JAPAN'S SMALL-SCALE FAMILY ENTERPRISES

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All too frequently big business has dominated popular perceptions of the Japanese economy. Large firms are deemed to have powered Japan's growth through their real successes in generating output, raising productivity, absorbing and creating innovations through large-scale R&D, and creating and developing "the Japanese management system" of industrial relations, internal decisionmaking and close intragroup affiliations. Big business plays a highly visible, broad political and social role, financing political leaders and their factions, influencing national economic and other policy, serving as a role model, and preaching its business ideology. It is a system of male managerial elites dealing on equal footing in carefully developed formal and informal networks with counterpart elites--central government bureaucrats, elite politicians, and others holding power at the top of the pyramid of Japan's hierarchical society. Some characterize big business as the brain and the central nervous system of Japan's economy.

If that is the case, then small enterprise is the economic, political, and social heart and backbone of Japan. In particular small-scale family enterprises have long been and continue to be a large and dynamic element in the political economy of Japan--in entrepreneurship, job creation, output and political clout. Small business makes up the bottom two-thirds (or more) of Japan's social and economic pyramid. It is a curious mixture of seething activity, often turbulent change, and calm,

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quiet, even stoic inertia. Small business is the main provider of employment for the Japanese and thereby the source of consumer demand; it engages in almost half of business investment as well. Small business, as comprehensively defined here, is extremely heterogeneous and not unified politically or in other ways; nonetheless subgroups are effective in exercising political power to achieve well-defined, typically economic, goals. Small business is at once the source and repository of great social stability, the locus of a considerable range of tolerated behavior (what Westerners might even term "individualism"), and the carrier and implementer of social and cultural change. Many small businessmen are conformists, but few are company men of the sort that prevails in large enterprises.

A big-small classification of enterprise size is obviously too simple, as is any delimitation in the consideration of small-scale enterprise to a few sectors. In principle, we consider here the role of small-scale units of ownership and production--enterprise in the broadest sense--in all sectors of the economy, from farming to manufacturing, construction, retail sales, and personal services. Enterprises range over a continuum of firm sizes; obviously, in numbers most are very small and only a few (2,040 or 0.2 per cent of total incorporated enterprises)[1] employ more than 1,000 workers. Where to divide the continuum into segments depends on the purpose. Here we are concerned primarily with enterprises of fewer than 100 workers, especially units of less than 30 workers and minuscule units of fewer than five workers.

Small-scale enterprise is quantitatively as well as qualitatively important in Japan's economy. In a three-size classification, small enterprises in 1982 provided jobs for 36.5 million Japanese men and

women, 68.7 per cent of private sector employment; medium-sized firms (100-999 workers) accounted for 16.2 per cent; and big business 15.0 per cent.[2] Small enterprises, with more than two-thirds the labor force, produce close to half of the GNP originating in the private sector.[3]

Japan is a country teeming with small-scale family enterprises, more so than any other advanced industrial country. Many are entrepreneurially vigorous; many others are content, or doomed, to drift along. We recognize that small-scale family enterprises (SFEs), typically located in or near the family home, represent a complex economic, social and psychological phenomenon.[4] Our focus is primarily upon its economic features, particularly in terms of the owner-operator and his/her immediate family. (The intrafamilial dynamics of the owner-operator and family workers are complex, fascinating, and beyond the scope of this study.) Even among SFEs, size makes for qualitative differences. A 100-worker firm is probably more similar to a 300-worker firm than to a 30-worker firm. Moreover, minuscule enterprises of fewer than five workers are qualitatively distinctive: the workers consist almost entirely of owner-operators and family members; fewer than 15 per cent are wage-earning employees.

Our main interest here is in the ownership and operation of SFEs with fewer than 30 workers. Put simply, there are some 9.5 million Japanese owner-operators of these SFEs throughout Japan, almost one-fifth (18.0 per cent) of the labor force. Of these, 2.4 million are farmers, six million run unincorporated nonfarm businesses, and almost 1.1 million head small incorporated enterprises. Adding in about 6.5 million unpaid and paid family members, almost one-third (31.2 per cent) of Japan's labor force work as owners and family members of SFEs.[5] When their hired

employees are included these SFEs employ more than half the labor force (see Table 3, next section).

These macroeconomic facts, while illuminating, conceal the tremendous diversity and heterogeneity of small-scale family enterprises--in goals and behavior, success and failure, innovativeness and conservatism, flexibilities and rigidities, and sectoral differences and similarities. Two polar-opposite kinds of SFE stories can be told.

One story is premised on the positive pull of opportunity, ambition, ability, and the preference to be one's own boss. In it a reasonably favorable environment provides identifiable opportunities; individuals possess entrepreneurial drive, ambition, and freedom of choice; and they obtain and use resources productively and efficiently. The ultimate result is economic and personal success. It is a story of optimism and hope.

The negative story is one of lack of opportunities; limited choices under adverse circumstances, inefficiency and defensiveness, survival by taking advantage of imperfect land or labor markets, and low wages and incomes. Families may own assets, especially land, the implicit rental value of which they can obtain most effectively through some inefficient type of production. Persons may be discriminated against--especially women, older persons, Burakumin, and Koreans. Or they may be people of marginal ability, skills, personality, or motivation. It is a story of resignation, even despair. At its extremes this is a story of exploitation, of labor as workers and petty bourgeoisie families striving desperately to subsist however they can while high incomes accrue to the owners, managers, and workers of large enterprises.[6]

In real life the two stories are mixed. Moreover, we do not want to imply that the stories indicate much beyond material wellbeing; there are after all many anxious, unhappy, "successful" people, and many others who are content no matter how plain or simple their lives. The negative story of engaging in marginal activities may prevail temporarily for a family who, due to dire circumstances, waits until something better comes along or to amass a little capital to start anew. It is difficult to assert a priori which story is likely to prevail and under what circumstances, because of the heterogeneity of individuals and families, their circumstances, and the specifics of any such opportunities as may exist. In general, the negative situation characterizes industries or sectors declining because of inefficiency and an inability to compete, such as part-time agriculture and minuscule retail shops. Owners and their families are in general probably better off than their wage-earning employees. A core of quite skilled, regular (male) workers are paid substantially higher wages than middle-aged females and part-time workers (these two categories overlap substantially).

The subject of SFEs raises a host of interpretive issues involving the economy as a whole. Why is the SFE sector so large? What does its large size mean for the political economy as a whole? More speculatively, what are its likely prospects for and effects on Japan's future? Is the large share that small-scale enterprise holds in Japan's economy mainly a lagged phenomenon, requiring a generational process of adjustment to an earlier phase of Japan's economic development? Or does it reflect an effective way to organize production in Japan's current, and future, affluent economy? Do SFEs survive mainly because of "exploitative" wage rates which are the consequence of labor market dualism, or

do lower wages reflect the heterogeneity of labor in relatively competitive labor markets? Can the multitude of small-scale entrepreneurs best be described as successfully utilizing existing assets, as ambitious people seeking independence, or as people who lack better alternatives? Is government protection a major factor in the persistence of so many SFEs?

As already stated, our central focus is on the ownership and operation of small family enterprises: how they come into being, exist, transform themselves, and in some cases disappear. By "small" we usually mean enterprises with fewer than 30 workers, including the myriad of very small unincorporated enterprises. While the operation of labor markets, firm size differentials in wages and other forms of remuneration, and the well-being of workers in SFEs are important elements in our story, they are not central. Hence, this is more an essay on the political economy of small-scale industrial organization than on that of labor.

In contradiction to those who propound the "exploitation" and "lagged" interpretations, we view small-scale family-owned and operated enterprises mostly in a positive light. While some sectors are clearly marginal or failing remnants of an earlier era, some are dynamic and growing; many provide sound, stable incomes. SFEs are a dynamic source of flexibility for the Japanese economy. In many instances they prove efficient and responsive to market demands. The individuals and families that make up SFEs combine their human attributes--entrepreneurship, labor, skills and knowledge, ambition, willingness to take risk, networks of social relationships--with ownership of land and other physical and financial assets. This, indeed, is their essence and their economic and social rationale. The successful persistence of small business is also

due in substantial part to the distribution of land ownership and land's high value, the heterogeneity of labor (and to some extent segmentation of labor markets), and supportive government policies, especially in tax treatment. Perhaps most of all, it reflects the depth of entrepreneurial ambition and talent in Japan.

Several cautionary notes. First, the smaller the scale, the more fluid and less reliable the data. In particular, most successful SFEs underreport their true economic profits through tax avoidance and, in many cases, tax evasion. Accordingly value added, family income, implicit wage rates, and return on investment are understated. Second, the heterogeneity among SFEs is so great that generalizations are certain to require significant exceptions. We focus on agriculture, manufacturing and retailing, the three largest sectors. For small high tech venture firms see the chapter by Okimoto and Saxonhouse. The construction industry is not considered, even though small local firms play a particularly active role in the political economy of public construction contracts and the financing of politicians.[7] Third, the data problems associated with scale within SFEs are serious. Government statistics typically lump small and medium enterprise together; the Census of Manufactures no longer collects data on the smallest (one to four worker) firms; frequently manufacturing data refer only to firms with 30 or more employees; and financial data mainly are for incorporated enterprises.

In the next section we provide a descriptive overview, first in macro perspective, and then specifically for agriculture, manufacturing and retailing. In the following section we examine economic, social, and political reasons for the persistently high proportion of small family

enterprises in the Japanese economy. In the final section we discuss the future role of small business in Japan.

I. A Descriptive Overview

Surprisingly little cross-country comparative research exists on small-scale enterprise. The quality of data apparently is directly related to the degree of importance attached to small firms; though the level of rhetoric is substantial everywhere, Japan and the United States have the best data and the most extensive programs of financial and other support, while the Western European countries seemingly have less actual interest.[8]

Japan's small-scale enterprise sector is large in comparison with its counterparts in other advanced industrial societies. Self-employed workers and unpaid family workers comprise a far larger proportion of the labor force in Japan (29 per cent) than in France (17 per cent), Germany (14 per cent), the U.S. (nine per cent), or the U.K. (eight per cent).[9] The differences lie not so much in agriculture as in manufacturing and in retailing. In Japanese manufacturing, 46.5 per cent of workers have jobs in establishments with fewer than 50 workers, more than in Italy (44.4 per cent), the United States (15.2 per cent) and the United Kingdom (15.9 per cent). The other Western European countries are in between, but are closer on average to Japan.[10] The same pattern is even more pronounced for establishments with fewer than ten workers. Furthermore, when compared with the United States, West Germany, and the United Kingdom, value-added per worker is considerably lower in small firms when measured against the value-added in large Japanese firms.[11] Subcontracting is

more prevalent in Japan than elsewhere. Similarly, although they are of lower productivity, Japan has many more retail stores relative to population than the United States or Western Europe.

Interestingly the share of businesses with 100 or fewer employees was remarkably constant at 40 per cent in the United States between 1963 and 1977, while in Japan it rose modestly from 51 per cent in 1962 (and 1971) to 56 per cent in 1979. The Japanese government provides far more finance to small business than the American, about $66 billion in loans outstanding in 1982 versus $3.8 billion by the U.S. Small Business Administration, and loan guarantees of $21.8 billion versus $1.6 billion.[12] However, the interest subsidy was substantially farther below market rates in the United States than Japan.

As Kiyonari stresses, small business was completely transformed by the two decades of high growth ending in the early 1970s.[13] For many firms profits increased, technology improved, investment deepened; SFEs grew rapidly, and so too did their number. Buyer-supplier relationships, especially in subcontracting, deepened and became more stable.

Between 1971 and 1982 the share of small-scale enterprises (fewer than 100 workers) in total employment remained essentially constant, since increases in retail and wholesale trade and other services have offset the decline in agriculture. Table 1 provides detailed information on SFEs with fewer than 30 workers for 1971 and 1982. The absolute number of workers increased though the ratio decreased slightly, but there were significant changes in composition. An overall decrease in self-employed individual proprietors and family workers took place solely in agriculture; the numbers increased in all other sectors. This occurred even though for tax and other reasons many SFEs incorporated

themselves. Indeed, the total number of SFEs has risen significantly. Between 1960 and 1981 incorporated enterprises increased from 414,000 to 1,187,000; not surprisingly, almost all were small, but more than three-quarters of the increase were firms with fewer than ten employees.[14] Unincorporated enterprises also increased, from 3,467,000 in 1969 to 4,178,000 in 1981.[15] These are net figures; birth, growth, and death (or transformation) are treated later.

There are three kinds of participants in small-scale enterprise: self-employed owner-operators; "unpaid" family workers; and wage-earning employees. Of the total labor force (57.8 million in 1982), some 15 per cent, almost all women, define themselves as working partly (less than 200 days per year) with their main activities elsewhere, almost always in taking care of the household. More than four-fifths of part-timers work in very small enterprises. Further basic data on labor force allocation appear in Tables 2 and 3. We have already noted the striking fact that over half Japan's total labor force works in enterprises of fewer than 30 workers. The largest share (28.2 per cent) is in wholesale and retail trade, followed closely by agriculture (27.6 per cent), and then services (16.0 per cent) and manufacturing.

Yet the most startling, and perhaps most distinctive, feature of Japan's SFEs is the immense share of minuscule enterprises with one to four workers (including the proprietor). Some 30.6 per cent of the total labor force work in minuscule units; since three-fifths of those who are working only partly are in these enterprises, minuscule units account for a smaller share (12.3 million workers, 15.6 per cent) of the mainly working labor force. Indeed, almost all the self-employed (93.7 per cent) and unpaid family workers (89.3 per cent) are in minuscule

enterprises. Only one-fifth of the workers in minuscule enterprise are wage-earning employees. Such minuscule production units include almost all Japanese in agriculture (93.7 per cent), but also 38.7 per cent of those in wholesale and retail trade. Some three-fifths of small businesses, and four-fifths of retail stores, are "home businesses" in which owner and family constitute more than half the labor force. Moreover, about one-fifth of small enterprisers engage in a secondary line of business; in rural areas a quarter of those are in farming or fishing, in urban areas "apartment rental is popular."[16]

Other important features of the small-scale family-enterprise sector are their sex and age compositions. Females are particularly concentrated in small enterprises. Four-fifths of the family workers are women. While almost one-third (3.0 million) of those classified as self-employed are women, one-third of these are doing piecework at home at extremely low wages.[17] Even so, some two million women run their own enterprises. Almost a quarter of them are in agriculture but many more are in services, especially those catering primarily to other women--Avon ladies, life insurance, and so on.[18] As Hill has shown, for married women the choice is not "to work or not to work," but three-fold: to work as a wage-earning employee, to work in a family enterprise as an unpaid family member or as its proprietor, or to engage in household work.[19]

Other workers are also drawn to, or end up in, small-scale operations. One-third of the working persons aged 55-64 are in minuscule (one to four workers) enterprises, as are almost half of those still working after 65. Minuscule enterprises have disproportionately more older workers and few younger workers, yet otherwise the age distribution by firm size does not vary greatly except for in large firms where young

workers are disproportionately numerous. A far higher proportion of old people work in Japan than in other industrial nations.

Small-scale enterprises are dominant in terms of employment and of great importance in terms of output in agriculture, forestry, fisheries, construction, retail and wholesale trade, and personal services. They comprise a very significant share of the overall manufacturing[20] and a dominant share in many manufacturing industries. Wholesale and retail trade has the largest share (27.2 per cent) of SFE employment, followed by manufacturing (19.2 per cent), personal services (17.8 per cent), and agriculture (14.2 per cent).

Excluding agriculture, SFEs on average are substantively less productive than medium and large firms which, with 30 per cent of the labor force, produce about half the GNP. The evidence is overwhelming that value added per worker and income per worker increases monotonically with enterprise size, and that a very substantial gap persists between the extremes of firm size. On the other hand, especially with tax evasion, the rate of return on capital may well be higher in smaller enterprises. In manufacturing in 1981 value-added per worker in establishments of 1000 plus was 2.39 times that of a worker in establishments of 4-99 workers, though the wage gap was substantially narrower.

Nonetheless, over the past two decades the growth in value-added per worker in small enterprise has been at least as rapid as in large firms (the minuscule one to four worker firms always constitute a special problem, not only of data but of comprehending the underlying reality). The initially wide gap in value added between large firms and small narrowed until the mid-1970s, but has widened subsequently. The similarly large gap in capital per worker also narrowed until 1975, and has

continued to narrow since, albeit modestly. Wage differentials by firm size narrowed sharply from the late 1950s to the mid-1960s and leveled off until 1972-3, but they have since widened modestly. (See the chapter by Bronfenbrenner and Yasuba.)

