4-29-2004

The Fable of the Keiretsu, and Other Tales of Japan We Wish Were True

Yoshiro Miwa

J. Mark Ramseyer
Harvard Law School

Follow this and additional works at: http://lsr.nellco.org/harvard_olin

Part of the Law and Economics Commons

Recommended Citation
http://lsr.nellco.org/harvard_olin/471

This Article is brought to you for free and open access by the Harvard Law School at NELLCO Legal Scholarship Repository. It has been accepted for inclusion in Harvard Law School John M. Olin Center for Law, Economics and Business Discussion Paper Series by an authorized administrator of NELLCO Legal Scholarship Repository. For more information, please contact tracy.thompson@nellco.org.
THE FABLE OF THE KEIRETSU,
AND OTHER TALES OF JAPAN
WE WISH WERE TRUE

Yoshiro Miwa
J. Mark Ramseyer

Discussion Paper No. 471
04/2004

Harvard Law School
Cambridge, MA 02138

This paper can be downloaded without charge from:
The Harvard John M. Olin Discussion Paper Series:
http://www.law.harvard.edu/programs/olin_center/

The Social Science Research Network Electronic Paper Collection:
http://papers.ssrn.com/abstract_id=#######

This paper is also a discussion paper of the
John M. Olin Center's Program on Corporate Governance
**Abstract:** Most of what we collectively think we know about the Japanese economy is urban legend. In fact --

* The **keiretsu** do not exist, and never did. An entrepreneurial “research institute” in the 1950s created the rosters to sell to Marxist economists looking for the “monopoly capital” that their theory told them would dominate their “bourgeois capitalist” world. Western scholars hoping for examples of culture-specific forms of economic organization then brought them back to the U.S.

* The **zaibatsu** did not succeed pre-war because they bought politicians, exploited the poor, or manipulated disfunctional capital markets. They succeeded for all the usual varied reasons a few firms succeed in any modern economy. They acquired the (perjorative) **zaibatsu** label because they happened to be thriving when muckraking journalists in the 1920s and 30s came looking for someone to blame for the depression.

* Japanese firms have no “main bank system,” and never did. Economists popularized the idea as an anecdote on which to peg their mathematical models, and non-economists use it (like the **keiretsu**) as yet another putatively culture-bound economic phenomenon.

* Japanese firms are neither short of outside directors nor badly governed. The charges simply represent yet another variant on populist journalism. Like firms in other competitive capitalist countries, Japanese firms survive only if they adopt governance mechanisms appropriate to the markets within which they must compete.

* The Japanese government never seriously guided or intervened in the Japanese economy. When the economy boomed, politicians and bureaucrats did take credit. They had created the success through their own farseighted leadership, they claimed. Marxist scholars dominated Japanese social science departments, and they were not about to suggest instead that market competition might account for the success. Happy as they were to find an example of successful government intervention, neither were most Western scholars of Japan.

[Copies of the complete manuscript are available from Ramseyer, at the address above.]
Table of Contents

Preface

Acknowledgements

1. Introduction

2. The Fable of the Keiretsu

3. And of the Zaibatsu

4. The Myth of the Main Bank

5. And of Outside Directors

6. Legends of Government Guidance

7. The Cost of Kipling
Chapter 1
Introduction

Patronize any boathouse dedicated to the light and narrow racing row boats called “sculls” and “sweeps,” and sooner or later a rower will tell you about “the Japanese Eight.” Most versions set the tale at the 1964 Tokyo Olympics. It was Japan’s debut among the wealthy industrialized countries. The 130 m.p.h. bullet train had just tied Tokyo to Osaka in three hours and ten minutes, flat. The government had recruited modernist darling Kenzo Tange to design spectacularly sweeping sports complexes. Soon, OECD membership would follow, along with super-highways, more bullet trains, and so many other indices of national wealth.

The races were a high profile event, and national pride was at stake. So determined to win for their country were the Japanese crew, the tale continues, that two of the eight rowed themselves to death on the boat. Two more made it out of the boat, but dropped dead on the dock. The other four died in hospitals over the several next months.

Patronize any social science or business panel on Japan, and sooner or later the experts will tell you whether (usually how) “Japan” is about to change fundamentally. Patronize any good book store, and sooner or later you will locate books like Japan’s Democracy: How Much Change? Economic Reform: Can the Japanese Change? Japan’s Economic Structure: Should It Change?, or the 1998 Brookings study Is Japan Really Changing Its Ways?

Search for comparable panels or books on the U.S., Canada, or Germany, and you will come up dry. Brookings will not sponsor conferences on whether the U.S. is changing its ways. The University of Chicago Press will not likely accept a manuscript on Is Canada Really Changing Its Ways? Indeed, we doubt it would even take one on Economic Reform: Can the Germans Change? You come up dry for a good reason: we know all too well that there is no "essential" U.S., Canadian, or German nature to change.

