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**Coordination within Industry:
Output, Price, and Investment**

Firms and Industrial Organization in Japan (9)

by

Yoshiro Miwa

The University of Tokyo

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Yoshiro Miwa

University of Tokyo

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Yoshiro Miwa
Professor of Economics
The University of Tokyo

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[Any comment, advice, suggestion, and question is very welcome. But, please
not quote.]

10-1. Introduction

Evaluating the impact of a specific policy is not easy, no matter what its form. In most cases, as with taxes, subsidies, low-interest financing, and tariffs, it is clear what the policy function was (what was performed in the name of policy, namely, what instruments the policy employed and how the policy was operated). It is, however, extremely difficult to estimate the impact of a policy, i.e., to discern what condition would have resulted if the policy had not been undertaken, or if the form or extent of the policy had been different.

In the case of the focus of discussion in this chapter, coordination within industry of output, price, or investment (hereafter, "intraindustry coordination" or simply "coordination"),² it is neither clear what the policy function was, nor what was done in the name of policy. As an obvious consequence, there is almost no information available to understand what the impact of such actions was, so that the attempt to evaluate the effects

¹ This chapter is a revised version of chapter 10 of Miwa[1990]. The original was published in Japanese and adopted in English as chapter 18 of Komiya et als eds.[1988], to which, with permission, I owe heavily in writing this chapter.

² It is necessary to explain why the term intraindustry coordination (coordination within industry), which is hardly ever used, is employed in this chapter. In the literature on postwar Japanese industrial policy, the terms output coordination, price coordination, and capacity (investment) coordination appear frequently. These are applied to an extremely wide range of industries, and it seems that such policies are often thought of as being the model of industrial policy, or at least a representative form. I am applying to these as a whole the term intraindustry coordination and am analyzing them together in this chapter for three reasons. First, these all are often closely linked in practice and can be observed to play complementary roles. Second, all of them have the common characteristic that they seek to coordinate the mutual interests of the firms that comprise an industry. Third, though to a varying extent, there is a common feature in that the government often participates in a variety of ways, although its role may not be obvious and it may often participate for some particular purpose.

Thus in this chapter intraindustry coordination is used as a general term for the various patterns referred to as output, price, and capacity investment coordination. Whether or not each of these fits into this mold can be judged for each of the cases described in the following analysis. Instead of intraindustry coordination, the phrase intraindustry coordination policies could be used, but this analysis as a whole, and in particular Section 10-2, should serve as an explanation of why this has not been done.

of policy meets here with even greater difficulties.³⁴ An evaluation of the impact of a policy presupposes a knowledge of the real significance of government action. Because the use of such policies varied across time and by industry, one must be cautious about overgeneralizing the conclusions of this chapter. My opinion is, as mentioned in Chapter 8, that most of the studies publicized to date do not clearly specify the boundaries of what they mean by policy, so that there is a tendency to overestimate the role and impact of the government.

While there has recently been some change, intraindustry coordination, the focus of discussion of this chapter, has all along been considered as part of the core of industrial policy. Furthermore, the continual dispute over the suitability of specific coordination policies and what was the desirable relationship between such policies and the antimonopoly (antitrust) policy has been one of the most prolific debates over postwar industrial policy.⁵ It is also the case that the content of coordination cum industrial policy varied quite substantially from era to era and industry to industry. Again, it is true that "while a great number of fragmentary reports appeared at the time in newspapers and elsewhere, an overall picture of the system of industrial policy was seldom clearly

³ The specific reasons why it is difficult to distinguish the impact of policy may be illustrated, as I did in Section 8-6, by referring to the example of the list-price system (koukai hanbai seido, literally open [public] sale system) in the steel industry to be discussed in Section 10-3.

⁴ For example, Tsuruta[1982, p.186] states concerning the petrochemical industry that "when there is government intervention based on legal powers of compulsion, then the performance of the industrial organization helps directly in evaluating the effectiveness of the government intervention." However, it is not easy, for example, to judge the effectiveness of medical treatment by the course of a patient's illness following hospitalization, because a patient's demise may not imply that there were faults in his or her treatment. Hence this sort of reasoning cannot be thought appropriate. Even though there may be "legal powers of compulsion," they do not extend to all facets of a firm's behavior, and it is wrong to think that there are no restrictions on the use of this power. Again, policy is not able to handle all the factors that affect the "performance of the industrial organization." For example, when it became possible to procure low-cost oil, it was inconceivable that some policy response could have been used to forestall a worsening of performance in the coal mining industry.

⁵ As mentioned in Chapter 8, representative are the debates on the New-Industrial-Order and the failed Special Industry Law in the first half of 1960s, especially in 1962-1963, and the debate in 1968 arising from the merger of Yawata Steel and Fuji Steel.

presented to the public, including academics (Komiya[1975, p.308])". Therefore it is necessary to work on developing a methodology which can lead to some general conclusions about the effectiveness of coordination cum industrial policy.