In sum, small business is not a lagging sector; on the whole, it is prosperous and healthy and growing as rapidly as the rest of the economy. But it is not correct to regard small business as the engine of GNP growth; it has not been the major source of R&D and innovation.[21] Nonetheless, SFEs do contribute significantly to growth--as the recipients of technological diffusion, as sources of on-the-job innovations, as active investors in new (and used) equipment, as major suppliers of consumer goods and services, and as flexible users and absorbers of most of the labor force.

Agriculture. Farming is a special and extreme case of small scale family enterprise. While in many respects it is very different from small scale family enterprises in manufacturing and the tertiary sector, there are numerous reasons for some considerations of agriculture, especially for comparative purposes, since European and other countries also provide policies to maintain family farms, however inefficient.

The two key factors making possible the continuation of so many family farms have been the farmer's ownership of his land and the government policies of restraining import competition and to providing huge direct subsidies while allowing domestic agricultural prices to rise substantially.[22] In these respects agriculture stands in clear contrast to most other SFEs. The benefit to farmers has been high--rising incomes and growth in the value of their main asset: land. The benefit to the Liberal Democratic Party (LDP) has been a strong base of political

support. Society in general has benefited from a more equal income distribution and a greater degree of food self-sufficiency. But the economic costs have been enormous, equivalent to more than half the value-added in the agricultural sector. These have been borne by consumers and taxpayers. The costs include not only very high prices for agricultural products but inefficient and excessive allocation of capital, land, and perhaps even labor. More efficient policy packages could achieve the same goals at substantially lower costs, but they are resisted by organized agriculture since farmers know the benefits of the present system of support and fear that any changes might undermine that commitment.

The basic economic problem is that major improvements in technology and financing, and the rapidly increasing opportunity cost of labor have sharply enlarged the minimal size of family farms required for internationally competitive production far beyond anything even contemplated today in Japan. Achievement of optimal size (i.e. of competitiveness) is further impeded by Japan's mountainous terrain. By the criteria of world prices for agricultural products, much submarginal land is currently in production. Land consolidation is impeded because land is overpriced; the renting of land confers de facto ownership rights, so owners are unwilling to lease out; and idle land is taxed at higher rates, so something should be grown. Farmers and others have rationally held land for speculative purposes, in the anticipation that land will increase in value more rapidly than other assets--reflecting, in part at least, a higher opportunity cost of land in some areas for factories, office buildings, and housing, as well as lenient tax policies.

Yet in a social and political sense, agrarian policy has been remarkably successful. Rapid and sustained growth has made it inevitable that agriculture would become an uncompetitive, declining industry; labor and savings would have to be absorbed elsewhere, and the costs of structural adjustment would have to be borne. On the whole, government policy has managed this process brilliantly. Income has been redistributed and equalized. The social infrastructure has vastly improved, especially roads and transportation to nearby towns and cities where jobs were being created by rapid growth. No economy has ever gone through so rapid a decline in the agrarian labor force as Japan has since 1955. Essentially all (97 per cent) of the new generation take nonfarm jobs; their parents now commute to nearby nonfarm jobs while continuing to live at home, reducing the demand for urban housing and infrastructure.

The problem is that government policy has gone too far. It raised agricultural prices and incomes too much and gave too many tax exemptions. It has retarded structural adjustment through crop diversification and land consolidation too much. Yet, rhetoric to the contrary, government policy toward agriculture fundamentally changed from the late 1970s. The decision not to raise the government purchase price to producers of rice further (it has risen on average far less than the CPI since 1976) and to hold the line on subsidy payments while cutting back on acreage under cultivation has set the policy terms by which the attractiveness of farming will gradually but steadily decrease. The future of small family enterprise in agriculture is that of a very economically inefficient, politically powerful sector about to embark on major generational change.

A crucial question is whether a similar pattern is or will be found in the case of those elements of small manufacturing and retailing that are declining. Given the numbers of people involved, this is indeed a significant political issue.

Manufacturing. We have already provided data demonstrating the important share of small family enterprises in manufacturing output and employment (see Tables 1 and 3). There are of course substantial differences by industry depending on specific technology and capital scale requirements. Not surprisingly, small enterprises predominate in labor-intensive industries. The popular view is that most small-scale manufacturing involves specialized production of specific components or parts, or their assembly, for much larger producers of final products for domestic or foreign markets. There is substantial truth in this perspective. Slightly more than three-fifths of SFE manufacturers are subcontractors. That also means almost two-fifths of the SFEs produce final products for domestic consumption or investment, or for export markets. The share of direct exports in small and medium enterprise production is only about 6.5 per cent;[23] however, firms producing exports specialize greatly in their specific export products.[24]

Several types of manufactures and organizations are often distinguished. Traditional goods (such as kimonos, lacquerware, paper fans) catering to predominantly Japanese tastes is one. The success of traditional goods industries depends on income, the price elasticities of domestic demand, and changes in tastes; exports are negligible and the possibility of import competition limited. Products (including food products) which serve local or regional markets is another type. Small-scale producers for local markets face increasing competition, both from

larger Japanese producers and from imports. A third consists of labor intensive modern products generated for the national market by geographically clustered SFEs. Handbags, pencils, toys, flatware and printing are examples. Certain types of machinery are produced by small, or at most medium-sized, enterprises.

A closer examination of several cases is instructive.[25] About 2,000 companies are listed as briefcase manufacturers of which 80 per cent are located in Tokyo, primarily in two wards of the city. The average firm has seven workers. Some prepare and dye the leather; some make things such as metal fittings. Central to the arrangements are coordinating contractors (tonya) who take orders, purchase materials, delegate the manufacturing, and when the product is finished manage its storage and shipping. The actual construction of the briefcases goes to a "maker" firm which typically utilizes from ten to 20 separate subcontractors for the majority of work involved. Most of these, in turn, circulate piece work to women to do at home (naishoku). All elements of the system are owner operated businesses, with subcontractors being almost entirely minuscule family units comprised of husbands and wives, occasionally with a relative or employee added. Nearly all produce at home. Hours are generally long (10-12 hours on busy days), but vary a good deal with the level of business. Gross sales figures also vary widely, but the average monthly income in 1976 was about Y300,000 ($1,200) for subcontractors which amounts at most to Y1,000 ($4.00) per hour in a husband-wife operation, hardly better than the average wage level in the industry.

Briefcases could be manufactured in larger factories as a unitary operation. A larger piece of land would be required, and a large consolidated initial investment would be needed for equipment. A means of

gathering and keeping labor with requisite specific skills, namely an attractive employment system, would be necessary. All this would presumably require a high confidence in the size of initial demand.

Yet, since the variety of styles is great, briefcases are not manufactured by highly mechanized processes. The savings in production costs that consolidated, longer runs would bring would amount to very little, whereas an operation under one roof would entail higher costs due to increased inflexibilities of labor utilization, greater pressure on wages, and greater investment costs. Moreover, in light of the preferential tax treatment of small SFEs, corporate profits taxes would undoubtedly be higher. The dispersion versus consolidation of processing steps raises the further issue of coordination and reliability. Can independent units keep in synchronization as styles, costs, and so forth shift? Can they remain part of a single system without unified ownership and management? The answer appears to be "yes" for many of these cluster industries.[26] New forms of labor-saving mechanization might make larger scale units efficient, yet given the present arrangement, mechanization of individual steps in the process is accomplished by existing small firms (assuming loans and technical advice are available). A system of larger company management (bureaucratic) would not benefit from the competition among suppliers that keeps costs down while delivering quality in each step of production.[27]

Once established, such "cluster" industries often go far in modernizing on the basis of integrated small scale operations. In some instances, such as the flatware industry in Niigata Prefecture, the entire system has successfully shifted from one kind of metal product to another with the common threads being production technologies and the production

network of participating families. An industry of this kind, once set down in history (tied to the land and socially organized), has strong incentives to adapt and unite to protect itself.

Their niches are often quite marginal, however, and are threatened by cheaper foreign imports and new manufacturing processes. Korea, Hong Kong, Taiwan and Singapore, for example, are capable of making quality briefcases at wage rates roughly one quarter of those in the Tokyo industry. Both kinds of threats create downward pressure on wages and costs in an already competitive industry, and the niches left to exploit are ones involving responsiveness to narrower, high end market segments. Large-scale and foreign competition also create pressure for government protection, intensified by the local density of cluster industries. Some medium-size cities, for example, depend almost entirely on a particular industry.

While some small-scale industries are in decline, others are growing. From 1968 to 1978 the number of metal fabricating machine shops with four or fewer workers increased in Tokyo by 62 per cent while larger shops (those with ten or more workers) declined by nearly 25 per cent. The industry's ten-year growth resulted almost entirely from the creation of nearly 5,000 new SFEs in Toyko. How did this occur and why was growth primarily in the smallest scale segment of the industry?

Most small machine shops develop in small incremental steps. Experienced individual operators typically first shift to subcontracting for their former employers, often borrowing space and machinery from him to accomplish this. The next stage is to move into separate rented space (often in another machine shop). Used machinery can be bought on relatively accommodating terms, but an independent space rental involves "key

money" (typically equivalent to ten months rent). As business expands an employee and a second machine may be taken on. If expansion continues, the point will be reached when the entrepreneur, in turn, agrees to set up one of his employees as a subcontractor.

Why would he want to do this? It is very difficult to keep skilled workers satisfied in this industry after they have six to eight years of experience. Limited wage increases and growing skill create a strong desire for independence. There are also severe space limitations to consider since the average factory size is but 25-40m^2. To make a virtue of necessity, owners help the spin-out process in hopes of gaining benefits from the continuing relationship. That is, "offspring" companies form part of the "parent's" network through which new orders and valuable information are exchanged; frequently the "parent" entrepreneur serves as a broker for new orders, guaranteeing the product's reliability and delivery date, and receiving a fee for his services.

The notable point is that productive efficiency is not apparently affected by the overall scale of the operation. Whether there is one machine or many does not matter. What matters is the operator's skill and whether more expensive, more efficient machines will drive out such a small scale approach. If loans are available and demand is steady, there is little that precludes such minute subcontractors from acquiring the new machines. However, a higher initial investment will necessarily mean higher barriers to entry. It follows that stable production technologies bring down the barriers to small scale entry in forms of manufacturing that involve separate small processes. Equally important are the ways social ties and an initially minuscule starting point keep the barriers to entry low for insiders.

Turning to SFE subcontracting for large assembly "parent" firms, the basic issue is why subcontracting of this kind is so extensive in Japan. The question strikes at the heart of industrial organization, at issues of organization versus market, of factor market imperfections, and of technological innovation and dissemination. These issues are also addressed in the chapters by Aoki and Uekusa.

About 60 per cent of Japan's small manufacturers exist primarily because they produce parts (or do subassembly) for larger design/assembly/marketing companies. As such, they are quasi-independent members of large, complex systems typically involving many subcontracting companies of varying sizes gathered around a central large company. While subcontracting is found in every economy and is common to a broad range of products, in Japan subcontracting is notable for (1) the extensive role it plays in a large number of industries, (2) its highly evolved character, and (3) its capacity to adapt to rapid technological change. All of this implies that Japanese subcontracting is comparatively efficient.[28]

Subcontracting relationships can run from the simple (e.g., a one-time agreement to supply a component part at a fixed price in terms between two firms that have no other relations) to the complex (e.g., an on-going cooperative relationship centering on the creation of products of a particular type at prices and terms that are periodically renegotiated, in which the two firms' personnel regularly interact over many functional areas including cost control, design engineering, finance, manufacturing engineering and R&D in a manner approaching cooperative efforts internal to a single firm). Japanese subcontracting is impressive in its inclination to and capacity for highly complex, "evolved"

relationships, ones which presumably generate higher levels of efficiency, over longer time periods, by taking advantage of many forms of complementariness between the contracting and subcontracting firm (or, more often, many subcontracting firms). Particularly in the more complex relationships, labor cost differentials are but one reason for the use of subcontracting.

The basic kinds of complementariness involved are: (1) manufacturing specialization vs. design marketing specialization; (2) separate types of specialization within production technology; (3) separate investment specializations in production equipment; (4) R&D specialization; (5) different labor costs; (6) differentials in overhead costs; (7) different capacities for flexibility and change (staffing, systems, low-volume product runs); and (8) different financing advantages (including access to financial markets, extended and at times flexible payment terms, and shifts in inventory burdens). Small subcontracting manufacturers survive by exchanging one or more of these complementary advantages with a total subcontracting system. The more developed the arrangement, the greater the potential for more kinds of complementariness.

There are, at the same time, many "arms length" aspects and contractual protections involved in subcontracting relationships (see Uekusa chapter). Information sharing is far from perfect and risk management necessitates some price/quality guarantees over extended periods when large investments are involved.

How well large companies manage their subcontracting network has become a major aspect of competition.[29] The proportion of manufacturing costs that are external has risen well above 50 per cent for many

important products (e.g., electronics, autos). Close cooperation is necessary in the design stage, and managerial leadership is needed to effect systemwide changes and cost improvements.

What makes the best management strategy when the capacity of production is great and the product is constantly changing appears to differ considerably from country to country. In Japan the tendency has been to create a deepening bond with suppliers, allowing for closer cooperation and supervision. Assemblers have avoided high fixed costs, but they also grow dependent on the external supply systems they create. The Japanese choice is basically to seek efficiencies of a long-term relational kind rather than to maximize market efficiencies in which many "arm's length" suppliers compete in what are essentially spot markets. This has meant that the capacity to maximize coordination between firms is a major management skill. The entrepreneurial activity of small suppliers is encouraged within a narrowly defined context, one determined and guided by the larger firms. Coordinated interdependence results in the creation of value that makes both parties more independent in other markets.

Japan measures its subcontracting system in a number of ways that highlight its notable qualities. It asks about the number and weight of important customers in total sales. The weight of a parent firm or firms in the world of each subcontractor indicates the character of the relationship.

Two-thirds of the smallest manufacturing enterprises--those with one to three employees--engage in subcontracting, and for them the significance of a single "parent" firm is overwhelming.[30] Eighty per cent of their production goes to one customer. We can best imagine operations as if they were based in a family, with the entire operation oriented to

manufacturing since a single "parent" takes virtually all the output. Overhead and labor costs are low (and also difficult to determine accurately due to the family basis of operations). In many cases, raw materials, designs and even machinery and technical advice are supplied by the parent firm. The existence of tiny subcontractors of this kind, in other words, is a highly dependent one, yet the enterprise has some degree of autonomy in the areas of technical learning and cost management, and thus some control over its profitability. In many instances, however, even these areas are supervised by the parent firm. Yet, since healthy subcontractors are a goal of parent firms, a well run subcontractor can gain more autonomy and more business over time through good performance.[31] Moreover, minuscule subcontractors use relatively general purpose equipment so that the barriers to going to a different parent firm are low. This sets a competitive level to profits below which a parent may find it difficult to push its supplier for any sustained period of time.

Most subcontracting enterprises begin with some form of patronage in the form of an initial sales base (and other technical and financial assistance). This "social asset," patronage, determines the real level of initial risk. It is not a long standing form of security, but it induces risk taking on the part of people with little means and modest skills. Insight into future development is a matter more of affinity with larger players than a product of independent calculation. How do start-ups occur? Apparently by a number of mechanisms: a manufacturing employee may be encouraged to set up as a supplier on his own; a trading firm or other go-between may encourage an individual to start out with a promise of initial business; or a parent firm may seek out an individual

in order to establish a needed supplier. Large firms put in a good deal of time develping new subcontracting links. In all such instances, relational qualities are prior and initially dominant, and the dependence of the subcontractor is high.

Business growth brings with it greater autonomy and a shifting balance among the factors of production. Among manufacturing subcontractors with four to nine employees (located through social networks), only 40 per cent report selling to only one parent firm, and a mere 20 per cent of those with 50-99 employees have only one main customer. On the other hand, the number of reported "parents" increases. Most larger subcontractors (say those in the 50-100 employee range) have succeeded in establishing themselves as integral elements of the manufacturing systems of four to eight larger parent firms. We must assume they achieved this position by their competence in a technology, their overall efficiency and their ability to integrate well with the needs of more than one parent firm. Along the way they have developed increased proprietary technology and capacities to protect or increase profitability. One form of this capacity is innovative cost reductions within longer term supply contracts.