But switch to Japan, and authors, publishers, and readers happily soldier on -- blithely writing, publishing, and buying books about whether "Japan" is changing. To be sure, they do not give the same answer. Rather, they are “unanimous” (as one 19th-century Irish jury foreman famously put it), “in being unable to agree” (Minda, 1999: 27). But they do ask the same question.
It is worth asking why we place Japan in this niche. Why we can plausibly tell the tale of the “Japanese Eight” is straightforward enough: kamikaze pilots. Until the Palestinians adopted the habit, we had precious little experience with suicide missions. After all, no one tells tales of Harvard crew teams rowing themselves to death, even against Yale. They row hard, they win or lose, they throw up, and they go drink beer. Tennyson’s light brigade did not ride into the valley of death out of fanatical loyalty. They rode because an officer had “blunder’d.”

Like Fitzgerald’s rich, however, "the Japanese" are different from you and me -- or so it seems. Pity the poor economists (two of them Japanese nationals) who had the bad judgment to forget that fact in a recent book on Japanese labor markets. According to the decidedly mainstream Journal of Economic Literature, in “[n]eglecting cultural determinants of Japanese internal labor markets” they committed "serious error." After all, “the philosophical foundation of Japanese culture is entirely anti-individualistic," continued the reviewer. The "collectivist ethics of Confucianism" -- one can hear the wind sweeping over the oars as the Suicidal Eight surge forward -- "naturally sustain giving and accepting orders rather than responding to incentives.” (McLaughlin, 2002: 944)

"Accepting orders" rather than "responding to incentives"? By now we all know that alligators never infested New York sewers, no department store ever socked a patron $150 for a chocolate-chip cookie recipe, no poodle found itself fried in a microwave, and eskimos do indeed have a word for snow. We think we know urban legends when we hear them.

Yet urban legend is most of what we collectively think we know about the Japanese economy, and that urban legend is what this book concerns. The principal points are easy enough to relate:

* The **keiretsu** do not exist (Chapters 2 and 3). They never did. An entrepreneurial “research institute” in the 1950s created the rosters to sell to Marxist economists looking for the “monopoly capital” that their theory told them would dominate their “bourgeois capitalist” world. Western scholars hoping for examples of culture-specific forms of economic organization then brought them back to the U.S.

* The **zaibatsu** did not succeed pre-war because they bought politicians, exploited the poor, or manipulated disfunctional capital markets (Chapter 3). They succeeded for all the usual varied reasons a few firms succeed in any modern economy. They acquired the (perjorative) zaibatsu label because they happened to be thriving when muckraking journalists in the 1920s and 30s came looking for someone to blame for the depression.

* Japanese firms have no “main bank system,” and never did (Chapter 4). Economists popularized the idea as an anecdote on which to peg their mathetical models, and non-economists use it (like the keiretsu) as yet another putatively culture-bound economic phenomenon.

* Japanese firms are neither short of outside directors nor badly governed (Chapter 5). The charges simply represent yet another variant on populist journalism. Like firms in other competitive capitalist countries, Japanese firms
survive only if they adopt governance mechanisms appropriate to the markets within which they must compete.

* The Japanese government never seriously guided or intervened in the Japanese economy (Chapter 6). When the economy boomed, politicians and bureaucrats did take credit. They had created the success through their own foresighted leadership, they claimed. Marxist scholars dominated Japanese social science departments, and they were not about to suggest instead that market competition might account for the success. Happy as they were to find an example of successful government intervention, neither were most Western scholars of Japan.

As all this should make clear, the tales in the West about the Japanese economy are not exaggerated. Neither are they biased or misleading. They are simply wrong, fictitious accounts with no basis (not little basis, but no basis) in anything on the ground. For the academy, the tales are nothing less than a profound embarrassment. But they are also a reminder -- of how badly wrong things can go when academics try to write about an economy without studying economics, and of how disastrously things can end when they subordinate their research to political agenda.

And rest assured, urban legend is what the tale of the Japanese Eight was as well. Reports the Groton Academy crew coach, he once gave an after-dinner lecture to the crewing alumni of a major Tokyo university. “There is a story,” he began after the evening drinks, “that in the Tokyo Olympics a Japanese eight rowed [at a] very high [strokes/minute count] ... and after the race, many of the men died. Do any of you know about this story?” He recalls the silence that followed (Anderson, 2001: 4):

Finally, Mr. Okamura said, “We know of no such story.” He looked around the group for confirmation. “The German eight rowed very high. Do you mean the German eight?”

“No, the story that everyone tells is of a Japanese eight. Most of the crew died because they had rowed so high.” Long pause. “I’ve never believed it,” I added.

“This is not a true story.” He looked at me with steely eyes. “What do you think it means?”

“I’m not sure,” I stammered. I’m your friend, I wanted to say. I’m not making this up.

“Maybe kamikaze idea? We Japanese would row to kill ourself?”

“Maybe that’s it. So this story is not true? Now I can tell everyone in America.”

“Do you remember the man who asked you the [obscure technical] question about [boat geometry]?” my friend Mr. Ito asked. “That man rowed in the Olympic 8.” He paused and looked around the group. “He was alive, neh?”