



## The Keiretsu and the Japanese Economy

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"So, how do you like Japan, Mr. Binney?"

The scene: a party at the Sumitomo Bank back in 1984 for the new manager of Chase Manhattan's Tokyo branch where I was then working.



"I like it fine," he answered. "And the beer is great," he went on, glancing at the drink in his hand. "I just love Sapporo Beer."

Whoops. Most of us from Chase looked at the floor while our hosts tittered politely. Our manager should have said he enjoyed Asahi Beer, not Sapporo. Because Asahi was the Sumitomo group brewer and naturally the Sumitomo Bank served as the company's so-called "main bank". At that time, Sumitomo Bank was regularly seconding its own people to the then-troubled beer maker including two of its presidents.

Of course you can't expect fresh-off-the-plane *gaijin* to know about such distinctive features of Japanese business life as "main banks" and business groups – a.k.a. *guruppu gaisha* or *keiretsu*. But maybe our manager was right after all. Yoshiro Miwa and J. Mark Ramseyer would presumably say so. For they contend in *The Fable of the Keiretsu: Urban Legends of the Japanese Economy* (University of Chicago Press, 2006), that there "are no keiretsu and never were." (p. 37). Not only that, the notion of a "main bank" that steps in to assist troubled companies is a "myth"; moreover, "Japanese firms do not maintain a 'main bank system' and never did." (p. 157).

How is it that two generations of scholars – not to mention roomfuls of bankers – could be so deceived? Well, you see, most scholars of Japan in the West who can read Japanese are not trained economists or at least not the right kind of economist. Miwa and Ramseyer draw attention to the fact that they are political scientists (Ulrike Schaede/ Kent Calder/ Daniel Okimoto/ Chalmers Johnson), historians (John Dower/ Sheldon Garon/ William Lockwood), business or law school professors (Michael Gerlach/ Carl Kester/ Frank Upham/ Curtis Milhaupt) or even, heaven help us, sociologists (Ronald Dore/ Ezra Vogel). If they have the temerity to call themselves economists, they dabble with such dubious notions as RSI theory (Ronald Gilson) or "relationship banking" (Hugh Patrick). Meanwhile, few properly credentialed right-thinking Western economists read Japanese so they "repeated bizarre tales told by sociologists" rather than relying on "sophisticated financial studies." (p. 56)

Enter J. Mark Ramseyer, blessed with the ability to read Japanese — he spent his boyhood here — and an immunity to the anecdotal tale-spinning of sociologists and historians so sound it might be termed “robust” in certain circles, “goodthinkful” in others. We bankers may have been deluded with such “urban legends” as keiretsu and a powerful financial bureaucracy that could jerk the reins whenever it felt so inclined, but Mark Ramseyer knows better. Didn’t Isoda Ichiro, former chairman of the Sumitomo Bank, make precisely Ramseyer’s point in 1990 — that the Ministry of Finance did not have the legal power to boss Sumitomo Bank around? Of course he lost his job as a result while inspectors from the Ministry descended on the bank in droves and forced the severing of all links between Isoda and the bank— no *amakudari* (literally, “descent from heaven” or the practice of officials parachuting into lucrative post-retirement sinecures at affiliates or subsidiaries) post for him. But in Ramseyer’s Japan, *amakudari* hardly matters and anyone who feels miffed by bureaucrats can take them to court. (Ramseyer should break this news to the likes of Citigroup, which was forced to shut down its private banking business here three years ago when it ran afoul of bureaucratic directives.)

But what about Japanese economists? They surely can read Japanese? Yes, our authors concede, they can read, but alas, they are the products of social science departments where “Marxists ruled.” (p. 53) “At virtually all economics departments, (Marxists) at least framed the debates,” they go on to write. And thus we are told (p. 156) that “through the 1970s, Japanese economists were overwhelming Marxist.” We are reminded three pages later that “Until recently, most Japanese economists were Marxists.”

Uh-oh. That must explain why a whole roster of leading Japanese economists got things so wrong and why they are in need of Yoshiro Miwa to set them right. From Hoshi Takeo’s work on the evolution of the Japanese banking system to Horiuchi Akiyoshi’s studies of the effects of *amakudari* on bank regulation, Aoki Masaaki on those “mythical” main banks and Nakatani Iwao on the role of the banks in the keiretsu, we have the spectacle of an entire generation of economists devoting their working lives to the study of a “mirage,” a “fiction”, a “myth.” Of course implying that scholars such as Hoshi and Aoki are Marxists is a bit of a stretch — Hoshi has been awarded a prize from the *Nihon Keizai Shimbun*, Japan’s premiere — and resolutely non-Marxist — business and financial newspaper while Aoki recently retired from the Stanford economics department where Marxists did not rule.