A process of growth and transformation can be seen in this pattern. Tiny subcontractors that master a technology and manage costs can grow as a result of the specialized competence they achieve. In time this can also mean they gain advantages based on the specialized production equipment they have invested in. In turn, these make the subcontractor more attractive to other parent companies. Growth also hinges on the successful management of increasingly complex labor, financial and other inputs. Accountability (for product and profits) has, in effect, been

shifted to the lowest levels of the production process. Every step is its own profit center and subject to the market. If performance is not satisfactory over time, there is no guarantee of continuing in business. Changes in technology or market demand can make a subcontractor obsolete. What is notable are the numerous instances in which a parent firm helps a subcontractor of basic worth to achieve greater efficiency or convert to supplying a different product. By growing and diversifying, subcontractors begin to manage more of the risk and attendant possibilities for gain themselves.

Small subcontractors, like other smaller firms, do not offer long-term security of employment and are much less inclined to offer special benefits. Flexibility in staffing (including a greater reliance on family and part-timers) and great caution in making any investments other than those for production equipment also characterize these firms. Attempting to gain autonomy quickly by engaging in new areas or by putting emphasis on independent sales is quite uncommon. The emphasis is on the development of production technology. On the "parent" side, the pattern is to cultivate a stable of strong subcontractors as a means of borrowing their strengths without incurring the fixed costs that doing the same work internally would entail.

Large firms have unions that defend not only permanent employment, but a seniority based wage system and many benefits for both blue- and white collar employees. Large firms thus have rather inflexible labor costs and other fixed overhead costs. In many instances it takes them a long time to develop in-house expertise given their reluctance to hire mature skills on the open market. Such employment inflexibilities favor a major role for subcontracting. As the employee population of large

firms matures (a common phenomenon given both slower growth and the aging of the population as a whole), assembly firms adapt by increasing their subcontracting (as well as by automating and rearranging seniority pay). Since 1973 total manufacturing employment in Japan has dropped by about ten per cent and the proportion of manufacturing stemming from the small and medium sector had increased. Most of this rationalization thus appears to have come as large scale enterprises cut staff and add subcontracting.

Retailing. The single largest category of SFEs in Japan is retailing. Small stores comprise 29 per cent of all businesses with four or fewer workers; excluding agricultural households, the proportion of stores in the total rises to about 35 per cent. Indeed, most retail stores are very small, with few workers and low sales per worker.[32] Compared to other advanced industrial societies, Japan has far and away the highest number of retail outlets per capita, with nearly twice as many relative to population as the U.S., Germany, France or England, and Japanese productivity in distribution is low by international standards. Like agriculture, Japanese distribution appears to be seriously inefficient. Retailing is filled with "underemployed" workers who in other societies might well be unemployed. Finally, being so numerous, shopkeepers are a significant political force. About as many families today own shops as own farms. If there is a populist focus in the next decade's electorate, it will be retailers.

The distribution networks are complicated by extensive wholesaler chains, and in some industries by manufacturers who maintain exclusive dealerships that handle only their products. For example, of the some 7,000 retail outlets selling consumer electronic goods, about 5,000 are

integrated into the exclusive distribution systems of particular manufacturers, referred to as "distribution keiretsu."[33] They try to offset being undercut on price by high volume outlets such as department stores and discount houses by locational advantage, and by intensively providing repair and other services.

The majority of shops are quite small.[34] Eighty-five per cent of all stores have fewer than six workers. Sixty per cent have only one or two workers, implying that no one outside the family is involved. The place of very small stores in total retailing is slowly decreasing, yet it remains central to any discussion of Japanese small business.

What patterns characterize family shops? Three quarters of one and two person operations are located in the family residence. Even among shops with between ten and 20 workers, 30 per cent of the owners live on the premises. In most instances husbands and wives work together. Most shops originate when the husband and/or wife are in their thirties or forties, the early thirties being the most common age. The usual intent is for the shop to be a long-term proposition. But a sizable minority (about one-quarter) is oriented initially to income production in the retirement years. In one large survey, 26 per cent of shopkeepers gave security in old age as a reason for having opened a store and ten per cent mentioned the impending retirement of the husband. If we add to this the unmarried and widowed women running shops (two to three per cent of the total), we can see the role of small retailing in personal planning for old age. Fully one-quarter of all owner-operators are over sixty years old.

Although only one quarter of the listed owner-operators are female, surveys show that most wives put in long hours in the shop. Four out of

five of women operators are married, but their husbands tend to have other jobs. Women tend to run stores oriented to female customers. Entrepreneurship among middle-aged women is not uncommon. It is a means of supplementing family income preferred to low status part-time work for a large company. Given a solid base of social contacts as a customer base, female entrepreneurs are often in excellent positions to gradually build up small businesses while their husbands continue as wage earners. In the eventuality of considerable success, husbands may shift to managing part of the wife's business.[35] On the other hand, wives of shopkeepers typically adjust the degree of their assistance to childrearing and housekeeping demands. The combination of spousal labor input shifts over the life-cycle, with business and family needs being periodically readjusted. The notable point is the great flexibility of the system as long as the SFE is part of the residential arrangement. Also, some 20 per cent of married women working in family enterprises become wage-earning employees elsewhere as their children grow up.[36]

Obviously the role of the store in total household income varies greatly. Surveys indicate that about half of the unincorporated stores (typically one to four workers) provide at least 50 per cent of the household income, while one-tenth of the smallest shops provide under ten per cent of the total. One competitive advantage is that small stores can and do keep long hours, while large store hours are legally restricted. Even so, only 20 per cent of such stores report utilizing part-time hired labor.

The reported average gross sales for all unincorporated retail and wholesale operations in 1982 was about ¥21.5 million ($86,000). We assume that wholesale operations inflate this average, but underreporting

probably also deflates it. From this sales base, an annual average of ¥3,462,000 ($13,848) net profit was reported earned in 1982. The profit/sales ratio of 15 per cent is before the "wages" of family workers are calculated. If we assume that on average one and a half family workers are engaged in the business and allocate the profits as labor income for the year, the return would come to about ¥700 or $2.80 per hour (assuming ten hours a day, 330 days a year). This return is somewhat above wages paid female part timers by large firms and farther above those paid by the smaller firms in which women are more likely to find employment. An implicit hourly wage of ¥550 would leave only $2,950 as return to capital and entrepreneurial profits. However, sales and net income are typically underestimated substantially, and our assumptions may overstate the actual hours of work. No clear judgment can be made. Estimates of the efficiency or inefficiency of distribution in Japan obviously rest on the value of the labor input in family based retailing. Is the high quality service but low value added the retail industry's analogue to a technically efficient but economically inefficient system of agriculture (with far higher subsidization of output and incomes in the latter)?

A calculation of the actual return to owner-operators is complicated by other factors: (1) the household residence (or part of it) is carried as a business expense, (2) shop goods may be an unaccounted form of income, (3) sales and profits may be underreported for tax purposes (the average total tax payment for all unincorporated wholesale and retail establishments was only ¥182,000 ($728) annually, and most of this was probably paid by the larger unincorporated businesses in the sample), (4) the purpose of some stores may be more to protect claims on land and to

maintain advantageous property tax arrangements than to generate current income, and (5) an important objective may be to continue the present occupation and way of life, as long as income remains at a comfortable level.

Surveys find that roughly half of all shops were founded by their present manager-owners, while the rest were inherited. Eighty-five per cent of the successors are family or relatives, the remainder former employees. The buying or selling of retail businesses is not common, and one in five owners say they do not intend the shop to continue past their tenure, giving as reasons the low status of the work and declining sales and income. Indeed, there probably is little of value to sell other than the land itself. Another 30 per cent would like to see their stores remain in operation, but as yet have no successor. An interesting pattern is that children are not raised to succeed to the shop, but are encouraged to set their sights on higher education and employment in larger firms. Yet, as the parents reach their late fifties and early sixties, succession becomes a serious issue and some children do return.

Why the High Proportion of Small Businesses?

The preceding description has suggested various explanations for Japan's relatively high proportion of small businesses, a subject to which we now turn. Two caveats are in order. First, any hypothesis here is in principle comparative and properly should be considered through careful investigation of leading Western economies; however, comparative data and studies are slim at best, so our comparisons are unfortunately more implicit than explicit. Second, satisfactory explanations will

differ by economic sector and by particular industry. Many useful generalizations have inevitable exceptions.

We propose a broad, syncretic model (or framework) through which to understand small-scale family enterprise behavior and performance. It is a model of demand and supply, but includes more than the standard factor and output markets. The small enterpriser has his own mixture of skills, labor, ownership of land and capital, network of social connections, and entrepreneurial drive and ambition. He utilizes family resources, and hires resources (labor, capital, land) in factor markets. A market niche is essential to sell his product. Friends and relatives are the traditional and most important form and source of venture capital, social as well as financial. We probably cannot overestimate the importance of social networks and personal contacts--the conveying of information and the conferring of patronage--in making markets function effectively for SFEs. That many markets--for sales and for inputs--are mediated by personal and social relationships implies that long-term contacts (implicit or explicit) are the main way of doing business for Japanese SFEs. All this takes place in a changing external environment shaped by general economic conditions, government policies, and Japan's cultural heritage. We examine these factors in successive parts of this section.

We assume small-scale enterprises and their workers behave rationally in the classical economic sense: they have a pretty good sense of their own self-interest and try to maximize it. However, self-interest is neither entirely individualistic nor entirely materialistic (i.e. maximization of income and wealth over some life cycle); it is largely defined in the context of the family's well-being. Survey data suggest that Japanese start their own enterprises for a wide range of reasons--

not just to obtain a job or to generate income and wealth; but to be one's own boss; to utilize and develop one's own perceived talents, knowledge, and skills; to utilize existing assets (experience, land, connections, etc.); to capitalize on existing networks as well as to build and enhance a network of relationships valued in its own right;[37] and so forth. They also choose to stay in economically marginal businesses that for reasons that reflect the importance of other satisfactions; frequently mentioned are the social ties in an industry and a neighborhood.

The substantial and persisting differences between smaller and larger production units in output, real capital, and wages per worker have presented an ongoing analytical puzzle for understanding the structure and performance of the Japanese economy. Terms such as "dual economy," "dual structure" and "differential structure" have become value-laden phrases which incorporate a number of stereotypes and myths. They imply the exploitation by large firms of cheap labor located in smaller firms through factor market imperfections; and they imply that the persistence of smaller firms is primarily a "lagged" consequence of technical, educational and financial imbalances in a rapidly changing economy and society. The inequalities, in other words, are neither voluntary nor efficient. The symbiotic rise of subcontracting in manufacturing in the postwar period has in the past been explained mainly in terms of these market imperfections and scale differentials. In the postwar era of rapid growth "unskilled labor surplus" dualism gave way to big business capitalism that shares oligopolistic rents derived from superior technology and relatively cheap capital with unionized regular (male) employees. The small-scale sector was seen as the passive but

flexible absorber of redundant or less qualified labor, which in order to exist offset limited access to and expensive cost of capital (even adjusted for default risk) and lesser command over technology by the payment of even cheaper wages (relative to labor quality).

In our view, "economic dualism" has become an outmoded phrase because the underlying economic conditions which determined the terms of the dual structure analysis in the past have changed substantially over the past two decades. We see on the one hand an erosion of traditional dualistic features, but on the other hand new kinds of imperfections becoming more important. We also find great economic interdependence among small, medium, and large enterprises, and increasingly complex interactions in the sphere of public economic policy. Interdependence goes far beyond the subcontracting relationships in manufacturing or the sales networks linking retailers, wholesalers, and producers; it permeates in the standard input-output sense of inter-industry relations. Further, as well as producing its own products, each category of enterprise generates labor and profit income used to purchase the products of others.

To succeed, the small-scale entrepreneur must have certain special assets to produce specific goods or services, and a market in which to sell them. In some output markets he has to compete both with SFEs of his own size and with much larger firms which are likely to have superior technology, superior access to labor skills and cheap capital, or other inputs which make them cost competitive. Larger Japanese firms, on the other hand, often choose to work with rather than compete directly with smaller firms in a wide range of activities. This is part of the phenomenon of competition across groups in which competing larger firms

organize sets of medium and smaller firms in manufacturing and, to a lesser extent, in retailing. We find that most smaller enterprisers work in a complex but generally supportive economic, sociocultural, and political environment in which most competition is between enterprises of similar scale. While we attempt to generalize, we must always recall that we are dealing with a huge number of specific micro contexts, with persons of differing and on occasion idiosyncratic characteristics, and that random events (luck or stochastic processes, depending upon one's way of perceiving destiny) often are important determinants of outcomes. The unusually large number of Japanese SFEs is a product of numerous factors that appear in degree to distinguish the Japanese situation.

Entrepreneurship: Historical, Social and Cultural Perspectives. The long standing proportion and centrality of small businesses to the economy is itself a basic, if tautological, consideration. There is no better nursery for small business than being raised in a small business environment.[38] Small-scale farming, family entrepreneurship and business networking are not recent developments, and yet in many nations they have not adapted well to modern requirements; Japan's adaptation of these social forms to the requirements of a modern economy is notable. Furthermore, despite the draining off of a large per centage of the working population into large organizations with higher status, the pool of entrepreneurs has apparently not diminished. In the midst of this century's rapid and profound sectoral shifts, the small scale element has remained, as the children of farmers, artisans and shopkeepers have populated manufacturing and new service industries.

How Japan produces its petit bourgeoisie is worth noting. The crucial points include the near absence of sociocultural barriers and the

large supply of people who have small business experience before they are thirty. Japan has very few minorities and they find niches in specialized small businesses. Ethnicity is not a barrier to them in small business, only in large.

The average Japanese is also highly educated by cross-national standards.[39] Insufficient education can be a significant barrier to the generation of small businesses, especially in an advanced economy where such characteristics as illiteracy, poor work habits, or an inability to grasp technological or business complexities preclude successful entrepreneurship. The high average level of education in Japan assures the society a large pool of well trained potential entrepreneurs and helps explain the relatively small per centage of incompetent ("unemployable") workers in the labor pool. This benefits small business. Since educational performance is an important means to the realization of career aspirations, the educational system, especially at the high school level, serves to sort out career options and to shape expectations. Concurrently, family characteristics (occupation, educational level, income level) and personalities play a strong role in defining options.

Welfare and employment policies that increase insecurity about old age also play a role by (1) encouraging self-help, (2) inducing workers to work even for low wages, and (3) causing people to view entrepreneurship as a means to greater security in retirement. Big businesses do not hire mid-career job changers and their early retirement programs throw out many people who continue to work. The still limited level of government as well as private retirement benefits have, thus far at least, offered relatively little income security even for the retired employees of large firms. (See, however, the chapter by Bronfenbrenner and

Yasuba). The extension of life expectancy and the reduction of three generation families due to urbanization are parallel trends that add to the overall level of insecurity, an insecurity that motivates participation in the small business sector since there is nowhere else to go.

Social Networks

Social connections (relatives, friends, former schoolmates, former employers, industry colleagues and neighbors) are an important means of minimizing the costs of information and of reducing the uncertainties of unreliability, incompetence, or fraud. In Japan social relationships are regularly mentioned as key ingredients of start-up businesses. They provide the initial demand for a product or service, and they help secure other assets. Patronage of this sort also can provide capital or access to it, access to markets, and access to others with needed connections. Even as the small enterpriser seeks independence, he or she is often very dependent upon the personal good will and support of others. Personal networks are an economic asset assiduously built up by enterprisers. What distinguishes Japan in all this is the regularity with which social networking and small business interact for such large segments of the population. Just as jobs very often are not allocated solely by impersonal processes, so business opportunities, small-scale investments, and other assistance are channeled along social networks. Where small enterprise is an accepted framework for new developments, it is commonplace for social networks to provide assets and opportunities that increase their vitality. These social assets alone are not sufficient to generate business success. Without good service and a competitive price, personal relations and connections alone cannot enable many small

businesses to survive, but they enhance the opportunity to compete in particular niches.

Market niches are the sine qua non for most small businesses and specialization is the adaptive response. As discussed above, many traditional manufactures are conducted by clusters of tiny symbiotic units, each occupying a functional role in processes which elsewhere might fall under the roof of a single firm. In retailing and wholesaling, small operators typically occupy either locational niches or differentiate themselves by products in ways that make them competitive in ways other than price alone. For many services locational advantages are very important; so too is customized, personalized service, and, indeed, a high level of customer service. The demand for certain types of "customized" products is also worth noting (components for ambulances, for example). Small producers can also achieve efficiencies of scale by long production runs of a single item, such as eyes for fishing rods, or hands and dial faces for wristwatches. In consumer markets, local brand differentiation has always been important, especially in food products. The point here is that as prosperity encourages increased social complexity, it creates opportunities that can be met by small scale entrepreneurs if they are available and barriers to entry are not prohibitive. On the other hand, new products have transformed some industries to the acute disadvantage of SFE producers; Coca Cola, for example, replaced hundreds of small local bottlers.