In this chapter, keeping in mind the goal of deriving some general conclusions, the main focus of analysis will be the steel industry during the rapid growth era. For comparison, we will also take up the petroleum refining industry during roughly the same period. This selection was made for six reasons. (1) The steel industry during this period was representative of the industries in which a list-price system and capacity coordination were utilized, so that it can be regarded as a model case. (2) In discussions of the appropriateness of industrial policy (especially from the standpoint of policy on competition) the industry was also consistently a focus, so that information can be obtained comparatively easily. (3) The steel industry was a main target of industrial policy throughout the postwar period and was provided in particular with favorable tax and other treatment. The government, however, did not hold the same sort of strong powers over the industry as it did in the case of such industries as petroleum refining (detailed in Section 10-4) and petrochemicals. The industry is thus held to be close to the archetypical case of industrial policy carried out by means of administrative guidance. (4) During this period of progressive trade liberalization, the government lost its hold over industry stemming from the ability to allocate import licenses, it is also the period when the Antimonopoly Law was least influential. Because of these two elements, we can observe industrial policy carried out by means of administrative guidance in its purest form. (5) In order for the government to be able to effectively participate in making intraindustry coordination function meaningfully, one would presume that the industry would need to meet the four criteria below. These are the same criteria that make it possible to form a strong cartel. The steel industry met all of these: (a) the number of firms must be small; (b) the product must be undifferentiated; (c) production capacity must be readily expressed as a simple index, such as tons per month; and (d) the industry association must have a long tradition of carrying on a wide range of activities, with

intraindustry coordination carried out either by the association or through the association by the government. (6) As stated in the opening paragraph of Section 10-4, the findings derived from analyzing the steel industry prove useful in judging the situation in other industries.

My conclusion in this chapter on the overall evaluation of intraindustry coordination as a form of industrial policy is as follows: Intraindustry coordination in the form of coordination of output, pricing or investment has been consistently held to be an important part of industrial policy. However, in fact the government almost never was an active participant as part of its policy, or had through its participation a clear, direct impact on industry. Thereby, as policy it was ineffective.

Preliminary observations are made in Section 10-2, while Section 3 consists of case studies of the list-price system and investment coordination in the steel industry studied in the previous chapter. For comparison with the conclusions drawn in this section, Section 4 takes up output coordination in the petroleum refining industry. Section 5 examines the secondary effects of intraindustry coordination, and Section 6 presents overall conclusions.

10-2. Preliminary Observations

The debate still continues today among specialists on administrative law as to when government interventions require a basis in law, and in particular in which situations a legal basis is required for administrative guidance.⁶ Intraindustry coordination cum industrial policy, however, has almost without exception been carried out by means of administrative guidance for which there was no direct legal basis, and apparently without regard for the existence of this legal debate. For this reason, the "guidance" proffered has not been made public, and only limited records of

⁶ See, for example, Harada [1983].

it remain, so in most cases there is no way for outsiders to know what the content of the administrative guidance was.⁷

It is necessary to note that there are severe limits to the admissible range in which output, prices, or the level of investment can fall if they are taken as policy targets in MITI's administrative guidance given to individual firms or an industry association.

When administrative guidance is adhered to, or where firms follow such guidance, then the "quantity" chosen will be within the range of the policy function, so that the guidance and the actions of firms coincide. This needs indicate nothing more than that those doing the "guiding" are avoiding a situation in which those being guided will refuse the guidance, that is, choose a "quantity" outside the range of the policy function. And in the normal case, there was indeed prior negotiation between those doing the "guiding" and those being "guided" on the permissible range of options and the particular choice that should be made within that range. When the government has "power" because of, for example, its authority as the grantor of a variety of licenses, then this can be used as a lever to increase the operating range of policy. Even in this case, however, the use of such leverage has generally been held as undesirable, so that there are severe limitations to using such power.⁸

Before undertaking the discussion of specific cases in the following sections, we will look at an example of output coordination that is thought of as the most representative case of coordination. The main source quoted is a collection of documents compiled by the Administrative Management Agency. The example taken up below consists of reports from both the government and industry in connection with supply/demand forecasts drawn up for output coordination in the synthetic fiber industry. The system is explained as: "a supply/demand forecasting method which is a method of output coordination wherein the government indicates a production target,

⁷ Recall the comment of Kyogoku[1983, p.347] quoted in note 25 of Chapter 8.

⁸ Details of the argument are presented for the petroleum refining industry in Section 10-4.

and firmseach draw up their production plans with this target as a base, and then submit these to the government."⁹

The government in its report claimed that:

looking at the actual results, the target given by the government and the plans drawn up by firms did not differ by that much, so that this method proved effective. This was because...at the stage of drawing up the supply/demand forecast, discussions were held with the Supply-Demand Council of the industry association and because firms themselves were also intent on reducing production, as excess production would lead to their own demise (Ibid.).

Such explanations are inadequate when, as here, we have the aim of evaluating the effectiveness of policy.

Assuming that the above explanation of the reason "[they] did not differ by that much" is valid, then there can be no presumption that there would have been much difference in the behavior of firms or of the industry as a whole had the government not acted. Thus there is no reason to believe the evaluation that "this method proved effective." Regardless of whether there was in fact not much difference, it is above all necessary to make clear on the basis of facts what the role of the government was, of how the government acted when they were different, and the process by which it saw to it that there was not much difference.

Contact between the government (genkyoku)¹⁰ and firms in an industry in the case of administrative guidance was normally carried out through the industry association.

From the standpoint of the industry...the main function of the industry association was to convince the genkyoku...to adopt favorable policies. From the standpoint of the genkyoku, the function of the industry associa-

⁹ Administrative Management Agency [1981, p.105].

¹⁰ For "genkyoku" and the industry-government relationship, see the second part of Section 8-4.

tion and the firms of which it was comprised was to cooperate with the genkyoku in carrying out industrial policy, and to bring into line firms which were not well behaved or which voiced contrary opinions (Komiya [1975, p.311]).