“Know thy data!” Miwa and Ramseyer exhort Japan scholars and analysts (p. 160). And the authors have marshaled a fair amount of it to demonstrate that nothing much happens at the lunch clubs for presidents of leading keiretsu members. That companies with the likes of Sumitomo and Mitsubishi in their names do a lot of business with companies that do not share those names. That Toyota has no meaningful affiliation with the Mitsui group. That Marx-leaning Occupation officials overstated the role of the zaibatsu (pre-war antecedents of the *keiretsu*) in the pre-1945 Japanese economy and misunderstood their financing arrangements. That “main banks” do not willingly pour good money after bad to rescue troubled firms. That having outside directors does not necessarily improve Japanese corporate performance.

Little of this is new. Anyone who expects to work with Japanese institutions better learn fast that negotiations of substance do not take place at ceremonial encounters among titular leaders — among other things, that is why Japanese Cabinet meetings rarely last more than 15 minutes — and that a person’s title is a poor clue to real decision-making power. Many of the most successful names in Japanese business — Honda, Sony, Kyocera, Matsushita, Ito-Yokado come readily to mind in addition to Toyota — have nominal or no affiliation with a keiretsu. Great tension existed between the zaibatsu and the *kakushin kanryo* (“reform bureaucrats”) who tried to militarize the entire Japanese economy in the buildup to the war; and yes, the doctrinaire Marxists got the zaibatsu wrong. But this is all common knowledge now.

If this book doesn’t break new ground on Japan, why was it written? The authors concede their real purpose: “to explain how modern scholars have come to share the myths about Japan that they do” (p. ix). Or, to put it differently, they are doing battle on behalf of an ideology. Those “modern scholars” resisting the ideology’s demonstrable inroads into areas of the academy beyond its origins in neo-classical economics call it “economics imperialism.” Economics imperialism holds not only that free markets are an optimal way of organizing economies, but also that any meaningful account of economic and political reality has to start from the premise that individual human beings are rational, utility-maximizing decision makers. That history and culture-specific institutions do not really matter when considering economic life. And that “competition among profit-maximizing firms in decentralized markets” (p. 156) must be the default assumption in analyzing economic performance — particularly when the economy in question boasted a track record once labeled a “miracle”.

Modern Japan has always been awkward for those unwilling to accept that while utility maximization theory can be an important tool in understanding the behavior of people and institutions, it rarely tells the whole story. Modern Japanese history seems to provide particularly compelling examples of how institutions can co-opt for quite different ends the obvious penchant of people to exhibit utility maximization behavior: ends such as the fostering of a national industrial structure that reduces dependence on foreigners to a minimum, even at a significant cost in foregone consumption. But Miwa and Ramseyer will have none of it.

This helps explains why the authors are not content to argue — as many economists do today — that market-distorting features of the postwar Japanese economy eventually helped bring on the supposed stagnation of the last fifteen years. But rather why they are on a self-appointed mission to dynamite the entire established conceptual framework that two generations of scholars, analysts and business people on both sides of the Pacific have built up in an attempt to get a grip on the complex story that is modern Japanese economic history.

This is what leads them into contending that the very labels coined by the Japanese themselves — *guruppu gaisha*, *sangyo seisaku* (industrial policy), *gyosei shido* (administrative guidance) — for important economic institutions here are simply a kind of myth-spinning. It leads them into the palpable absurdity of denying the very existence of the dense network of formal and informal ties that bound Japanese economic entities to each other. Miwa and Ramseyer may both be meticulous scholars, but one wonders if they have ever encountered the words *yoshingendo shoryaku saki* (literally, “entities outside credit limits”), the term used informally within banks and trading companies for borrowers so well protected within the Japanese system that bankruptcy was considered unthinkable. Were they ever inside a bank office here when word reached the floor that inspectors from the Ministry of Finance or the Financial Supervisory Agency were on their way over? Where were they in July 2000 when the Sogo Department Store went bankrupt? When Nishimura Masao, the former president of the Industrial Bank of Japan (“IBJ”), testified in the Diet that the bank had known Sogo was insolvent since 1994 but that IBJ had continued to pour money down the black hole of its balance sheets? How do they interpret the enormous headlines in the Japanese papers on the day of the bankruptcy? If your ideology forces you to deny the very existence of “main banks” and of a political/bureaucratic nexus that provided protection for favored entities from “market forces”, what do you say when the protection proves too costly? When IBJ, the proud crown jewel of the Japanese financial system, is forced to dissolve itself through a merger because it can no longer do what a “main bank” is supposed to do? You make strident claims that the institutions that propped up Sogo up for so many years and led IBJ to act the way it did “do not exist and never did.” Because otherwise to get a grip on what happened you would have to cope with all those modes of inquiry from history, geography, anthropology, political philosophy — yes, even sociology and the likes of institutional economics — that your ideology has proclaimed “essentially bankrupt.” (p. 56)

This book has been extravagantly praised in circles that have long attempted to ignore or otherwise explain Japan away. But the very tone of that praise — and that the book was written — testify ultimately to the denial of the partisans of a reductionist ideology.

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