Finally, there is no question that as an economic unit and a nexus for human social relations, the cooperative, working household (ie) is a deep seated part of Japanese culture. Not only is it a product of Japan's Confucian heritage and hundreds of years of ideological emphasis

as the key metaphor for Japanese morality, but modern popular media have regularly idealized the small, family run business as the place where work and human affection can find a proper balance. Japanese culture and history provide fundamental patterns of thought, value and action that encourage small business. Such issues are difficult, at best, to deal with on a comparative basis, and we suggest only that without such a base of positive factors, the number and vitality of SFEs in Japan would be less. Together, these cultural and historical factors add a dimensional richness to the significant economic factors supportive of a vigorous small-scale family enterprise sector.

The foregoing set of considerations suggest the hypothesis that Japan will continue to generate a comparatively large proportion of small businesses simply by virtue of its history and sociocultural patterns, and that only where larger scale production is more efficient and competitively superior and government protection insufficient will the share of small scale activities decline. Japanese do not enter small business with an expectation of failure, nor are they only in business to make a better return than their skills would earn in the employ of larger firms. They are in small businesses and patronizing small businesses by choice, and this preference has a foundation in historical patterns as well as in economic opportunity.

Support, albeit quite untestable, for this hypothesis comes from the fact that, despite enormous economic transformation, small business activity has not substantially decreased in the postwar era. As agriculture has declined, small scale activities and employment in manufacturing and services have grown proportionally. The immense productivity gains in manufacturing have been responsible for overall growth and now quite

high levels of income, and thus have supported the employment shift between the primary and other sectors. The role of small scale manufacturing has not diminished in the course of productivity growth within the manufacturing sector. In no other advanced industrial nation has this occurred, and this leads to questions (alternative hypotheses) of a more particular kind regarding factor market efficiencies (especially in manufacturing) and, of course, government protection.

Factor Markets. The basic structure, and evolving characteristics, of markets for labor, capital (finance), and land in certain ways provide both opportunities and obstacles for small-scale family enterprises. Labor markets and wage differentials by firm size have been studied voluminously, since they are a core themes in the dual structure analysis. The higher cost and lesser availability of finance for small firms relative to large have received less attention, and the nature and implications of the markets for land and rights to its use have scarcely been analyzed at all.

We cannot analyze any of these markets in detail here; fortunately, labor markets and financial markets are treated in the chapters by Koike, and Horiuchi and Hamada. Nonetheless, we do have a point of view about the special effect of each of these factor markets on SFEs in Japan today. They can be stated, rather baldly, in the following three hypotheses.

(1) Certain wage differentials do provide a special opportunity for SFEs, but not in the labor markets usually analyzed; rather, special pools of abundant, productive, low wage labor are available--notably middle-aged married females, workers over 55 separated (retired) from larger firms; workers desiring

part-time employment, and workers in remote or inconvenient locales.

(2) Any higher costs of capital (borrowed funds) to SFEs now reflect essentially only differences in default risk, collateral, and transactions costs; the historic high interest rate differential in excess of competitive costs has now disappeared.

(3) SFE access to land through ownership or long-term lease at below-market rental rates provides a special opportunity, given the widespread distribution of land ownership and tenant rights, both urban and rural.

Labor

A great deal of attention has been devoted to explaining the very substantial differentials in wages, bonuses and fringe benefits for male employees by firm size--the Japanese dual labor market.[40] Earlier explanations centered on labor market imperfections, notably the large firm industrial relations system of entry-level hiring, so-called permanent employment, and seniority-based promotion and wage increases (nenko). Paternalistic or other non-economic reasons were given for the creation and development of these institutions and "culture" was invoked without specifying variables or causal mechanisms.

Others have sought more direct economic explanations of the phenomenon. Several neoclassically-based theoretical arguments have been advanced, though so far empirical testing has been limited. There is evidence that part of the increasing wage differential with seniority is payment for investment (by large firms and their workers) in the development of firm-specific skills needed for particular technologies.[41] A

second argument, supported by the extensive use of entrance examinations and interviews for the hiring of both blue-collar and white-collar new entrants, is that large firms select the more able and better motivated within each educational-level cohort; accordingly, unequal pay reflects unequal quality even after adjustment is made for education, age, occupation, industry, and gender. A more recent theoretical contribution is that large firms have greater monitoring costs to keep workers motivated and prevent them from shirking on the job--and one way to monitor is to pay higher wages and to get rid of those caught shirking.[42] Further, a considerable amount of research shows that there is more turnover than the stereotype implies, with considerable differences by age, education, and status.

A quite different strand of analysis emphasizes that almost all the Japanese empirical research is limited to comparisons of male regular employees in large and small firms, while the significant wage differentials are the consequences of discrimination, especially against women, older persons, and ethnic minority groups. Discrimination occurs at three sequentially more subtle levels: entry-level wages for the same or comparable work; occupational segmentation and exclusion; and institutionally generated differential access to opportunities to develop on-the-job skills.

With rapid growth, changing industrial structure, higher productivity and wage levels, and increasing levels of education, labor market conditions have evolved considerably on both the demand and supply sides. The steepness of seniority-age wage profiles has flattened somewhat. Over time the wage gap by firm size for average workers comparable in age, education, gender, and experience has narrowed for all age groups so

that the difference now is only about ten per cent (except for older workers).[43] Therefore, the much larger gap in actual average wage is due to heterogeneity of labor within a common base, and to a substantial degree of labor noncomparability between large firms and small. Small firms disproportionately hire less educated, female, or older workers, and those who were doing less well at school at whatever level they left to enter the labor force. Starting wages are now higher in small firms than in large ones in all sectors, but wage increments and lifetime earnings are substantially lower.

Kazuo Koike argues in this volume that Japan's labor markets are not dualistic, at least no more so than those of Western Europe.[44] He asserts that the Japanese pattern of wage differentials for male employees of comparable age, education and experience by firm size removes the Western European pattern except for blue collar male workers, and that the blue collar differential is due to the even greater on-the-job training that male workers receive in large Japanese firms. He also argues that male workers are paid more than female workers in all firm sizes because of greater skills developed through on-the-job training. For Koike, Japan's labor markets are neoclassical: wage differentials reflect skill and hence productivity differentials.

A different approach asserts that oligopolistic large firms pay higher wages than required in order to maintain labor peace and good relations with the enterprise union. Large firms earn quasirents through technological prowess and, in some industries, through the exercise of market power; employees capture part of those rents through union power. In a bargaining process (see the chapter by Aoki) profits are allocated by management to employees, major (financial) institutional stockholders

and financiers, and individual stockholders. Permanent, regular (predominantly male) employees receive seniority-related high wages and bonuses, extensive fringe benefits, large lump-sum retirement benefits, and shorter working hours for which, in turn, they work reasonably hard, develop skills assiduously, propose improvements, and maintain labor peace.

By screening out certain groups and retiring workers early (before they want or can afford to stop working), the employment practices of large firms create large pools of certain kinds of labor available at lower wage rates. Deeply embedded institutional rigidities in hiring, firing, and retiring result in de facto occupational, promotion, and career segregation, which is reinforced--particularly in the case of females--by social values and the socialization of women.

Two major pools of underutilized labor are thereby created: middle-aged, married females who reenter the labor force after years away for bearing and rearing children , and males over age 55 who have been forced to retire from large firms but continue working. A third category overlaps these two groups, namely those seeking part-time employment and scheduling flexibility. Many part-timers are middle-aged women or older workers, but college students and younger women with small children also participate. Smaller pools of labor are also tapped, including persons residing in less developed (lower wage) rural regions and minority ethnic groups. It is the very heterogeneity of labor supply, combined with institutional rigidities in the education, socialization, and large firm employment systems, that provides SFEs access to relatively low-wage labor.

However, the essential issue is not low wage rates per se, but that for several reasons productivity differentials are narrower than wage differentials. On the supply side, holding quality constant, the preferences of workers, their age, gender, geographic location, and other characteristics do not match fully the large employer demand for labor. The large firm screening and retention process is not perfect: certain types of labor are screened out, or cast out, regardless of ability; and of course others are mistakenly hired. There are a wide range of tasks where ascriptive variables such as education, age, or even intelligence probably have only modest correlation with productivity. To be on the safe side, large firms may simply overpay for certain attributes since they find it difficult to measure individual productivity. (In contrast SFEs are likely to have a much better sense of individual capabilities and productivity.) For many labor-intensive jobs such as assembly operations, skills are learned relatively easily and quickly. The large employer's rationale for retiring older workers at a relatively early age, given health and projected life spans, is that the seniority wage structure makes them very expensive relative to their current productivity. Yet older workers do not lose all their skills, nor do those skills become fully obsolete, when they retire from large firms and move into small ones. Moreover, labor laws (including fringe benefit requirements) are not seriously applied to SFEs. While wage rates of other workers on average are much lower than those in the 50-55 age group, this may be a problem of composition; few old persons work in large firms. Lower wages no doubt reflect lower productivity, but tasks assigned to older workers may not take full advantage of their skills. This is a topic which will

be of increasing importance as, with the aging of Japan, there are more and more working old persons.

More attention has focused recently on the large wage differentials between males and females, especially in the 30-55 age group. Middle-aged married females reentering the labor force are paid about the same as young single females. The female/male wage differential (54.1 per cent in 1981) is far greater than in other industrial countries; the ratio (1980) is 66 per cent in the United States and 70-90 per cent in Western Europe.[45] Koike's explanation that this is due to differences in skill based on experience is not fully satisfying, in part because women are never provided the opportunity to develop appropriate skills. Moreover, Yashiro found that 54 per cent of the female/male wage differentials was due to human capital (46.8 per cent to work experience, 7.2 per cent to educational level), leaving an unexplained residual of 46 per cent.[46] Kawashima has addressed these issues directly. She analyzes blue-collar and white-collar wages in concentrated industries in terms of worker characteristics (such as education and work experience) and labor market structure (sex discrimination). She finds that sex discrimination is very important: for blue-collar female workers it explains 78 per cent of the wage differential in competitive sectors and 65 per cent in concentrated sectors, and for white-collar female workers 28 per cent in competitive sectors and 86 per cent in concentrated sectors.[47]

While there are more women working full time than part time in all age categories, women comprise 93 per cent of all part-time workers, more than half (55 per cent) of them in the 35-54 age group. Labor costs of part-time workers to employers, overwhelmingly SFEs, are much lower than for full-time workers. For example, in 1980 a woman working six hours

per day received an hourly wage rate 24 per cent below that of a comparable full-time worker.[48] Moreover, part-time employees receive little, if anything, in bonuses and fringe benefits and require less in employer social security contributions. Women constitute a vast reservoir of low-cost labor. While more than half of married women work, more than eight million women (and 2 million men) not employed desire to work (mainly part time), though most are not actively seeking a job and do not show up in unemployment statistics.[49] Most housewives are motivated by straightforward economic goals: to supplement household income, to support the household, and to add to savings. Personal development and career goals are not strong motivations.[50]

In our view, labor market discrimination, broadly defined, against women and older persons has replaced labor market dualism as the main source of low-cost productive labor. Small firms, especially in manufacturing and services, have responded flexibly to these labor market opportunities. Their ability to locate and utilize cheap yet productive labor continues to be one of their most important advantages over large employers. Nonetheless two points must be emphasized. First, these labor market interactions must be viewed in the dynamic context of changes both in supply and demand; basic market forces push toward a narrowing of wage differentials commensurate with skill and productivity differentials. It is no accident that large firms in fairly labor-intensive activities are beginning to hire substantial numbers of middle-aged, female, part-time workers. Second, it is not by cheap labor alone that Japanese SFEs survive, and even prosper. They must offer quality products and responsiveness to markets and customers as well as be price competitive. They require a core of skilled workers, beginning with the

owner/operator, who assume the technical and business responsibilities of the operation. Wages and opportunities for core skilled workers are of a different order. If low labor costs were the dominant explanation for most small businesses, then large-scale producers would rely much more on offshore subcontracting based on truly cheap labor, and imports of labor intensive goods would be substantially greater.

Capital. The second major factor market the small enterpriser faces is the capital market. Until recently small enterprises had to pay higher interest rates than large ones and they had less access to finance.[51] This situation is not unique to Japan, of course. Two facts stand out: most loans to small enterprises have been backed by collateral, typically land, and until recently interest rate differentials were substantially greater than transactions costs and risk premiums would warrant. The degree of the differential depended on the degree of institutional development and the tightness of funds; the system of segmented financial markets allocated credit preferentially to larger firms in a quite competitive top-tier market while small enterprises tended to face oligopolistic lenders.[52]

However, over the past decade conditions have changed more in finance than in virtually any other market in Japan, as the chapters by Sato and by Horiuchi and Hamada make clear. As a result, financial institutions awash with relatively low-cost funds and facing inadequate customer demand now actively seek small as well as large borrowers. In addition, government financial institution loan programs have been vigorously redirected to small business; as of December 1983, loans outstanding to small business from these two sources alone amounted to about $20.7 billion and $19.4 billion respectively. More importantly,

total loans to small business amounted to $676 billion; and the share of small business in the total loans of the financial system increased sharply from 43.0 per cent in 1963 to 58.9 per cent in 1983.

These changes have dramatically improved the access to and cost conditions for borrowed funds for almost all small enterprises, particularly those with some land or other real collateral. This leads to our basic proposition: there is now no substantial discrimination in financial markets against small enterprises once adjustment is made for transactions costs and risk.

That does not mean that all small enterprisers have ready access to borrowed funds, or that the great importance of trading companies as a major source of external funds (often in the form of goods to be processed) has substantially diminished. In Japan as elsewhere the capital for new small-scale start-ups comes overwhelmingly from family savings, and borrowing from relatives, friends, and patrons.[53] Early growth is financed by retained profits and further personal infusions. Only after a SFE has developed at least a brief track record is it likely to be able to borrow significantly from a financial institution. Accordingly, the unreported but very real assets of land ownership, personal networks, and individual qualities and skills of the small-scale enterpriser count very heavily in establishing and maintaining a business.

Land. The widespread distribution of both urban and rural land has endowed many families with a physically small but very valuable, increasingly high priced asset. Land is by far the most important asset of those families which happen--by history, circumstance, or wise investment --to own land. The redistribution of farmland to tenants in the postwar land reform and the ongoing legal difficulties in recombining farm land

into larger units are the most important reasons for the persistence of such a large number of family farmers. Land-owning urban households use most of their land for their residential purposes. At the same time, the land and house become an asset to exploit for business purposes, a major and seriously underreported form of investment input into very small businesses. Thus, in 1978 some 2.4 million homes were also used as stores and other commercial establishments. A high proportion (78.8 per cent) of the self-employed owned homes, and presumably most use these as a base of operations. Many small industrial and commercial enterprises probably obtain their viability through the high implicit rent (in opportunity cost terms) accruing on the land rather than substantial productivity of labor or capital inputs. These "rents" show up as SFE income attributed in part to their labor inputs; part is probably bid away through the competitively determined sales prices of SFE goods or services to their customers.

However, ownership of land is by no means the full story. Tenants have very strong rights: in urban areas land for business use often is under long-term (20-30 year) contract; under the Civil Code tenants have vested rights and cannot be forced out; any rent increases have to be mutually acceptable. As a consequence, rental payments are very low where tenants have long been incumbent. Land reform and tenant rights have virtually eliminated land rental in agriculture and have seriously inhibited land consolidation for farming purposes. In urban areas much land, in ever smaller plots, is under lease. Frequently the ownership of a building is separate from that of the land on which it stands, which the owner leases out. Thus, tenant user rights have become very valuable, between 40-70 per cent of the total land value in urban areas (the

Tokyo ratio is apparently on the order of 70 per cent), and the capital (market) value and rental income of land ownership, where rented out, is correspondingly lower.[54] Thus, SFEs that have tenant rights (the more long-standing the better) also hold a valuable asset.