The report of the government here states that "the industry association played an extremely important role in carrying out the administrative guidance of MITI" (Administrative Management Agency [1981, p.107]).

There is no detailed statement of the purpose of "output adjustment" in the report. The government was not acting in its policy role with some clear goal of its own, but was, rather attempting to prevent what was thought of as excess production and excessive competition by most firms and the government. It seems that both firms and the government held such goals as axiomatic. The definition of these conditions, however, was not always made clear, and so one cannot presume that there was a consensus among the firms involved, or among firms and the government. Furthermore, there is no reason to presume that this had always to be the primary goal.¹¹

In the reporting of the government side, the first point raised in the evaluation of administrative guidance was that "it cannot be implemented when there is no agreement or acquiescence by the other party," while from the side of the industry, the primary merit of administrative guidance was that "the government was effective as a fair and authoritative mediator," giving a frank view of the role of the government in output coordination. If one adds to this the statement by the government that the primary "point about which administrators must take care...is to never cause balance to be lost in the overall situation," the following picture of the government role can be drawn (Ibid, pp.110 and 113).

A role for the government in output adjustment arises when there is a difference in intentions among firms, so that if matters are left to themselves there can be the presumption that the situation will deteriorate into excess production. Even in this case, there is no guarantee that the

¹¹ Ibid, pp. 105 and 109. This situation reflects the nature of output coordination and the role of the government therein. Section 10-6 also touches on this point.

government will always be successful in fulfilling its role of a fair and authoritative mediator and be able to work on firms to obtain their acquiescence and agreement. In order to be successful, a minimum condition is to "never cause balance to be lost in the overall situation." The government does not have much of a free hand in carrying out the above role.

The report claims that firms acceded to administrative guidance, and argues why that was the case, but one must note that this is only with "guidance" of the nature depicted above.

10-3. The Coordination in the Steel Industry

The Coordination of Output and Price

The list-price system in the steel industry is held up as an archetype of "output adjustment" and "price adjustment." Drawing from a history of antimonopoly policy, the outline of the system was as follows:¹²

(1) On the basis of MITI production targets, each firm reported its expected sales for each month by product to MITI. (2) Each manufacturer was to sell its steel products at the same time at a fixed location, agreeing with wholesalers on the amounts to be purchased. Each firm was to carry out sales at the "list price" that it had previously reported to MITI. (3) After reaching agreement with its wholesalers, each manufacturer was to report by product the quantity contracted with each wholesaler and to publish its aggregate sales, together with amounts left unsold. (4) Manufacturers were to have a designated wholesaler for each product and were to make sales only through that wholesaler. (5) If there were unsold products, then they were to be bought up by a sufficiently strong wholesaler at a predetermined price, and unsold amounts were to provide a basis for determining decreases in production for the following month. (6) MITI would take appropriate steps against manufacturers who went against

¹² Fair Trade Commission (FTC)[1977, p.99].

MITI guidance as to production limits and appropriate pricing. (7) Each manufacturer was to deliver to MITI a written promise by the president of the company that it would abide by an "Outline of Steel Market Measures" with the above content. For monitoring purposes, a designated monitoring committee was also to be established.

This list-price system has been referred to as both a "steel pricing system"¹³ and an "administrative guidance cartel."¹⁴ For our purpose of taking up this industrial policy as an archetypical case and trying to evaluate the extent of its effectiveness, the above description is inadequate. It is necessary to carefully weigh what actual government action (here, the policies of the genkyoku, MITI) consisted of, and what the government's influence was. The above explanation gives the impression that MITI had a controlling voice or something close to it, and that it had a strong impact as a policy organ. Our conclusion, however, is totally at variance with this.

There are many items that need to be questioned to arrive at a clear understanding of the reality of the list-price system, but for our purposes the following two are particularly important: (1) who determined the specific content of the production limits and appropriate prices to be administered by MITI and how were they determined? (2) what was the content of the steps in the "appropriate steps" MITI would take against manufacturers that violated these limits? were such steps ever used in practice?

Let us first look at query (1). The period in which the list-price system was said to have functioned was not very long (from June 1958 to December 1962),¹⁵ but even during this period the system was modified many times. The "Outline of Steel Market Measures" referred to in item (7) above was circulated from MITI to the industry association (the Japan Iron

¹³ Imai[1976, p.154].

¹⁴ Uekusa[1982, p.209].

¹⁵ As mentioned in Section 8-4, the system remained till June 1991 when it was finally abolished.

and Steel Federation) on July 25, 1960. According to the de facto leader of the list-price system, the Chairman of the General Affairs Subcommittee of the Public Sale ("list-price") Committee, Yoshihiro Inayama, "if this system is adopted, then unlike in the past, we can be confident that we can actually count on achieving stable steel prices."¹⁶ Thus, with this, the list-price system would become a much stronger set of measures for output and price coordination.

The method was one of "at base self-coordination" where MITI would devise "ceiling and floor prices" and would use administrative guidance toward any firm that went over the ceiling in its submitted price list, suggesting that it not be exceeded, and would similarly offer guidance that "if prices are less than the floor, it is permissible to coordinate output." The ceiling price was to be "the price currently listed by manufacturers," while the floor price was to be that price "less ¥2,000 - ¥4,000" per ton, but "if the production cost has risen or fallen markedly, then the ceiling and floor prices are to be adjusted immediately." Furthermore, "when the list price was to be maintained, or the Subcommittee was to carry out an output coordination, then when the figures were filed with MITI, it would in turn transmit the output target to each firm. We would have to submit a written promise that we would in all cases adhere to the quantity" (Ibid, pp.206-207).

