewed strength in the world economic competition. Based on Steven Vogel's analysis[10] it explained in detail that "Japanese companies may well maintain close co-operation with employees yet at the same time profess support for shareholder value; remain committed to lifetime employment but also offer merit-based pay and share options; and engage more fully with the global economy yet keep certain activities in Japan and replicate some Japanese practices even in foreign markets."

Figure 4 shows Toyota's profit disposition from 1982 on to 2005. It is interesting to see dividends coming up recently but does not reflect ups and downs of total profit. It seems that recent increases of dividends might be brought in only by Toyota's consideration for the general trend toward stockholders' priority. It is company reserves that reflect yearly fluctuations of total profit and they amounted to an astonishingly high 1 trillion yen (10 billion US $) in 2005. Toyota seems to keep its way of distributing profit with first priority on the development of the company itself. Toyota has not turned into a profit making machine for stockholders.

Figure 5 shows that average Japanese large companies (1 billion yen or more

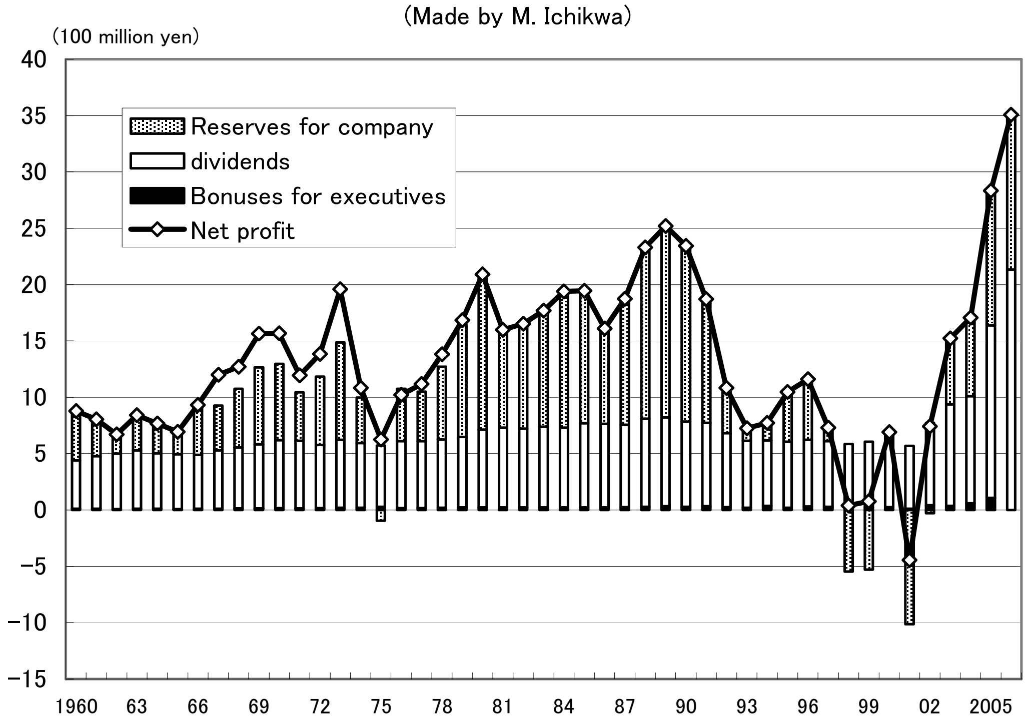
[10] Steven Vogel, *Japan Remodeled: How Government and Industry are Reforming Japanese Capitalism*, Ithaca: Cornel University Press, 2006.

Figure 4  Composition of Profit at Toyota (million yen)




Source: Toyota's annual financial report (each year).

Figure 5 Comosition of Profit at an Average Company (1 billion yen or more capital)
(Made by M. Ichikwa)




Source: Corporation statistics, MOF. http://www.mof.go.jp/1c002.htm

capital) still follow the same line as Toyota's. But there seems to be a slightly worrying trend that they keep paying almost the same amount of dividends even in deficit years by breaking into their reserve funds. Like Toyota's case the amount of dividends does not reflect their total profits. In surplus years there should be no problem. But in deficit years they seem to be obliged to keep paying the same amount of dividends which might cause serious financial damages to a company.