In a pure world of neoclassical equilibrium, these rents and quasirents would be capitalized, the land sold and put into its most efficient use. Why does this occur only very slowly? In part it is a matter of life styles and generational changes in tastes; operating a small business out of one's home may be more efficient than simply using it as a residence. Part has to do with the complementarity of family land ownership and family labor. Women can work at home, on their own schedules (in some occupations) and with greater flexibility than would be possible working elsewhere as wage-earners. Or specific labor skills complementary to land ownership may be developed, as for example with small wholesalers. But why not retire, sell land or tenant rights to its use at a high price, use part to buy an apartment, and live comfortably on the income from the remainder? There are good reasons: capital gains taxes on land sales (let one's inheritors take care of the happy problem of land wealth); low returns to depositors in Japan's financial markets; and the various tax advantages of maintaining or strengthening potential claims on land. Indeed, Japanese seem to respond quite rationally in ways to protect their claim on land ownership or tenancy. Family residences and other land used for business purposes receive favorable tax treatment, especially at times of transfer at death of owner; it may well be wealth-maximizing to have Obaasan (Granny) running a tiny store which generates virtually no value-added or income.

We hypothesize that land--its highly dispersed ownership, tenant rights to its use, its high price, its role as the main source of wealth for most land-owning families, its security as an asset--is an important reason why there are so many small-scale enterprises, and especially why they will tend to persist longer than income and value-added measures of economic efficiency would imply. To some undetermined degree, high implicit land rent compensates for inefficiency in labor and capital use, and makes it possible for the SFE to stay alive or even do reasonably well. Indeed, it is empirically very difficult to know when and to what degree entrepreneurial drive counts for more than inherited ownership of land.

At the same time, while ownership of land or tenant rights make it easier for a small business to become established and to remain in business, apparently it is not a serious barrier to new entry. New SFEs seem to be able to find space at affordable rents. We find this surprising given the reported high values of land. Land markets are clearly quite imperfect; they are constrained by legal and customary restrictions on rights, subject to considerable fragmentation, affected by tax regulations, and probably involve all kinds of special deals and arrangements. Land values, markets, and use are one of the puzzles of Japan's political economy.

We do not mean to imply by this discussion of factor markets that small-scale enterprise involves an optimal or even efficient allocation of economic resources. A major issue is the optimum scale of production, organization, or marketing. Indivisibilities of physical capital, technology, and managerial abilities in many products mean that economies of scale overwhelm the advantages of small-scale production. While lower

labor productivity and wages may be due substantially to labor heterogeneity, that certainly is not the whole explanation. As we have stressed many small entrepreneurs have taken advantage of their own areas of competitive advantage, and have responded creatively to (and thereby ameliorated) specific inefficiencies in the Japanese system as a whole--imperfect land markets, differential government legislation and its implementation, labor market discrimination and local conditions, institutional and bureaucratic rigidities of large firms and their system of industrial relations, and so on.

Many other SFEs have responded defensively to situations of inexorably declining economic competitiveness. Examples include most of agriculture, much labor-intensive manufacturing of standardized products subject to strong import competition, and many varieties of small retailers faced with large store competition. For some it is a matter of living off the continuing but declining rents of their ownership of land, machinery and specific skills. Others adjust. Mom and pop stores join franchise convenience chains, and small producers shift to new products or change businesses entirely (using the same location and labor). But others, especially when there is generational change, simply go out of business and convert their assets in land and building to rental income.

The Political Economy of Government Policy

The very large number of small businesses make them potentially of great significance to the electoral process.[55] Unlike white-collar voters, but like farmers,[56] small entrepreneurs (and their families and employees) are very sensitive to particular economic issues and quite capable of voting single issue concerns. That is, business self-interest is a paramount factor. On the other hand, and quite unlike agriculture,

the diversity of interests in the small business sector is enormous. There are over 50,000 industrial associations representing small businesses in diverse industries and localities. The political potential of small businesses is only realized on a national scale when unity is forged around general issues. The government naturally seeks to avoid activating such issues.

Small scale entrepreneurs are inherently pragmatic and their interests are often local. As businessmen they may be rather conservative on most issues, but they are quite capable of supporting local opposition party candidates who respond to their particular needs. They also are responsive to the criticism that the LDP favors big business, a regular opposition party theme; however, it is best to view the small business vote as inherently independent.

Interests combine and can become politically influential under several types of circumstances: (1) when inclusive issues such as taxes, labor policies, or environmental protection are raised in a manner that adversely affect the small business sector as a whole, (2) when sectors of small business decline and seek protection, and (3) when localities seek particular economic benefits.

The government avoids raising general issues by assuming a hands-off administrative posture.[57] Tax laws, minimum wage legislation, and environmental and labor standards, in particular, are stringently applied to large firms, whereas smaller enterprises are rarely subject to scrutiny. In the case of health and sanitary inspections, a massive and successful lobbying effort to preserve quasiautonomy was launched by a consortium of small business associations when administrative incursions increased. In cities, furthermore, zoning laws that would inhibit small

business activity are seldom proposed. Further, the government can rarely enforce its depression cartel limitations on the production of smaller firms. Comparatively speaking, the government follows this approach to small business for reasons both of politics and of administrative efficiency. In this respect, Japan seems like Italy, and appears to be in direct contrast to the United States where small business finds onerous the imposition of a plethora of hiring, safety, environmental, and other regulations and regulatory agencies. The relatively large size of the small business sector means that a comparatively larger part of the Japanese economy escapes significant government involvement, the reverse of recent international ideas about Japanese industrial policy and its influence in directing the economy.

The greatest, though most invisible, form of government support for small-scale family enterprises relative to large corporations is through the very lenient tax treatment of their personal and corporate incomes. The law provides substantial benefits for smallness, most notably the deduction as expenses of wages paid to family members in both incorporated and unincorporated enterprises without requiring tax withholding so long as annual wage income is below the personal exemption level. Moreover, reporting requirements are lax. Most important perhaps (it is impossible to know), the opportunities for and exercise of tax evasion by SFEs are substantial. We presume that most SFEs with income above minimum statutory levels underreport net income and evade taxes.[58]

We infer an implicit political decision (within the LDP, not the Ministry of Finance) to tolerate widespread tax evasion by SFEs, with only modest efforts of rectification through audits and punishment of tax evaders. There is an implicit political exchange: support us and we

won't tax you. This arrangement was probably not conceived of in such terms initially, but simply emerged as small business grew, prospered, and become an increasing source of financial support for local politicians and their leaders. Few politicians are willing to alter the present tacit agreement. The passage (and then unprecedented revocation) of legislation to tax interest income and the evasion of these taxes through illegal multiplication of interest-free deposit accounts (the "green card" system of personal identification) is an excellent case study of the political pressures exercised by small busineeses among others.[59]

Inevitably data on tax evasion are fragmentary and not readily available. The Nihon Keizai Shimbun ran an informative series of articles between May 1983 and May 1984[60] from which the following information is derived. While 88.4 per cent of wage-earners paid income tax (through withholding), only 39.5 per cent of the heads of nonfarm unincorporated enterprises and only 14.6 per cent of farm household heads did. Of the 1.75 million corporations, 1.1. million showed a loss or otherwise paid no corporate income tax. Indeed, many of the self-employed are not legally required to keep books, and they do not file tax returns. The chances of a serious audit are small: one in 25 for farmers and other self-employed persons, one in ten for a corporation (less for very small corporations). More than a third of the enterprises in the following categories audited in 1981 and 1982 had seriously understated tax returns: bars (53 per cent), pachinko parlors, sushi-ya, moneylenders, fish stores, realtors, construction, coffee houses, gravel landfills, foreign food restaurants, souvenir sellers, love hotels. The average amount evaded ranged between $12,000-$65,000. The extensive use of cash

in settlement of transactions makes evasion difficult to trace. Tax audits indicated that the most common practice (50 per cent) is to hide sales revenues; 12 per cent reported wages paid to nonexistent employees; 11 per cent padded expenses, and ten per cent padded purchases. There is a business of selling forged receipts to increase stated expenses (some are con games since the receipts are inadequate to pass even cursory inspection by tax auditors).

This does not mean all SFEs are able to evade taxes. It is noteworthy that the tax evaders cited are mainly service establishments, where it is difficult to measure either output or material inputs, or their relationship is not close. Where material input-output relationships are relatively fixed--flour and sugar and bread and pastries for a baker, for example--auditing is easier and evasion is correspondingly more difficult. Some SFEs find themselves directly involved with local regulatory agencies. For example, all car sales are registered, and most repairs are done to meet annual inspection requirements and are so reported to the local authorities.

To what extent does preferential or lenient tax treatment for SFEs confer such advantages that new SFEs are deliberately started, or deliberately remain small enough to avoid tax exposure? How important a reason is this, relative to the benefits of specialization and entrepreneurial independence, for the existence of clusters of the minuscule SFEs that subdivide the production of one product rather than integrating into one operation? How important is it in subcontracting arrangements? We do not know, and doubt that anyone does. Tax treatment probably is not a dominant reason for starting or maintaining an SFE, but it does make

their activities more profitable and hence enters into the cost/benefit calculus of any entrepreneur.

The early 1970s witnessed a significant intensification of LDP interest in small business precipitated by the success of the People's Association of Commerce and Industry (Minshū Shōkōkai), an organization affiliated (informally) with the Japan Communist Party.[61] Minshō was proving itself an effective force in recruiting small business people to the opposition cause in Japan's larger cities, where in key instances mayoral and gubernatorial positions were being captured by alliances of opposition parties. The economic instability of the period added fuel to the discontent of urban small operators facing high inflation and then the recession induced by the oil-shock. Tanaka Kakuei, then prime minister, is credited with recognizing the need for a much stronger LDP approach to the small business sector as a whole in the face of Minshō activities. The relative decline of agriculture as the foundation of LDP electoral strength was certainly another consideration.

MITI's budget for loans to "very small enterprises" (five employees or fewer in manufacturing and two or fewer in retailing) was expanded dramatically from 30 billion to 240 billion yen, an eight-fold increase. The Bureau for Small and Medium Enterprises within MITI was elevated in status and its budget increased from ¥7.5 billion (1971) to ¥40 billion (1975), an increase in its share of the total MITI budget from 16 per cent to 39 per cent.[62] The tax laws were changed to allow wage deductions, as discussed above.

MITI's role, however, has primarily been indirect. Government loans to very small businesses (funneled through private banks) are largely dependent on the guidance and tacit approval of "small business advisors"

operating as employees of local Chambers of Commerce (who screen and help SFEs prepare loan applications). There was a concomitant increase in the number of such advisors from nearly 16,000 in 1971 to 27,000 in 1975. Half their wages are paid by MITI, making them (at least partly) central government agents to the small business sector. The other half comes from the prefecture and the Chamber of Commerce. The result has been a blunting of the influence of Minshō and an increase in LDP visibility in the small business sector. This quasi-governmental loan/advisor system influences a sector of the voting public by channeling special funds to it. It also puts the Chamber of Commerce organization in close touch with small businesses across the nation and positions it to represent small business interests to the LDP. Chambers are typically led, however, by executives of larger local firms who focus on regional development issues, meaning that Chambers of Commerce are less representatives of the small business sector to the LDP and MITI than means of enrolling SFEs in local campaigns and controlling the small business sector to preclude the formation of opposition activities.

By and large government economic policymakers apparently see small and medium sized enterprise more as a problem than as a source of economic growth and vitality. The lumping together of "Small and medium enterprise" into one category is a convenient misnomer; it combines several different realities, as our discussion of minuscule and small SFEs indicates. It enables the government to channel its resources to relatively larger firms which it considers of greater potential. There is considerable interest, at least at the rhetorical level, in positive programs to modernize and raise the technological level of small and medium-sized enterprises, particularly as reflected in publications of

MITI's Small and Medium Enterprise Agency. On the whole, nonetheless, MITI's policy approach is defensive.

MITI apparently would prefer to engage in as little protection as possible short of serious economic and social disruption. Its tendency has been to approach problems in depressed industries as "special" and "temporary." With shingikai (advisory council) approval, it invokes numerous emergency powers aimed at preventing bankruptcies and encouraging orderly adjustments within the specific industry. The effort is to contain problems without committing to long-term protection. The political parties, on the other hand, must regularly appear responsive to small and medium business concerns, yet each party has constituencies opposed to protective policies. Politicians representing areas of depressed small manufacturing are the most susceptible to pressure, yet all politicians seek the small business vote and must be particularly sensitive to complaints of such large groups as retailers or amalgams such as those comprised of various businesses concerned with health inspections.

SFEs are but part of most complex policy issues. Consumer interests (even if politically less unorganized) are a significant factor, as are land use and urban planning, environmental issues, the welfare system and foreign policy. The large versus small dimension, in other words, is but the most visible conflict requiring a balancing of interests when such matters as the rate of expansion of even small supermarkets or large versus small food producers are the forefront issue. The LDP relies on too broad a spectrum of support to ignore other domestic concerns. MITI, furthermore, is the guardian of economic progress, and it resists protectionist pressures from the standpoint of productivity gains or losses. Finally, Japan's place in the world gives the international dimension at

least a very strong potential influence, even though protection against import competition is politically the easiest resolution to small business pressures.

When momentum is great enough (i.e. political pressure is widespread) the interplay of forces, however complex, appears to follow a rather simple pattern. Parties (LDP and opposition parties) position themselves as sympathetic to the problem, issuing general position statements calling for solutions without specifying a stand that would alienate their other key constituencies. MITI, while adopting a public posture of listening and concern, quietly attempts to delay the production of actual protective legislation in hopes that the momentum will subside. If it does not, MITI authors a compromise bill (largely its own making) that satisfies the situation politically while preempting the generation of legislative bills by the parties and the Diet Legislative Bureau. MITI is thereby responsible. This benefits both the legislators who do not want to author what is certain to be controversial and (in some quarters) unpopular legislation, and those who want to take credit with their particular constituency. A MITI bill allows all parties to vote for the bill as a "government" resolution, one that has authority (statesmanship), but for which they need not be accountable.

This is precisely the pattern followed in the recent large store legislation, the latest adjustment in a pattern of partial government protection for small retailers that began before WWII. MITI resisted political party pressure for about four years until it became clear that the Diet would introduce legislation on its own. It then prepared its own revised approach aimed at (1) blunting the suburban advance of small supermarkets and (2) shifting some decision making to local committees

made up of small retail and consumer representatives. As with previous laws, the basic effect of this new legislation is to slow but not end the growth of large scale retailing and to limit the impact of large new stores on a locality by reducing the proposed floor space and operating hours.

MITI's latitude to respond administratively to circumstances in particular industries is great. Already on the books are a wide set of laws facilitating the provision of aid to medium and small firms suffering serious difficulties.[63] MITI's emergency powers are notably broad, flexible and free of legislative encumbrance. Loans, special tax measures, small business cartels in certain industries, insurance, retraining and reorganizational assistance can be activated at the Ministry's discretion (with shingikai approval). The total value of the aid available has never been calculated, it appears. The organizational channels for these measures are in place, since the laws designate industrial associations, Chambers of Commerce, public financial institutions, loan guarantee programs and the like as agents for the execution of special relief and restructuring efforts. The response time is thus quite rapid, as neither special legislation nor new organizations are required. The result is that precisely targeted, temporary measures based on a multiplicity of financial and other tools can be arranged without political debate. The limitations on this system are the ceilings on resources contained in MITI's budgetary allocations and in the various categories of public loans available.[64] The Ministry's continuing effectiveness, therefore, hinges on its conservation and astute allocation of these resources.

In sum, while a great deal of attention and financial support is regularly bestowed on the small business sector, few policies have been made to prevent small scale industries from declining. The family doctor makes many visits and prescribes various medicines, but is not inclined to put patients on life support systems. Rather policies have been formulated to ameliorate the pace and therefore the impact of decline with the intention of facilitating an orderly retreat or basic reorientation. Loans, technical assistance, retraining grants, capacity scrapping programs and the like are examples. MITI officials essentially seek to balance a strong commitment to encouraging change leading to greater overall economic efficiency with realities of a sociopolitical kind (unemployment costs, social dislocation and political pressures being very real considerations). They find themselves holding out (with considerable success so far) against outright protectionist policies, especially ones that will become chronic. In this the small business sector is fundamentally different from agriculture; the few exceptions, notably leather and leather goods, prove the rule as those products reflect the very special Burakumin political problem.

It is also true, however, that the LDP and the government could be pushed in a more protectionist direction by the success of other parties in recruiting small business support. What would permit this to happen? In a major recession, for example, will the political clout of small business increase? They experience hardship early in the business cycle and this could translate into demands the government cannot effectively meet, causing a shift toward applying pressure through the opposition. Another scenario might begin with national tax reform proposals that unite small businesses against the government. Such a tax package might

emerge with the support of a constellation of three pressures: wage-earner and consumer demands to correct the existing inequities in the tax system; Ministry of Finance bureaucrats and politicians anxious to raise taxes to reduce the huge budget deficit; and big business opposition to corporate tax increases. A value-added tax, much less the attempt to close existing loopholes, would meet much small business resistance. A third scenario would have progressives winning governorships on a pro-small business platform and then effecting much greater assistance to small businesses, including local forms of protectionist measures, thereby forcing the LDP to respond accordingly. The latter actually began to happen in the early 1970s.