If in addition the following quote is considered, then the answer to our first query should be clear. "Until now output coordination has not been permitted, but this time it will be openly permitted, if the listed price falls below the floor price.... We have thus been able to some extent

¹⁶ Shin Nippon Seitetsu[1970, p.205]. This volume is a compilation of the main sections of the Eigyō Junpo (Ten-Day Operations Report) for the years 1959-1962. I expect that there will be objections to using this source as the primary material for judging the actual functioning of the list-price system. I feel though that this material is relevant for the following three reasons: (1) this firm was always regarded as the leader of the industry, and was furthermore a continually enthusiastic leader of the list-price system; (2) these materials were drawn up for firms with which they had a long-term business relationship, so that one would imagine them to be frank; (3) this period was referred to as one in which the Antimonopoly Law was in hibernation, and so one would presume that the opinions expressed in it are not biased by the existence of the Antimonopoly Law or any concern with public opinion in support of the law.

to realize the measures for steel price maintenance which we had desired in the past."¹⁷

The output limits and appropriate prices to be administered by MITI were not in fact decided by MITI on the basis of some sort of standard, but were determined by the manufacturers (who were to be "guided"!) prior to any actual "guidance" incorporating floor price restrictions. At least from this standpoint, it cannot be held that MITI played any active policy role.

If there was some sort of policy role for MITI, it would have been to prevent the appearance of manufacturers who did not adhere to the "output limits or appropriate prices," or to actively intervene to change such behavior when it appeared. From this standpoint we can now answer query (2); the reality of the appropriate steps that MITI would take against manufacturers that violated MITI guidance was made clear in 1962.

When looked at from the standpoint of output and price coordination, the real function of the list-price system would be called into play only when the growth in demand slowed or was expected to slow, so that excess capacity arose or was predicted to arise. The start of the list-price system coincided with the starting point of the "Iwato Boom," June 1958, and the economy continued to expand extremely rapidly until July 1961, when with an increase in the discount rate a period of tight money commenced. The phrase "investment calling forth more investment" became the catch phrase of this growth period, and the rate of increase in demand for steel products far surpassed that foreseen even by optimists.¹⁸

Initially, the system was invented as an alternative to a recession cartel;¹⁹ helped by the situation of expanding domestic demand and the

¹⁷ Ibid, p. 207. This statement is from a summary explanation by Inayama at the July 26th meeting of the Public Sale ("list price") Committee. See page 215 for the evaluation of the system by trading firms/wholesalers and steel consumers. See page 69 for the determination of prices before the change in the system.

¹⁸ Recall the figures in Table 9-1.

¹⁹ Mr. Inayama, then Managing Director of Yawata Steel, stated at the 20 January 1959 Futures Committee meeting that "although there is such a thing as a recession cartel, the fact of the matter is that we are carrying out the list-price system under administrative guidance, without bothering to request approval of a recession cartel" (Ibid, p. 26).

steel strike in the United States, the system "achieved its goals with great success" (Ibid, p.26).

The situation changed drastically, however, with the onset of tight money. In mid-1961, in the market for sheet and coil, where there continued to be rapid expansion of capacity, prices fell substantially below list prices, giving rise to discontent. Furthermore, "the steel market was facing its greatest crisis since the institution of the list-price system, and price for plates, which was the last to hold to the list price, fell below it in December, and from then on the situation became serious, with no hint of recovery."²⁰

Then, during the July-September quarter, there was an attempt to revive the market, which was strengthened from October. These attempts, however, had no discernible impact; the list-price system had effectively collapsed, and a request was made for permission to form that which had been avoided all along, a recession cartel. What calls for our attention is the functioning of the list-price system during this progression. What is notable throughout this progression is the plaintive wailing that measures whose implementation had been promised were not being implemented. These complaints became obvious from the end of 1961, but the following is a particularly straightforward statement of the reasons why the series of market measures had failed.

I think many points can be raised concerning the reason for failure of the market measures which have been drawn up with so much effort by the individual manufacturers. In fact, while it is embarrassing for me to say this, I think one of the most important reasons is that the measures which were supposed to be implemented were not put into effect according to plan.²¹

²⁰ Ibid, p.433, for 20 April 1962.

²¹ This is a portion of the statement by Mr. Abe, Director of the Sales Division of Yawata Steel, at the 24 October 1962 meeting of the Futures Committee.

There is absolutely no indication that MITI made any active attempt to correct this situation.

With the passage of time, market conditions worsened, and a series of market measures were taken while "one should say that the list-price system...is not so much on the verge of falling apart as having already collapsed."²² The first of these was in the July-September quarter, when steel ingot production was to be reduced by 20% from the level of the third quarter of the previous year, with "open hearth furnaces being sealed on the 17th and 18th of July." The second was that all the production of the manufacturers other than the 10 blast furnace firms was to be bought up by wholesalers.²³ In addition to these two pillars of the policy, on-site inspectors were to be sent.