With the continuing combination of LDP strength and the present mix of government responses to small business issues there is more reason to work with rather than against the authorities; loans, temporary measures and partial help are better than rhetorical promises. Small business pragmatism, in other words, reinforces the LDP as long as it proves its electoral dominance and continues to factor in small business interests. It is well worth remembering that the small business sector is rarely presented with viable choice except in highly localized and industry specific matters, and in most of these instances, it is well within the LDP's capacity to co-opt the issue.

Entrepreneurship. What does all this--factor markets, social networks, educational system, tax treatment, the economic, political, social, and cultural environment--add up to? A great deal of vitality in the small-scale family enterprise sector, for one thing--large numbers of births, deaths, and resurrections. We pull our discussion together by examining

the whole set of issues involving entry, profitability, survival, and exit.

In 1979 there were just over 16,000 bankruptcies in Japan. The number of bankruptcies has been steadily increasing over the last decade; almost all are small companies. Bankruptcies, however, account for only small part of the total number of enterprises that go out of business each year. From 1978 to 1981, for example, about 217,000 closed their doors, some 70,000 annually. More than 99 per cent of these were small and medium enterprises. The per cent of closings to the total number of establishments ranged between 3.2 to 4.2 per cent over the period from 1966 to 1981. This represents a formidable failure rate, one at the heart of structural adjustment issues in Japan; yet the number of new small businesses forming each year has substantially surpassed the number of closings, resulting in a net increase in business establishments year after year. Again, virtually all of this activity is in the area of small and medium business.

Nothing better illustrates the basic vitality of the small and medium business sector than the above portrait, one that balances the risks of small and medium business with the constant entrepreneurial activity at the lowest organizational levels of stable, growing, and emergent industries. That many new enterprises are formed each year attest to the ease of entry in the economy as a whole, though of course with immense sector-specific differences. Since many small firms rely extensively on trade credit, one default can cause a chain of bankruptcies. Under Japanese law it is easy to go bankrupt or otherwise exit as an enterprise, reorganize, and be reborn. The net increase in enterprises signifies the basic strength and endurance of SFEs.

There are significant variations in the relationship of openings to closings. Small business adjustment must respond flexibly to annual as well as longer-term changing conditions. Each industry has its own distinct range of closing and start-up rates. Thus, throughout the 1966-1981 period, the rate of openings in the service and wholesale-retail sectors held steady at about six and seven per cent of total sector enterprises, while in manufacturing the rate plummeted from 6.5 to 3.5 per cent beginning in the mid-1970s. The shift in the economic structure toward the service sector is clearly illustrated by this different response to the oil shock-induced recession and slower growth era, as well as to the evolution of aggregate demand. During that recessionary period, small business opportunities in manufacturing declined sharply, whereas both the retail and service sectors continued to expand. Yet even in manufacturing the ratio of openings to closings remained narrowly positive, a result probably of a shift toward more, not less, reliance on subcontracting in major manufacturing industries such as machinery and electronics induced by efforts to control overall labor costs and retain productive flexibility on the part of large firms.

This degree of entrepreneurial vitality comes as a surprise given the stereotypic portrait of the Japanese as a cautious, risk averse people who prefer the security of stable, well-defined relationships.[65] Moreover, the best educated (and presumably most talented) Japanese are attracted to large firms (and elite government jobs) and rarely leave for any reason. Neither the modern education nor the employment system encourages development of an entrepreneurial spirit or a class of talented people who are recognized and rewarded for their entrepreneurial inclinations. The dominant cultural and social descriptions of postwar

Japan do not lead one to expect much in the way of entrepreneurial vitality.[66]

Survey data help us better understand the conditions of entrepreneurship, and provide specific evidence bearing on many of the issues raised earlier. The most extensive, regular survey is undertaken by the People's Finance Corporation.[67] In 1981, of a sample of 1,400 start-up businesses in all sectors, over half were formed by relatively young individuals, people in their thirties. Only about ten per cent of all new businesses were begun by people 45 years old and above. Many older people do find work in small and medium businesses, but they are not founding many of them.

What about the educational background of these entrepreneurs? In 1966, only 13 per cent of the sample had university educations, whereas by 1981 35 per cent had four years of post secondary schooling (higher in urban areas) and another eight per cent graduated from junior college or its technical equivalent. Unfortunately, we do not know very much about the status ranking of the universities involved, but nevertheless, the general impression is that Japan's new entrepreneurs represent nearly all segments of the population as measured by educational background.

In the same survey the largest group of entrepreneurs (70 per cent) come from the middle levels of small and medium businesses. Even so, entrepreneurs come from a relatively wide range of firms and levels. Koike found that nearly half of the workers in very small firms of ten or fewer employees eventually set up their own businesses.[68] In 1982, for example, some 65,000 men established their own (unincorporated) individual proprietorships. Of these, 48 per cent had been employees in FSEs; another 20 per cent had worked in enterprises of 30-299 employees; and 14

per cent had changed the form of their self-employment.[69] This suggests extraordinary mobility and entrepreneurship in the smallest enterprises.

The highly aggregated nature of statistics on small and medium business is vexing because common sense leads one to think there are discrete patterns of entrepreneurship among different types of businesses; for example, between those in which specialized skills and education play a large role (such as business services, high tech, information management and advertising) and those based primarily on location (such as retailing and restaurants). We can only speculate that younger, educated people leaving larger firms are entering different kinds of business than their less educated peers leaving smaller firms.

In the People's Finance Corporation survey many reasons were given for starting one's own company; the most popular being: "to realize technical skills and general ability" (70 per cent), "to be able to work in a manner consistent with my nature" (55 per cent), "an attraction to managing one's own business" (39 per cent). Improved income was selected by less than one third and "dislike of being in another's employ" was chosen by an impressive 30 per cent. An equal proportion complained of being blocked in advancement. The overall impression is one of ambitious, independent people stepping out of employment situations in which they felt limited. Case studies of new small businesses reveal that many start-ups have been planned well in advance with previous employment being treated as preparatory training. The people involved are not elite managers nor are they big risk takers seeking high returns, but neither are they incompetents forced into small scale entrepreneurship.

The survey also reveals that various people play a part in encouraging entrepreneurs to start their own businesses. As already noted, new

businesses generally begin with a modest plan that relies heavily on existing relationships to reduce risk. In this survey, 45 per cent mentioned a friend, relative or business client as urging them to set out on their own. The practice of noren wake (an employer-guided new business creation) characterized another nine per cent. In about one-third of the cases (overlapping) customers and/or former employers played a role.

The same survey offers a rather detailed portrait of start-up conditions in terms of capital investment, employees and so forth. The very low level of initial investment is striking--some ¥9.2 million ($36,800) on average, with slightly more for equipment than for working capital. Surprisingly, restaurants were the most capital intensive, both in amount (¥16.4 million, $65,600) and in the share for equipment (80 per cent). The least capital was required in manufacturing and construction.

An average start-up investment of ¥5 million ($20,000) for manufacturers, for example, is so small that it is difficult to grasp the actual cost structure involved. The purchase of used machinery and payment of "key money" on rental space are the two largest items in many cases. The majority of new enterprises establishing production do one or more of the following: locate in their own homes or in borrowed space; primarily use family labor; acquire leased or used machinery; maintain very small inventories; utilize materials supplied by customers; and have very low administrative and sales costs. These conditions are best met in subcontracting arrangements, where the new company begins producing for a larger contractor, assembly firm, or trading company. Initial production of one or a few items requiring limited equipment and space is the pattern. If the patron's demand is steady, the new business begins with

a level of business that is secure and predictable. In such circumstances, one would expect profits to be squeezed by the knowledge and power of the patron, and this corresponds to the fact that risks and the cost of entry are also low. Unfortunately, the survey does not separate manufacturing start-ups into categories that would further clarify these issues.

According to the People's Finance Corporation the funds for start-ups come essentially from three sources: owner-operator investment (46 per cent), loans from financial institutions (39 per cent), and personal loans from friends, relatives and the like (12 per cent). In a separate study of almost 200 incorporated companies in their second year of business, it was found that 38 per cent of assets and working funds originated from business relationships in the form of credits. Owner-operated investment and institutional loans dropped to 30 and 17 per cent respectively. The one exception to this pattern is restaurants, where business credits accounted for only five per cent of total second year funding. The central role of larger, more established firms in setting small businesses in motion by supplying credit is notable as it also illustrates the interrelational framework within which small businesses exist. The national pattern is for about six in ten new businesses to be based entirely or primarily in the family, but regional variations are large. More than half of the big city based businesses begin with employees being more important than family workers, whereas in rural areas the family is central in 80 per cent of the cases.

The small scale of most start-ups is further shown in anticipated first year sales. Fewer than ten per cent of new companies expected monthly sales in their first year to be above ¥10 million ($40,000), and

the average was about ¥2 million ($8,000). Ten per cent expect monthly sales of less than ¥500,000 ($2,000).

Since almost all new businesses begin very small and rely substantially on the unaccounted assets of land, personal networks and family labor, barriers to entry are low and center on lack of connection, skills, and family labor. These are not purchased on open markets, but are acquired as social/experience assets. Land is often an asset possessed by a household in older industries and neighborhoods. The rental of small spaces is relatively easy in Japan compared to the acquisition of large spaces. This too may favor small scale activity.

We do not have data, however, on other important issues. To what extent, for example, are start-ups of larger firms (with 30 to 100 or more employees) occuring? We know these occur regularly as joint ventures or as spin-offs from larger companies. (See the chapters by Aoki, and Saxonhouse and Okimoto.) Our hypothesis is that except for spin-offs almost all Japanese new enterprises begin very small, and that the current distribution of small and medium enterprises by size is predominantly a consequence of growth. Is this pattern specific to Japan, or is there a similar pattern in Western Europe and the United States?

We also know little about the internal life-cycle of small Japanese businesses. If they survive, which kinds continue to grow? We know that most reach a plateau while still small. We also note the capacity of owner-operated, family businesses to endure setbacks and cyclical downturns. Labor input and cost elasticities are great as longer hours or less income are tolerated consequences of owning one's own business. In adversity, one or more members of the family can work outside to supplement household income. This flexibility of response to hard times stems

from the fact it is total household income/expense balancing, not just business income or profitability, that determines the persistence of many marginal enterprises. This capacity for survival helps underwrite the persistence and adaptability of many industries based on small scale producers. It enhances the industry's tolerance of cycles and buys time to adapt and change when an industry is permanently on a downward trend, since neither skills nor connections nor location are lost.

Low costs of entry and risk sharing are thus associated with low expectations about margins and a flexibility in adversity that distinguishes small business in Japan from both larger businesses and small business in countries in which start-up costs are higher, risks are not spread as widely and/or family labor and other assets are not pivotal. Any calculation of return on investment and profitability hinge on the value given to family labor, of course, and this is a highly subjective matter from the owner-operator's point of view. Life-style and personal satisfactions, other work options for family members and long-term prospects for success are considerations. So too is the fact that success will not be taxed at the same rates as salaried work.

The great number of small businesses is not, however, a testimony to their being an easy or even preferred means of making a living. Working conditions in small factories and other establishments are often among the worst in Japan. Long hours, cramped spaces, lack of safety equipment, poor lighting, noise, and so forth are common; and much of the labor is physical. While owner-operators have hopes for success, some independence, variety of work and other modest benefits, their employees experience only the difficulties. They do this due to the absence of other options or because they hope to learn skills and make connections

that someday will give them the chance to be independent. Such assets are not cheap viewed in the light of such an apprenticeship.

III. The Future of Small Business

The many reasons for the continuing existence, expansion or decline of small family-owned enterprises that we have traced provide insights into their future prospects. Our overall "best guess" is that small-scale enterprise will continue to be a large, important, and on the whole positive component of the Japanese economy, and that any substantial changes in its overall role will come about as a process of gradual evolution rather than discontinuously. The essential core of the SFE as an institution--entrepreneurship, family ownership and work effort, special skills, effective social networks, specialized production of goods or services for particular market niches, and above all flexibility and adaptability--provide a strong basis for ongoing economic success.

Of course the story will differ sector by sector and family by family. There are major unknowns. In general, how rapidly will the political economy and SFEs within it adjust to existing and future inefficiencies in resource allocation as relative prices continue to change? More specifically, what will happen to land prices, and how will land markets change? Will new technologies decrease, or enhance, the competitiveness of SFEs, and in which sectors? What will be the future political role of SFEs? And how will the aging of the population, namely the projected great increase in numbers of old workers, effect the SFE system? We can only speculate briefly on these questions. Before that, however, we provide our general evaluation of small family enterprises in

the Japanese economy in terms of allocative efficiency, contracyclical macroeconomic efficiency and flexibility.

Changes in the absolute and relative role of small enterprises over the long run will be driven predominantly by economic forces: changes in demand, market competition, market pressures toward efficient allocation of resources, especially the heterogeneous resources of labor and land. New enterprises will seek out new opportunities. On the other hand, the decline of enterprises in increasingly uncompetitive sectors will be mediated and slowed by the time the intergenerational process of change takes. While their value may be declining, enterprises operated by older persons will persist by living off their specific human capital and the implicit rents of other assets, especially land. Moreover, where small enterprises can maintain or form effective interest groups they will continue to use the political process to insulate themselves as much and as long as possible against the inevitable cold winds of market forces.

Certainly some SFEs in some sectors represent a socially inefficient packaging of resources. Capital is overabundant in agriculture, but perhaps still inadequately supplied to some (especially minuscule) SFEs in secondary and tertiary sectors. Excessive land fragmentation in agriculture and probably in most urban areas results in less than optimal land use. The great heterogeneity of labor accounts for much of the existing wage differentials, but nonetheless substantial allocative inefficiencies remain, especially in the discriminatory treatment of women, older persons, part-time workers, and minorities. The issue of discrimination against females is more subtle than it appears, since it is founded substantially on traditional Japanese conception of the "proper role of women" in society. Some may object to our use of the

term "discrimination," but the phenomenon is real, whatever the labelling or semantics. At any rate, taking these labor market imperfections as givens, SFEs can generally be regarded as effective instruments for reducing such imperfections by taking advantage of them; certainly they do not create them. However, in sectors in which SFEs are on the defensive, notably agriculture and some very small retail establishments, they perpetuate and enhance economic inefficiency. Thus our overall evaluation of the role of the small enterprise sector in terms of allocative efficiency is mixed; SFEs warrant only moderately good marks.

One of the great costs in macroefficiency of advanced industrial market economies derives from the downswings of the business cycle. The output periodically foregone because of underutilized labor and capital during recessions is huge, far greater than that foregone because of static inefficiencies of resource allocation. Small family enterprise in Japan has been a very effective contracyclical as well as secular absorber of labor through a variety of highly flexible mechanisms--from starting one's own business to family labor to newly-hired employees. We believe a careful analysis would show that small business plays an important stabilizing role, serving to reduce the overt unemployment that would otherwise occur; this role is subsidized to some extent by the tax-paying employees of larger firms and consumers of protected products. SFEs still earn excellent marks by this criterion.

The small business sector generally provides great flexibility for the Japanese economy, accelerating the process of structural adjustment. Entry is easy. Many enterprises die, due either to their own incompetence (the inevitable price of an active, ambitious, entrepreneurially-oriented population) or to changing market conditions, or to the lack of

a successor. Many more are started. Many rapidly transform their product mix and their activities, responding to the pulls and pushes of the marketplace. Offsetting this, however, are the inefficient SFEs able to mobilize political power to retard their own decline; they reduce the overall flexibility. The grade on flexibility is nonetheless very good.

The social value placed on small, family-owned and operated enterprises--in all sectors--seems quite high. They are regarded not only as natural and inevitable, but desirable. Japanese consumers and taxpayers have long tolerated high agricultural prices based on economically inefficient production, and seem to be willing to tolerate the efforts of small shopkeepers to slow down the entrance of even small supermarkets into their neighborhoods. On the other hand, there does not seem to be any great idealization of family farms or small shopkeepers as an essential feature of the Japanese way of life that must be maintained and protected at <u>all</u> cost, or indeed much more cost than at present. We believe Japan's new middle mass, or even a healthy new nationalism, are too efficiency-oriented, too pragmatic, to suffer permanent or increasing subsidization of notably inefficient SFEs.