In the April 24th report of the List-Price Committee, there is the statement that "MITI engaged in administrative guidance to see, retroactive to January, that there was strict adherence to the targets for plates and medium shapes production, and the Output Reduction Monitoring Committee began to monitor the output of each factory" (Ibid, p.435). It was only in July, however, that it was reported that "from the 23rd on-site inspectors have been sent to each factory, to monitor the reduction of production of plates, medium shapes, and wire rods" (Ibid, p.469). The judgment was rendered at the end of October that, due to the market measures "it appeared at one time, from the end of June through the beginning of July, that the market was recovering, but thereafter the market failed to pick up

²² This is a portion of the statement by Mr. Inayama at the Public Sale ("list price") Committee meeting of 25 May 1962.

²³ Concerning the aim of this, Mr. Inayama, the Chairman of the General Affairs Subcommittee, stated that, "If this is done, then because it is accompanied by financing for the full quantity of the products, there is of course no need to discount heavily. Until now, it was feared that the method of buying up unsold steel would lead to under-the-counter sales and the sales of many cheap products, along with it being very difficult to monitor. From now on, however, if all steel, including secondary products, are bought up by a specified trading firm/wholesaler, then not a single item will leave the factory" (ibid, p.448).

at all, and recently efforts to undersell at very low prices have become rampant."²⁴

In all this the following two points should be noted. First, there is no trace to indicate that MITI was an active participant in the process of continually debating and implementing market measures.²⁵ Second, as noted for the reduction in ingot production, "there was the fear that, when it came to reducing ingot production, monitoring would be very easy, and with each manufacturer considering its own interests, nothing has to this date been done" (Ibid, p.448). I believe this statement is symbolic of the nature of the list-price system, but what is important for our purposes is that even in this there is no evidence of MITI taking an active hand. The list-price system was not applied to all products, and there were also outsiders who did not participate. There is no evidence that MITI took an active hand even in changing this situation. In other words, not only was there no effective policy for strengthening output and price coordination, there is no evidence that the government even attempted an active role in this direction.²⁶

It was stated that MITI would take appropriate action against manufacturers that violated the system, but in spite of there having been a stream of violations (by, in fact, all manufacturers), there is no evidence that any action was ever taken, nor even any evidence of suggestions that action be taken.

As a result of the above review, we are led to the conclusion that the government did not play a role or have a substantial direct influence

²⁴ Ibid, p.503. In this period, the "proportional decrease in ingot production will be increased by 5 percentage points...and at the same time the product-specific output reduction system will be strengthened...with heavy and medium plates output to be cut by 40% from the base level of January of this year." Ibid, p.491.

²⁵ The monitoring system consisted of "industry members sending people to each other to monitor production" (ibid., p.518).

²⁶ Recall that it was stated in Section 10-2 that "furthermore, there is no reason to presume that this had always to be the primary goal." Here we do not consider the issue of whether MITI considered this to be desirable, or whether it had that sort of power.

on output and price coordination within the framework of the list-price system. In evaluating intraindustry coordination cum industrial policy, our conclusion must be that it was ineffective in the case of the list-price system in the steel industry.

The Coordination of Investment

The situation describing the role and effect of government action in connection with the list-price system holds even more clearly in the case of investment coordination in the steel industry which we studied closely in the previous chapter. In this case, the government not only took no active role (there was nothing that could be called policy), the various items referred to by investment coordination did not have in any direct way a clear impact on the investment behavior of the firms that were involved.

In the history of investment coordination, whose beginning was in December 1959, the two years where it foundered most were FY 1960 and FY 1965. For our purposes, it is sufficient merely to quote again the view of Mr. Tokunaga, who was involved on the outcome of the latter and also observed the FY 1967 coordination process.²⁷ It can be viewed as an evaluation of the entire history of investment coordination²⁸:

The final outcome of the FY 1967 steel industry investment coordination, the result of roughly a half year's discussion, was that in effect each firm's plans would be approved in full, for both steel making and milling

²⁷ Tokunaga [1967, p. 58]. It was already quoted in Section 9-2. Hisatsugu Tokunaga was at the time a Managing Director of Fuji Steel and was a former Administrative Vice-minister of MITI. For a view of the outcome of the FY 1960 coordination, recall the evaluation by Mr. Inayama, quoted in Section 9-4.

²⁸ In contrast to this sort of view, some would mention that the Sumikin (Sumitomo Metals) Incident arose over the way in which output coordination was handled in 1965, but I do not feel it is relevant. There was a time lapse between the decisions on capacity investment coordination and the occurrence of the Sumikin Incident, and even the closing off of the allocation of import licenses for bunker coal was not sufficient to force output coordination (see Section 9-3 above). In view of how we saw industrial policy to be carried out in Section 10-2, the Sumikin Incident is an example of the failure of industrial policy, and this incident sheds light not on what the government could do, but can rather be viewed as useful in judging what the government could not do.

facilities. This was virtually the same outcome as that of the autonomous coordination which took place in FY 1965 and 1966, so that it can be seen how difficult it was if only those involved tried to coordinate on their own to achieve that which would be seen as desirable from the standpoint of the national economy.

10-4. Output Coordination in Petroleum Refining

As has been seen thus far, at least in the case of the steel industry during the rapid growth era, we do not believe that the government was actively involved in intraindustry coordination, whether it was of output, prices, or investment, nor do we feel that it had any notable influence. The goal of this section is to attempt a generalization of our evaluation of intraindustry coordination cum industrial policy, by examining or inferring the situation in other industries, with the case of the steel industry as a base for comparison.

The reasons why the steel industry during the rapid growth era was chosen as the main focus of analysis have already been set forth in Section 10-1. Here we want to be reminded of the fifth of those reasons, which was that for intraindustry coordination to be effective an industry had to meet four conditions, and the steel industry met all of these conditions. Considering at the same time both this and the conclusions reached in the previous sections, the following reasoning is not that forced.

Of the four conditions (a) through (d), if any one of them is not met, then even more than in the case of the steel industry, successful coordination is unlikely. In this case, the role that the government could play will be even more limited, and in such an industry it is inconceivable that government participation will be more positive and have greater influence. Most industries would be thought to fall into this category.

The next point is to ask, when these four conditions have been met, what additional conditions must at the same time be fulfilled in order for coordination cum industrial policy to be evaluated as having been different from that of the steel industry. While such conditions cannot be comprehensively examined, probably no one would dispute that the representative

situation is one in which, for at least one of output, price, and investment coordination, the government is expected to do the coordination and has been given power to do so. Here we will take up petroleum refining under the Petroleum Industry Law as a typical case in which these conditions are met, and we will examine what intraindustry coordination consisted of, and in what way the government was active in this, keeping the case of the steel industry in mind for comparison.

From 1962 petroleum refining fell under the Petroleum Industry Law, and "the industry had the striking distinction" that there was strong government intervention in output, pricing, and investment. The course of enactment and implementation of the law teaches us many things, as the law was intended to allow "to the minimum extent required coordination of the activities of firms in the industry, as with the liberalization of petroleum imports it is expected that the petroleum market will be in disarray" (Tanaka[1980, pp.19 and 28]).

The first point to be noted is that, in the process of enactment of the Petroleum Industry Law, there was strong criticism of direct intervention by the government. Initially, to the "Outline of the Petroleum Industry Bill" made public in December 1961, "there was a strong outcry because of its overly strong control coloration," so that the Petroleum Industry Bill submitted to the Diet in March of the next year had been substantially revised.²⁹ In the debate in the Commerce and Industry Committee of the House of Representatives, Director-General Kawade of the MITI Mining Bureau testified concerning the drawing up of petroleum supply plans under Section 3 of the Bill:

The petroleum supply plan will be a guide for the activity of firms, but it is possible that the sum of individual firm production plans will substantially exceed the overall plan target. However, we are not thinking of

²⁹ Ibid, p.23. For the details of this, see pp.22-23.

automatically notifying each firm of the excess and asking them to reduce output accordingly.³⁰

He also testified (concerning Section 15 of the Bill) that the notification of standard prices "will be done to appeal to the social responsibility of firms as a psychological measure, and will not be legally binding" (Ibid.). Finally, on the permit for new facilities (Section 7), which in the later implementation of the Law would be used as the strongest lever for achieving conformance with MITI's intentions, he testified that "they will be licensed in accordance with the Law, and we are saying that we will issue a license whenever these three basic conditions are met. We think it is unfair to use this as a means to obtain revenge for some unrelated matter," a famous statement expressing the essence of administrative guidance.³¹

The actual implementation of the Law was at variance with the explanation of the aim of the bill. This testimony, however, provides a frank indication of the situation that government intervention faced at that time, when direct intervention by the government in the actions of individual firms was strongly criticized. This gives us an understanding of the strong restrictions placed on MITI policy.³²

The second point we want to note is that, at least formally, the method of output coordination in the industry, even under the Petroleum Industry Law, barely differed from that of the steel industry. MITI requested the cooperation of the Demand Specialists Committee of the Petroleum Association of Japan in January and February of each year, to

³⁰ Ibid, p.29. This is according to Section 10 of the Petroleum Industry Law.

³¹ Ibid, p.29. This standard is set forth in Section 6 of the Law.

³² Later, in the summer of 1962, the Industrial Structure Committee made known its basic line of thinking on the New-Industrial-Order, which was the successor to the proposed Special Industries Law. It should be noted that there were two main points in the criticism by industry of the Special Industries Law. First, it was feared that the restrictions on the freedom of industrial activity that the law would impose would open the way to a system of bureaucratic control. Second, it was feared that, if anything, the setting of promotion standards in line with bureaucratic-type thinking and restrictions on firm activities would lead to a weakening of competitive strength. This draws from Tsuruta[1976, pp.442-443].

draw up the Demand Forecast, which formed the basis for the Petroleum Supply and Demand Plan, which in turn underlay the Petroleum Supply Plan required under Section 3 of the Petroleum Industry Law.³³ According to the Fair Trade Commission "the Petroleum Supply Plan...only indicates the planned volumes which MITI feels desirable for the country as a whole, and does not indicate production levels for each individual petroleum refiner."³⁴

For example, for the publication of the Petroleum Supply Plan for the second half of FY 1962, the first plan following the enactment of the Petroleum Industry Law, MITI had each firm submit its plans for the second half of FY 1962 to the Petroleum Association of Japan as a way of probing the direction the industry was taking. This was done prior to the registration of production plans by the refiners, which was required by the Law. The total amount of crude oil required, however, was 25 percent more than that of the Supply Plan, so after consulting with the Petroleum Council, MITI made a request for output coordination to the Petroleum Association of Japan (Ibid, p. 212).