The fate of the small enterprise sector is inexorably caught up in the future prospects for the Japanese economy and society as a whole. Growing GNP per capita will continue the trend in the composition of demand toward services, many of which are income-elastic and are efficiently provided by small scale enterprises.[70] Within distribution, there will be considerable fighting and jockeying for position among different levels of small enterprises; the smallest (the least efficient as measured by sales per worker) will continue to resist market intrusion by larger, more modern firms. There will be considerable transformation,

exemplified by the way in which Ito-Yokado Company has turned traditional mom and pop establishments into 7-Eleven store franchises.[71] As well as their serving as barriers to new (including imported) products, the inefficiency of retail services and of distribution in general are likely to be a source of increasing political tension.

As Japan progresses toward its current vision of the future as an information society, small high tech firms are likely to proliferate--in computer software, specific products or components, or related services--since there are few economies of scale and simple organizational structures encourage creativity, innovation, and quick responsiveness. Many will be in the developing venture capital market. While efficient, productive, glamorous growth nodes of the future, such high tech firms nonetheless will comprise only a tiny share of the SFE sector in numbers, employment, or even direct output.

Real wages will continue to rise and the relative cost of capital to decline. So long as the liberal international economic system remains in order (i.e., Japan remains committed to free trade), the trend will be to greater specialization within Japan's manufacturing structure, and a substantially higher share of imports of standard labor-intensive manufactured goods. These trends will put increasing market pressure on SFEs in manufacturing, both for final markets and as subcontractors. Perhaps even more important will be the policies of medium and large firms. In a more slowly growing economy they may seek growth by expanding into domestic markets now dominated by small firms, by vertically integrating by reducing reliance on subcontractors, or by turning to the cheaper labor of offshore economies for simple components.

Many SFE manufacturers have created effective market niches by specializing in relatively small-lot production. Import competition is less a potential problem than the emergence of new, computer-based, flexible production systems which enable large firms to produce small lots competitively would be. Moreover, a few larger firms have recently begun substituting part-time female production workers for for full-time (male) workers. If this becomes widespread (not likely in our judgment since large firms prefer a homogeneous, stable labor force), then large firms will bid away one of the advantages of SFEs in existing labor market imperfections.

We have argued that many of the benefits for SFEs derive from labor and land market imperfections of one kind or another, as well as from the institutional or bureaucratic rigidities of large firms and favorable tax treatment. More perfect financial and capital markets will help SFEs where they have previously been at a disadvantage. On the other hand, more perfect labor and land markets will reduce the opportunities for SFEs to find and take advantage of existing imperfections. Existing disparities between relative wages and productivities may decrease over time, though we suspect they will always persist to some degree since equilibrium is never achieved in practice in a growing economy.

We anticipate that the many barriers to more perfect land markets--institutional, legal, tax, generational preferences--will remain strong. Even so, underlying conditions affecting land markets are likely to change substantially. In our judgment, the trend of huge increases in the relative price of land between the early 1950s and mid-1970s will not persist in the future. There will not be increases in (relative) prices of agricultural output to be capitalized in higher rural land prices.

With some lags, urban land use is becoming more efficient, as witnessed by the increasing average height of buildings. With financial liberalization, financial assets will become more attractive. High inheritance taxes and the inevitability of land transfer through death will force land revaluations, sales, and more efficient use of land. Over time the lengthy one-shot effect of huge capital gains in land will be adjusted and high implicit rents will be reduced. However, it is unlikely that the primacy of tenant rights will be seriously eroded: too many vested interests are at stake.

The most problematic area is agriculture, which combines great economic inefficiency and high prices visible at home and abroad, immense political power enhanced beyond mere numbers by gerrymandering and multiple-member voting districts, and a profound incipient generational change. More than a quarter (27.5 per cent) of Japanese farmers are age 60 or older, and almost another third (32.1 per cent) are between 50 and 59. What will happen when they die? There will be two trends at work. Economic efficiency dictates that land should be consolidated into much larger, contiguous production units. But that requires effective rental and purchase markets for farm land, and reasonable prices; there are legal and other barriers to both. Land consolidation will proceed at too slow a pace and effect too little land to enable an efficient scale of farm family enterprise to emerge. The second trend will be for (perhaps early) retirees from nonfarm jobs[72] to take over land from their parents, or more likely, to farm as a side occupation. If Japanese-style "gentlemen farmers" contributing little labor producing simple crops such as rice exercise strong political clout to maintain the present system of subsidized farming, a generational transformation may not occur, or may

be far different from the efficient solution economists hope will come about.

All the evidence indicates that workers in small-scale family enterprises outside agriculture work longer hours, under worse conditions, and for lower pay and fewer fringe benefits than those in larger enterprises or the civil service. Yet there does not seem to be a strong sense of discontent or unfairness or alienation pervading Japanese society. True, opposition parties obtain a majority of the popular vote, but the SFE's vote is little understood.

We can only speculate about sources of the high degree of social and political stability and the role of SFEs in it. Certainly the very high rate of employment is important; given wage flexibility, the nonexistence of effective minimum wage legislation, family connections and the prevalence of family businesses, almost everyone can find some sort of job. Despite ongoing wage differentials, Japanese income distribution is comparatively equal, as the Bronfenbrenner and Yasuba chapter documents. Small enterprises offer Japan's minorities economic independence and some opportunity; for Burakumin it is a protected opportunity (beef, leather goods). Most of all, Japanese culture appears to have socialized most Japanese to accept their lot in life, not to rebel against it. Women, both in and outside the labor force, provide the most clear-cut example. For males, a system of economic and social mobility based largely on merit (ability and effort) as screened through the educational system apparently has broad acceptance. For most, the hurdles to get into the elite are accepted as too high. So one plays within the system, taking advantage of it wherever possible--using personal connections, evading taxes, forming narrow-interest pressure groups to influence politicians.

Small business is the outlet and opportunity for those who are hopeful and ambitious, and either not hired by large employers or not wanting to be.

All this may change--not so much because of worsened circumstances as because of heightened consciousness among the groups comprising the SFE sector (analogous to the increase in agrarian landlord-tenant disputes in the 1920s). Certainly the consciousness of farmers and their capacity to organize effective political pressure is already high and will persist. We think there is a good chance that small business interests, especially in services, will become an even more visible and powerful political force in the coming decade--and we perhaps have not adequately stressed their present effectiveness in protecting their own interests. The postwar eras, first of reconstruction then rapid growth, submerged the conflicts of interest between efficiency and income distribution, particularly the protection of income (and wealth) of vested interest groups. It is quite possible that these issues will become more and more pronounced, as other SFEs join with agriculture in pushing their interests, and with increasing effectiveness.

Changes in perceptions and values ("raising of consciousness") will affect the behavior and demands of the two main pools of underutilized labor--women and older workers. Our guess is that women will change only very slowly and gradually in terms of Western criteria.[73] A more likely source of social discontent lies in the increasing numbers of older male workers retiring from large institutions not into cushy, minor league amakudari positions but into a highly competitive SFE labor market. The question is the degree to which they will have the capacity to organize

as an effective interest group on their own, or to influence others (their children) on their behalf.

The sharp increase in the number and proportion of older persons--over 60, over 65, over 70--in the next two decades and thereafter is likely to have a momentous, wide-ranging impact on the Japanese economy and society (see the chapter by Noguchi).[74] One-third (3.1 million) of those over 65 are currently working; another 640,000 would like jobs, mainly part-time or at home, and half say their main reason for working is to increase their income. We anticipate that many in the future aging population will have the desire or need to work. Moreover, this labor market pressure is exacerbated by the relatively early retirement age (not expected to rise above age 60) of large firm and government employees. Retirees and older persons generally will have to seek jobs in SFEs, as owner-operators, family labor, or wage-earning employees. Some will participate in the U-turn phenomenon, returning home or nearby where land ownership will make it possible to have work. The evidence does not indicate that many older people are starting new enterprises. That could change, and more will inherit existing family enterprises--in agriculture, retail or elsewhere where land ownership can be combined with even low productivity labor input to generate some level of income. Others will be the low-paid, part-time, low-productivity labor force of the future. Some basic questions arise. Which is better for the well-being of old people: being involved in some work or retiring fully? Do they contribute much to value-added and GNP? Or do they require, or perpetuate, the inefficient allocation of land and perhaps capital, so that the packaged contribution is negative? Is it efficient or desirable to have a welfare system that encourages, or even virtually requires, old

people to work to maintain their accustomed standard of living and way of life?

Footnotes

[1]Prime Minister's Office, Statistics Bureau, 1981 Establishment Census of Japan. Volume 3 Incorporated Enterprises, Table 2. This triennial survey is a basic reference source.

[2]Official definitions typically identify "small" enterprises as those with fewer than 100 workers, "small-and-medium" as those with fewer than 300 workers. The basic labor force survey is the Prime Minister's Office, 1982 Employment Status Survey--Whole Japan (Tokyo: May 1984). The annual White Paper on Small and Medium Enterprises in Japan, prepared by the Minister of International Trade and Industry, Small and Medium Enterprise Agency, is a useful source of data and government policy discussion. Since the 8,950,000 part-time workers are disproportionately in small enterprises, the respective employment shares of full-time workers is 64.6 per cent in small firms, 18.2 per cent in medium ones, and 17.2 per cent in large ones. All ratios are to Japan's private sector labor force, excluding government employees (numbering 5,197,000), unless otherwise stated. Note that the total labor force employed is 57.9 million, the "mainly working" (i.e. full-time) 48.9 million.

[3]Direct estimates are not available. This is based on a rough extrapolation of labor force and value added ratios in manufacturing.

[4]Case-study research on Japanese family enterprise has been done by a number of Japanese specialists on problems of small-scale enterprise, and by some American anthropologists. Relevant literature in English include: Wagatsuma Hiroshi and George De Vos, Heritage of Endurance (Berkeley: University of California Press, 1983); Barbara Darlington Ito, Entrepreneurial Women in Urban Japan: The Role of Personal

Networks, Ph.D. dissertation (University of Iowa, 1983); Jill Kleinberg, "Where Work and Family are Almost One: The Lives of Folkcraft Potters," in David W. Plath, ed., Work and Lifecourse in Japan (Albany: State University of New York Press, 1983); and Dorinne Kay Kondo, Work, Family and Self: A Cultural Analysis of Japanese Family Enterprise, Ph.D. Dissertation, (Harvard University, 1982).

[5]This estimate is based on the conservative assumption that each incorporated SFE with fewer than 30 workers has one family member in addition to the boss on the payroll. Excluding agriculture, where the number of wage earning employees is minimal, almost one-quarter (24.2 per cent) of the nonagricultural labor force is made up of SFE owners and family members.

[6]For such an interpretation in English, see Rob Steven, Classes in Contempory Japan (Cambridge: Cambridge University Press, 1983). There is an extensive literature in Japanese.

[7]David Harold Stark, The Yakuza: Japanese Crime Incorporated (University of Michigan, Ph.D. dissertation, 1981), chapter 5.

[8]David J. Storey, ed., The Small Firm An International Survey (New York: St. Martin's Press, 1983), p. 3.

[9]Felix Twaalfhoven and Tomohisa Hattori, The Supporting Role of Small Japanese Enterprises (Schiphol, Netherlands: N. V. Indivers Research, 1982), p. 29. Comparative data for Asian developing countries appear in Mathias Bruch and Ulrich Hiemenz, Small- and Medium-Scale Industries in the ASEAN Countries (Boulder: Westview Press, 1984).

[10]William Paul Sterling, Comparative Studies of American and Japanese Labor Markets (Harvard Universiy, Ph.D. dissertation, 1984), table 5-3.

[11]Ibid., table 5-37.

[12]Robert Chapman Wood, Small Business: Foundation of Japan's Best Known Successes (Report prepared for Small Business Administration, revised August 1984), section 7. Firms with 1-99 employees employed 40 per cent of U.S. wage-earners (1977) and 56 per cent of Japanese wage-earners (Wood, Table 1, p. 14). In manufacturing the 1-99 employee establishment produced 20 per cent of manufacturing value added and provided 25 per cent of employment; in Japan the comparable figures were 41 per cent and 58 per cent (Wood, Table 3, p. 18). The exclusion of individual proprietorships and unpaid family workers understates the importance of small scale activities more for Japan than the United States.

[13]For an appraisal of the SFE growth process see Tadao Kiyonari, Chusho Kigyo Tokuhon (Tokyo: Toyo Keizai Shimbunsha, 1980). Useful descriptions in English appear in Tadao Kiyonari, "The Unsung Mainstays (1): Small Business," in Murakami Hyōe and Johannes Hirschmeier, Politics and Economics in Contemporary Japan (Tokyo: Kodansha, 1983), pp. 157-183; and Douglas Anthony, "Japan," in Storey, The Small Firm. A basic reference work is Miyohei Shinohara, "Survey of Japanese Literature on the Small Business--with Selected Bibliography," in Bert F. Hoselitz, ed., The Role of Small Industry in the Process of Economic Growth (The Hague: Mouton, 1968).

[14]Japan Statistical Yearbook, 1983, table 4.9, pp. 134-5.

[15]1982 Unincorporated Enterprise Survey, Reference Table 9.

[16]1983 SME White Paper, p. 95.

[17]Effective hourly rates are about half those of part-time female workers, and one-third those of full-time regular female employees; Yoko

Kawashima, Wage Differentials between Women and Men in Japan, Ph.D. dissertation (Stanford University, 1983), p. 138.

[18]See Ito, Entrepreneurial Women.

[19]M. Anne Hill, "Female Labor Force Participation in Developing and Developed Countries--Consideration of the Informal Sector," Review of Economics and Statistics, Vol. LXV, No. 3 (August 1983); and "Female Labor Force Participation in Japan: An Aggregate Model," Journal of Human Resources, Vol. XIX, No. 2 (1984).

[20]Table 3 indicates that enterprises with fewer than 100 employees comprise 55.2 per cent of total manufacturing employment in 1982. The 1981 Census of Manufactures indicates that establishments (not enterprises) with 4-99 workers, comprise 55.0 per cent of the labor force in manufacturing, 34.0 per cent of the shipments, and 39.1 per cent of the value added. There are two offsetting differences: manufacturing workers in 1-3 worker enterprises (mostly unincorporated, self-employed) are excluded and obviously some multiunit enterprises with more than 100 employees contain establishements (plants) with fewer than 100 employees.

[21]Daniel I. Okimoto, Takuo Sagano and Franklin B. Weinstein, Competitive Edge--The Semiconductor Industry in the U.S. and Japan (Stanford: Stanford University Press, 1984), p. 193.

[22]For good comparative analysis of Japanese agricultural costs of products, land and labor inputs, and trade implications see Emery N. Castle and Kenzo Hemmi, eds., U.S.-Japanese Agricultural Trade Relations (Washington: Resources for the Future, 1982).

[23]1983 SME White Paper, p. 6.

[24]William V. Rapp, "Firm Size and Japan's Export Structure," in Hugh Patrick, ed., Japanese Industrialization and its Social Consequences (Berkeley: University of California Press, 1976).

[25]The information on the Tokyo briefcase industry is derived from Yoshio Sato, Kyodai toshi no reisai kigyō (Tokyo: Nihon Keizai Hyōronsha, 1981), chapter 5. It does not discuss the protection of leather goods from import competition. Leather goods are the only manufactures on which import quotas remain, due to the social problems and effective political pressures of Japan's outcaste community of some two million persons. A case study of pencil manufacture appears in Wagatsuma and De Vos, Heritage of Endurance; there are many similarities.

[26]Clustering or community based industries (jiba sangyo) is a category of analysis in Japan common to government policy as well as academic study. There are over 300 community-based industries recognized by the government and treated according to special laws for this type of industry. See Mitsuru Yamazaki, Japan's Community-Based Industries: A Case Study of Small Industry (Tokyo: Asian Productivity Organization, 1980).

[27]Ronald Dore (with Koji Taira), Flexible Rigidities: Industrial Policy and Structural Adjustment in the Japanese Economy, 1970-1980 (World Employment Programme Research, International Labor Organization, Working paper, 1983).

[28]The most useful overview in English is Yoshio Sato, "The Subcontracting Production (Shitauke) System in Japan," Keio Business Review, vol. 21, no. 1 (1983). Much of what follows is based on numerous survey results (including those reported in Sato's article); the ongoing research of Michael Smitka on the automotive industries and Thomas P.