The third item to be noted is that under the industry law for this industry the content of government participation differed from that in other industries when its requests to the industry association for output coordination did not succeed. In the case of this industry, "in order to obtain 'voluntary' cooperation through 'self-coordinating' discussion among industry members, MITI in fact had to use forceful guidance or direct intervention. Such administrative guidance functioned successfully because in the background MITI held power to license investment and to issue a formal request for a change in production plans" (Ibid, p.211). At the time of the above coordination for the second half of FY 1962, "there was disagreement among those in the industry on the standard for coordination,

³³ Fair Trade Commission[1983, p.205]. See the next note on this source .

³⁴ Ibid, p.210. This source is a compilation of the series of Tokyo High Court decisions during 1980-1981 on the so-called Petroleum Cartel Case. This is used here because it includes the 26 September, 1980 decision on the Petroleum Association of Japan and two others in the Output Coordination Case.

and developing it was not easy. At that point MITI through administrative guidance pushed for self-coordination, obtained the approval of the Petroleum Association of Japan for a standard, and pressed for output coordination on this basis."³⁵ It is doubtful that this could have been done without the power described above.

For the second half of FY 1963, the previous standard was maintained: "Idemitsu Kosan and Daikyo Oil, which had expressed displeasure with output coordination from the start, opposed carrying it out, but under strong guidance from MITI the Petroleum Association of Japan...decided upon output coordination." In response, Idemitsu Kosan:

was unhappy because it would not be able to adequately utilize its newly completed facilities, and so it did not go along with output coordination and instead went ahead with its own production plans. It did not respond to the efforts of the Petroleum Association to persuade it to conform, and on November 12th gave notice that it was quitting the Petroleum Association (Ibid, pp.213-214).

This is the so-called Idemitsu Incident. MITI officials and the Chairman of the Petroleum Council tried to persuade Idemitsu to cooperate in output coordination, but Idemitsu refused. Then, in January, "Idemitsu finally began to move when MITI indicated that it had decided to issue a formal warning as provided for by the Petroleum Industry Law." In a meeting on January 25th between the Minister of MITI, the Chairman of the Petroleum Council, and the President of Idemitsu, it was decided to adopt a compromise plan that took into account some of Idemitsu's demands, such as that in the future output coordination would cease,³⁶ and that for January through September 1964 a new standard would be adopted that provided for greater output by Idemitsu. To this Idemitsu acceded.

³⁵ Ibid, p.211. On page 212 it is stated that this standard "was based on a composite index, with weights of one-third each of the market share of fuel oil sales, the share of all imported oil processed for domestic consumption and the current share in total average capacity."

³⁶ It ceased in the second half of FY 1966, Ibid, p.217.

The fourth point we wish to note is that, as can be seen above, even when the government had "power," it was not a simple matter to make output coordination function effectively or to maintain the system.

The fifth item we want to note is that output coordination took place with "strong guidance and direct intervention" by MITI, while at the same time, even though standard prices were posted "in order to improve the market for petroleum products," these efforts were successful neither in improving nor in maintaining market conditions.³⁷ A straightforward description of the situation at this time comes from an interview--itself unusual--on 1 April 1964 with Minister Hajime Fukuda of MITI.

The most regrettable thing is that, even though for example output coordination is being carried out under administrative guidance as part of the implementation of the Petroleum Industry Law, there has been much haggling and posturing among the firms, and there is a lack of any semblance of cooperation in seeking stability for the petroleum industry as a whole. This has led to delays in and violations of output coordination, and I believe has resulted in the loss of the anticipated benefits. At this time I am strongly demanding a change in heart by each member of the industry, to cooperate as one in eliminating the excessive competition which stems from an excessive concern with market share. I am calling for renewed resolve in adhering strictly to output coordination and posted prices, so that the petroleum industry will carry out its social responsibilities in full (Ibid, pp. 216).

Let us now summarize with five points the information relevant here for generalizing our initial evaluation to intraindustry coordination in general, the aim of this section. (1) Whether it related to output, prices, or investment, there was severe criticism of government intervention in the activities of individual firms. (2) Even when the government was provided with strong "powers," "self-coordination" was normally chosen as the basic approach. (3) Only when "self-coordination" did not function well did

³⁷ This was done from November 1962 through February 1966.

government participation commence. In order for such participation to be influential, some sort of power was needed for leverage. Furthermore, there had to be a consensus that the use of such power toward the object of the government's participation was proper. (4) In order for government participation to achieve its goals, active cooperation by the relevant firms was essential, and so it was necessary to set forth the principles underlying the government's actions and obtain the agreement of firms to these principles. In this sense, the room for discretion by the government in its use of "power" was not wide. (5) Even when the government used its power to participate in coordination, it was not easy to actually attain its goals.

In jointly considering the conclusions of our discussion above on output coordination in the petroleum refining industry, the results of the discussion of the steel industry in the preceding section and the conclusion drawn at the outset of this section, that in most industries the government was neither an active participant in coordination, nor had great influence, we are led without forcing matters to the following generalization about how intraindustry coordination in its various forms should be evaluated: Intraindustry coordination in the form of coordination of output, pricing or investment has been consistently held to be an important part of industrial policy. However, in fact the government almost never was an active participant as part of its policy, or had through its participation a clear, direct impact on industry.

10-5. Secondary Effects

In the previous section, the conclusion was qualified by the word direct. This is because the conclusion does not take into account that when, as happens in either output, price, or investment coordination, a situation continues in which there are regular meetings and the exchange of all sorts of information with the government and among rival firms, then it can be presumed that there are important influences on the behavior of firms. If one requires that evaluating the impact of coordination cum industrial policy encompass such influences, then the impact might not be small, and

the government can perhaps be regarded as an active participant in that its presence gave rise to the necessity of holding meetings.³⁸ This influence took many forms, but one can suspect that in almost no case was this foreseen by even the responsible government officials. The two main points to be noted are as follows.

First, in the history of intraindustry coordination, one can often think of firms that spoke out against coordination.³⁹ When, however, there is a lengthy history of industry association activity, where "coordination" has served as a forum for meetings over time with rival firms along with the government, then it would require resolve to face severe criticism by rival firms and government officials to speak out against coordination, and to make plans public that would result in coordination becoming more difficult. Thus one might presume that the actions of each firm would be heavily influenced by coordination. One might think that the extent of such influence would increase with the length of time over which there had been coordination and the degree to which it had taken root.⁴⁰ When rival firms confer regularly, and exchange their opinions on the direction markets are currently moving, on future demand expectations, and on future capacity and the like, and discuss the necessary responses, then one need hardly stress again that this will influence the behavior of each firm, and hence influence supply and demand conditions in the industry as a whole.

Second, when rival firms confer with each other or with the government on a regular basis, the information exchanged is not limited that specifi-

³⁸ It is undoubtedly wrong to assume, however, that without government participation in this fashion, such meetings would not have been held or continued. To claim this would be to overrate the effectiveness of policy.

³⁹ For example, in the 1960s there were Idemitsu Kosan, Nisshin Spinning, and Sumitomo Metal Industries and more recently Tokyo Steel Mfg.

⁴⁰ The report of the government discussed in Section 10-2 states that one of the reasons that firms followed administrative guidance was because "Japanese firms are organized into associations industry by industry, and it is difficult for them to act as outsiders. Larger firms in particular are strongly aware that they comprise an industry, and dislike threatening their own foundation by upsetting the order within their industry" (Administrative Management Agency[1981, p.107]).

cally to intraindustry coordination. One can thus find the following very favorable evaluation:

The issues with which industry is currently faced are jointly examined, and information is exchanged on new technologies and domestic and foreign markets...so that it cannot be denied that these fora have been an extremely effective measure for collecting and exchanging and transmitting information about industry...In sum if one thinks of this as a system for the exchange of information, then...it may well have been one important cause underlying the high growth rate of postwar Japanese industry (Komiya[1975, p.324]).

The above effects or influences should perhaps be treated as by-products or side effects, but to the extent that they are emphasized, then it is likely that a difference of opinion will arise regarding the evaluation of intraindustry coordination.⁴¹

The attitude of people in general to this sort of industry association activity and to the relationship between the government and business stems in great part from the tradition since the Meiji Restoration of a "strong" central government and to the influence of the wide-ranging economic controls that were present during and immediately after World War II.⁴² Accordingly, even in intraindustry coordination cum industrial policy had taken a different form or not occurred at all, there must have been effects such as mentioned above. It is for this reason that such effects are not taken up as positive features of intraindustry coordination cum industrial policy in this chapter.

10-6. Policy Evaluation and Related Points

⁴¹ In particular, the situation described in the first point, particularly in the second half of the paragraph, had a deleterious effect on the maintenance and furthering of competition, and so this can serve as a basis for judging that "coordination" itself is undesirable.

⁴² See Komiya[1975, pp.327-28].

Our conclusions when intraindustry coordination is analyzed as a form of industrial policy are as follows.

It is claimed that intraindustry coordination cum industrial policy was used in many industries. In almost all cases, however, government participation had almost no discernible impact, no matter what standard of evaluation is used. At base, then, our overall evaluation is that as policy it was ineffective.

There are two important observations related to this. First, the exceptional case of the petroleum refining industry, where the government was given strong powers, provided useful material for the anticipated conclusion that in such a case it was significantly more feasible to carry out intraindustry coordination cum industrial policy. But with the above conclusion that in the petroleum refining case intraindustry coordination was not always effective, it is said that to the de facto policy guidelines (put into place after the Petroleum Industry Law was implemented) "were added to the effect that there should be consideration given to small private firms independent of foreign capital, which expressed in a direct way the exceptional nature of the industry law so that claims for consistency as industrial policy are extremely dubious."⁴³

Second, what should we learn from the lively debate that developed over the appropriateness of the goals of industrial policy, and particularly of intraindustry coordination? The elimination of excessive competition, "the strengthening of international competitiveness, the promotion of exports, the improvement of the balance of payments, the development and modernization of the domestic industrial structure," obtaining a stable supply of basic natural resources, and other "extremely generalized slogans" were all stressed as goals or justifications of industrial policy. However, the nature of these was such that "for each industry and genkyoku, what was important was that, in short, favorable measures be provided to the industry. If something was useful in persuading the relevant parties, it would be used as needed with the addition as appropriate of any reason or excuse" (Komiya[1975, p.322]). If attention is paid to this, then it can

⁴³ Tanaka[1980, P.34 and p.37].

readily be understood why there was no resolution to the debate over the appropriateness of goals, and why the same debate was repeated time and again. As the "goal" was to "persuade the relevant parties," then it need not be presumed that there was any consensus among firms or an industry and the genkyoku. It is possible that there was not even any coordination of actual opinions as to the goals.