Rohlen's research on a plastics subcontractor and on his comparison of Mazda and Chrysler; and the summer 1984 issue of Gendai Keizai (on subcontracting). See also Masu Uekusa, Sangyo Soshiki Ron (Tokyo: Chikuma Shobo, 1982).

[29]See Richard Pascale and Thomas P. Rohlen, "The Mazda Turnaround," Journal of Japanese Studies, vol. 9, no. 2 (Summer 1983), pp. 219-263.

[30]Kigyō kihon jitta chōsa 1976 (1979).

[31]The qualities of natural parenting can be observed in this pattern. As the infant matures and gains strength, it also gains independence and shoulders a greater share of the risk. The parent-child metaphor must be understood as implying a growth dynamic similar to the maturation process rather than a static relationship of fixed obligations and dependence. A crucial failing of previous work on Japanese subcontracting has been oversimplification based on a static perspective.

[32]1984 SME White Paper, p. 97.

[33]See Hideto Ishida, "Anticompetitive Prices in the Distribution of Goods and Services in Japan: The Problem of Distribution Keiretsu," Journal of Japanese Studies, vol. 9, no. 2 (Summer 1983), pp. 319-334.

[34]Surveys of small retail establishments are numerous. This account is based on: Masako Amano, "Reisai kigyō ni okeru shufu no yakuwari kōzō," Kokumin kinyū koko (hereafter KKK), Chōsa geppo, no. 264 (1983), pp. 13-27; Chūsho Kigyō Jigyōdan, Chūsho kourigyō ni okeru atosugisha no ikusei ni tsuite (1981); Kokumin Kinyū Koko Chōsabu, "Kourigyō ni okeru kazoku keiei no jittai," KKK Chōsa Geppo, no. 265 (1983), pp. 15-33; Shigehiko Watarai, ed., Nihon no shoreisai kigyō kazoku keiei no hatsugyō jitsu no chōsa (Tokyo: Kokumin Kinyu Koko Chosabu, 1977); and Chūsho Kigyō Jōhō Sentā, Chūsho kigyō no kigyō kōdō chōsa hōkokusho

(1979). There are sampling issues in every survey so our effort has been to grasp the common pattern revealed in those we have utilized; we have therefore used rounded-off figures.

[35]See Ito, Entrepreneurial Women.

[36]Machiko Osawa, Women's Skill Formation, Labor Force Participation and Fertility in Japan (Southern Illinois University, Ph.D. dissertation, 1984). Note also Hill, "Female Labor Force Participation."

[37]See Kondo, Work, Family, and Self; and Ito, Entrepreneural Women, who reports this as an important motivation of her sample of female entrepreneurs.

[38]In a careful analysis of a sample of sons who entered upper secondary school in 1964, Bowman finds that sons whose fathers are proprietors or members of an SFE preferred to be independent enterprisers themselves, and that working for a large firm was generally not nearly the goal the stereotype would imply; cf. Mary Jean Bowman, with Hideo Ikeda and Yasumasa Tomoda, Educational Choice and Labor Markets in Japan (Chicago: University of Chicago Press, 1981), pp. 208-9.

[39]See Thomas P. Rohlen, Japan's High Schools (Berkeley: University of California Press, 1983).

[40]Shinohara, "Survey of Japanese Literature on Small Business," provides an excellent, though now dated, discussion and literature review of dualism in the Japanese economy. A good, recent, empirical description of differences by firm size is in William Paul Sterling, Comparative Studies of American and Japanese Labor Markets, Ph.D. dissertation, (Harvard University, 1984), Chapter 5.

[41]Hong Tan, "Wage Differentials in Japanese Manufacturing: Review of Recent Literature," Economic Record (May 1982) provides a useful

review of the nenko (cultural) versus special and general training (neoclassical) literature and empirical analysis, including results from his dissertation.

[42]See Jeremy I. Bulow and Lawrence H. Summers, "A Theory of Dual Labor Markets with Application to Industrial Policy, Discrimination, and Keynesian Unemployment," manuscript, March 1985. While this model may appear appropriate only to the American system, in which workers are readily fired, Japanese large firms have effective ways of terminating employees, and at a far higher opportunity cost to the employee since the only available alternative jobs are at substantially lower wages.

[43]1983 SME White Paper, p. 32. However, these data apparently exclude the greater differentials in bonus payments and fringe benefits and may be monthly wages unadjusted for the longer hours worked in small enterprises, in which case the differentials remain wider than suggested in this source.

[44]See also his following articles in English: "The Formation of Worker Skill in Small Japanese Firms," Japanese Economic Studies (Summer 1983), pp. 3-57; and "International Labor Market: Workers in Large Firms," and "Workers in Small Firms and Women in Industry," in Taishiro Shirai, ed., Contemporary Industrial Relations in Japan (Madison: University of Wisconsin Press, 1983), chapters 2 and 4.

[45]Osawa, Women's Skill Formation, p. 93.

[46]Cited in Osawa, Women's Skill Formation, p. 93.

[47]Kawashima, Wage Differentials, p. 163.

[48]Osawa, Women's Skill Formation, p. 112.

[49]1982 Employment Status Survey, Table 37.

[50]Ministry of Health and Welfare, Summary of the 1983 Survey on Living Conditions, cited in Akiko Fuse, "The Japanese Family in Transition Part II," The Japan Foundation Newsletter, Vol. XII, No. 4 (December 1984), p. 3.

[51]Hugh Patrick, "Japanese Financial Development in Historical Perspective," 1868-1980," in Gustav Ranis et al., eds., Comparative Development Perspectives (Boulder: Westview Press, 1984), pp. 302-327.

[52]The financing of postwar agriculture is a quite different situation. The agricultural sector has generated a surplus of saving over investment and has effectively used agricultural credit cooperatives and other local financial institutions to provide farmers all the credit they demanded. Extensive government public works and other programs in agriculture have made the supply of capital in agriculture excessive in opportunity cost terms.

[53]Venture capital for new high-tech firms is an important but a special case. Venture capital financing is only nascent in Japan but may well develop rapidly.

[54]It may seem strange, but certainly is true in other rent-control situations of rapid rises in the economic value of real estate use, that the real value lies in ownership of the lease of the land, not of the land itself. In Japan leases apparently can be transferred, with a 3-10 per cent payment (orei) to the landowner. Local tax offices on occasion receive land in payment of inheritance taxes; tenants are able to purchase it on favorable terms. See Theodore C. Bestor, "Metropolitan Ethnography: Land, Households, and Mobility in Tokyo," paper presented to the American Anthropological Association (revised December 1984).

[55]Much of this section is based largely on interviews with MITI officials, Kyoto city government people, and representatives of the Kyoto Chamber of Commerce, the Central Federation of Small and Medium Business Associations (Chuokai) and particular industry associations. See also Mike M. Mochizuki, "Japanese Small and Medium Enterprise Policy in the 1970s," Paper presented to the annual meeting of the Association for Asian Studies, April 1982; Hidenobu Nakajima, "Sengo ni okeru chūsho kigyō, undo no rekishi to kyoka," Chūsho Kigyō Jānaru (August 1968), pp. 1-13; Masaru Saito, "Modernization and the Diffusion Mechanism of Technology," Chuo University, Society of Economic Research, Keizaigaku Ronsan, no. 5 (1972), pp. 91-103; Small and Medium Enterprise Agency, MITI, Outline of Small and Medium-Scale Enterprise Policies of the Japanese Government (Tokyo: Small and Medium Enterprise Agency, 1984); and Seiji Keizai Kenkyūsho, ed., Tenkanki no chūsho kigyō mondai (Tokyo: Shinhyōron, 1976).

[56]We do not consider here the formidable political power of the well-organized farmer lobby and its interactions with the LDP and opposition parties and with the Ministry of Agriculture, Forestry and Fisheries, since it has been extensively treated elsewhere.

[57]While many exceptions can be cited and comparisons with other countries are not available to prove or disporve a statement such as this, the MITI officials interviewed took this position.

[58]This is the case even for companies reporting losses. A Tokyo Regional Taxation Bureau audit of 7,552 small and medium sized enterprises (capitalized at no more than ¥100 million--$250,000) reporting losses for the July-December 1984 period indicated that 85 per cent made

false reports understating income, and more than a quarter were actually in the black. Mainichi Daily News, May 26, 1985, p. 12.

[59]See James Horne, Japan's Financial Markets Conflicts and Concensus in Policymaking (Sydney: George Allen & Unwin, 1985), pp. 137-40.

[60]Collected in book form: Nihon Keizai Shimbun, Za-Zeimusho (Tokyo: Nikkei, May 1984).

[61]See, for example, Seiji Keizai Kenkyūsho, cited in footnote 55. This was confirmed by all persons interviewed.

[62]Ibid., p. 343.

[63]See Small and Medium Enterprise Agency, Outline of Policies, for a lengthy account of the numerous laws, powers, agencies and procedures involved.

[64]See Takashi Yokokura, "Chūsho Kigyō" in Ryutaro Komiya et al., Nihon no Sangyo Seisaku (Tokyo: University of Tokyo Press, 1984).

[65]For a general consideration of entrepreneurship and Japanese psychology, see Wagatsuma and De Vos, Heritage of Endurance. Their study of small scale pencil making notes the high frequency of openings and closings. See also Hiroshi Wagatsuma and George De Vos, "The Entrepreneurial Mentality of Lower-Class Urban Japanese in Manufacturing Industries," in George De Vos et al., Socialization for Achievement (Berkeley: University of California Press, 1973).

[66]Whether the topic is socialization, values, group behavior or organization, almost no leading studies (in English and Japanese) mention entrepreneurial inclinations, emphasizing instead vertical relationships, dependence, paternalism and sociocentric orientations.

[67]Kokumin Kinyū Koko Chōsabu, "Shinki Kaigyō Jittai Chōsa," Chōsa Geppo, no. 266, no. 267, and no. 268, 1983, reports the most recent in a periodic survey. This sample is based on loan customers of the People's Finance Corporation and is therefore biased toward more successful, ambitious and well-grounded start-ups. Very small new operations requiring little capital are certainly underrepresented. As a result, some categories, such as small shops opened by retirees, are likely to be more significant than shown.

[68]Koike, "Workers in Small Firms and Women in Industry," p. 102.

[69]1982 Employment Status Survey, Table 52. Time-series data can be calculated from earlier surveys. We exclude females (their increase in self-employment was 46,000 in 1982) because we cannot determine how many were piece workers rather than entrepreneurs.

[70]For example, the 1983 SME White Paper (pp. 76-80) notes rises over the past decade in car parking, funeral services, beauty parlors, automobile rentals, building maintenance services, professional services, and advertising, but absolute declines in dressmaking, movie theaters, and public bathhouses.

[71]For a brief description see Ito-Yokado Co. Annual Report 1983 (in English), especially pp. 17-20.

[72]Of the 20,000 new male farm proprietors in 1982, a quarter previously were in government employment, a quarter were employees in SFEs (1-29 workers), and almost all the rest spread among larger size farm categories. 1982 Employment Status Survey, Table 52.

[73]Note however that the position and role of women has, rather quietly, changed dramatically since WWII: mother-in-law relationships,

nuclear households, kyoiku mamas, my-home-ism, the selection process for husbands, participants in the labor force as wage-earners, etc.

[74]Those 65 and older were 10.7 million in 1980 (9.1 per cent of the population), and are projected to number 19.9 million (13.6 per cent) in the year 2000, and 28.0 million (21.8 per cent) in 2020. Comparable figures for those 70 and older are: 1980, 6.7 million (5.7 per cent); 2000, 13.0 million (10.2 per cent); and 2020, 20.4 million (15.9 per cent). Prime Minister's Office, Statistical Bureau, Kojin kigyō keizai chōsa nenpō (1983), pp. 3-4.

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Table 1. Private Sector Labor Force[a] by Form of Organization, Status and Industry for 1-29 workers, 1971 and 1982

	1971			1982		
	Number (1000s)	Share in total Workers (%)	Share in Industry Workers (%)	Number (1000s)	Share in total Workers (%)	Share in Industry Workers (%)
Self-Employed	9,899	21.3	100	9,513	18.1	99.8
Agriculture and Forestry	3,790	8.1	100	2,420	4.6	99.1
Construction	716	1.5	100	873	1.7	99.7
Manufacturing	1,396	3.0	100	1,608	3.1	99.9
Wholesale and Retail	2,162	4.6	100	2,393	4.5	99.7
Finance, Insurance and Real Estate	142	0.3	100	178	0.3	100.0
Transportation and Communication	103	0.2	100	150	0.3	98.7
Services	1,393	3.0	100	1,725	3.3	99.8
Family Workers	7,076	15.2	100	5,856	11.1	99.8
Agriculture and Forestry	4,202	9.0	100	2,529	4.8	99.9
Construction	158	0.3	100	300	0.6	99.7
Manufacturing	654	1.4	100	633	1.2	99.4
Wholesale and Retail	1,479	3.2	100	1,662	3.2	99.8
Finance, Insurance and Real Estate	25	-	-	47	0.1	100.0
Transportation and Communication	22	-	-	32	0.1	97.0
Services	404	0.9	100	533	1.0	99.6
Employees	10,103	21.7	32.2	14,365	27.3	38.6
Agriculture and Forestry	216[b]	0.5	75.1	178	0.3	75.1
Construction	1,717	3.7	55.1	2,546	4.8	59.4
Manufacturing	2,910	6.3	24.8	3,394	6.4	28.3
Wholesale and Retail	2,974	6.4	49.0	4,387	8.3	50.0
Finance, Insurance and Real Estate	210[b]	0.5	15.8	310	0.6	15.8
Transportation and Communication	543[b]	1.2	17.5	516	1.0	17.5
Services	1,806	3.9	32.0	2,915	5.5	44.5
Total private sector employees	27,078	58.2	58.2	29,734	56.5	56.5

Notes: a Includes part-time workers
b Estimated by applying 1982 industry shares

Source: Prime Minister's Office, Statistics Bureau
1971 and 1982 Employment Status Survey

Table 2. Workers by Type of Organization and Scale of Enterprise, 1982 (thousands of persons)

		NUMBER OF WORKERS				
	Total	1-4	5- 29	30-99	100-999	over 1000
Private Sector Total	52,691	17,719	12,027	6,457	8,520	7,906
Unincorporated[a]	20,232	16,201	3,754	271		
Self-Employed	9,536[b]	8,931[b]	582	20		
Family Workers	5,869	5,243	613	11		
Employees	4,827	2,026	2,555	250		
Incorporated	28,656	1,305	7,597	5,509	7,432	6,796
Directors and Ordinary Employees	26,100	1,216	6,728	4,860	6,803	6,478
Temporary and Day Workers	2,556	89	868	649	629	318
Other Organizations	3,754	208	674	700	1,061	1,108
Government Service[c]	5,197					
Total Labor Force	57,888					

a: Unincorporated firms with 30 or more employees assumed to be in 30-99 category

b: includes 1,072 pieceworkers at home (841 in manufacturing and 231 in services)

c: Government service is not disaggregated by number of employees

Note: Items do not sum to totals because a few workers are not reported by enterprise size.

Source: Office of the Prime Minister, Statistics Bureau
1982 Employment Status Survey, Whole Japan, Table 4

Table 3. 1982 Private Sector Labor Force by Status, Industry, and Scale of Enterprise: Small Firms (thousand persons)

	1. 1-4	2. 5-9	3. 10-29	4.Subtotal 1-29	5.Subtotal 1-99	6. Total	4/6	5/6
All Industries	17,719	5,264	6,763	29,746	36,203	52,691	56.4 %	68.7 %
Agriculture and Forestry	4,930	146	54	5,130	5,163	5,264	97.5	98.1
Fisheries and Aquaculture	270	48	87	380	417	457	83.2	91.2
Mining	7	11	24	43	63	118	36.4	53.4
Construction	1,576	978	1,166	3,720	4,497	5,470	68.0	82.2
Manufacturing	2,521	1,157	2,069	5,638	7,880	14,255	39.6	55.2
Wholesale and Retail	4,990	1,729	1,725	8,444	9,828	12,886	65.5	76.3
Finance, Insurance and Real Estate	355	84	97	536	665	2,207	24.3	30.1
Transportation and Communication	220	112	367	699	1,185	3,576	19.5	33.1
Electricity, Gas, Water, Steam	0	0	2	2	11	347	0.6	3.2
Services	2,839	990	1,293	5,122	6,448	11,193	45.8	57.6

Source: Prime Minister's Office, Statistics Bureau
1982 Employment Status Survey, Whole Japan, Table 4

Note: Items do not sum to totals because a few workers are not reported by enterprise size.