

92-F-14

**Policies for Small Business in Japan**

by

Yoshiro Miwa  
The University of Tokyo

December 1992

**Policies for Small Business in Japan(\*)**

Yoshiro Miwa

University of Tokyo

Dec. 1992

(\*)Prepared for the World Bank Workshop on Japan's Civil Service, January 28 - February 1, 1993, in Kauai, Hawaii. The author received helpful comments and suggestions both from many officials in the Japanese national and local governments and from the participants at the preliminary Fuji meeting in Oct.-Nov. 1992. He also received insightful suggestions and advices from Professor Mark Ramseyer of Chicago Law School.

## Table of Contents

Introduction .....	3
Part I: Central Government Policies	
A. Introduction .....	4
B. The "Image" and "Reality" of the small business policies .....	<del>6</del> 7
C. An Overall View on Policies for SMEs .....	<del>10</del> 2
D. System for Financing Policies .....	<del>11</del> 14
E. Evaluation of the Effectiveness of Financing Policies .....	<del>12</del> 17
F. Menu of Policies for SMEs in Japan .....	<del>14</del> 19
G. Concluding Remarks to Part I .....	<del>16</del> 21
Part II: Implementation of Policies for SMEs and the Role of Local	
Government .....	<del>17</del> 23
A. Introduction to Part II .....	<del>17</del> 23
B. Regional Economic Policies .....	<del>18</del> 24
C. Outline of A-Prefecture. ....	<del>18</del> 26
D. Financing Policy .....	<del>21</del> 28
E. Industry Division .....	<del>22</del> 32
F. Technical Assistance .....	<del>25</del> 35
G. Management Guidance by Specialized Personnel .....	<del>27</del> 38
H. Management Consulting and Guidance .....	<del>30</del> 42
I. A Short Remark on Part II .....	<del>31</del> 43
Part III: Concluding Remarks .....	<del>31</del> 44
REFERENCES .....	<del>32</del> 46

## Introduction

"One of the most striking features of recent Japanese public policy, viewed both in comparative context and against the backdrop of Japanese history, has been the fluctuating but generally pronounced bias shown toward the small, across a range of industrial, trade, and credit-policy sectors, often at the expense of the large."(Calder[1988], p.312) This statement, with which Kent Calder[1988] begins his chapter on "Small Business Policy," reflects the dominant academic view of Japanese small business policy. Coupled with the following three facts, this view often leads academics to conclude that the small business policies have played tremendously important roles in the economic development of Japan. Because of this academic focus on small business policy, moreover, development strategists have now also become interested in Japanese small business policies in order to learn lessons for the planning of strategies, focusing on small businesses in developing countries. First, the pace of economic development in Japan has been fast. Second, the role of the government has seemed large. Third, the many small enterprises are thought to have contributed much to the Japanese economic development.

Like much that is said of Japanese industrial policy generally, most of what is said about Japanese small business policy is wrong. The efficacy of these policies have been extremely limited. The active small enterprises have not been created through the well organized, effective policies of the government. In the paper that follows, I explain why those policies have been

so ineffective, and provide detailed information on what those policies have been and how they have been implemented. I pay special attention to the central government and its relation to local governments.

This paper is divided into three parts. In Part I, I evaluate the effectiveness of policies for small and midium enterprises. After an introduction and a general discussion I focus on financing policy, which is generally regarded as the most important policy measure. I conclude that its effectiveness has been negligible. In Part II, I provide detailed information on the actual process of policy implementation and the roles of local governments. In addition to financing policy, I address technical assistance, management guidance and management consulting policies<sup>1</sup>. I focus in this part on one local government, which for the sake of confidentiality I call A-prefecture. Part III contains brief concluding remarks.

## Part I: Central Government Policies

### A. Introduction

The main focus of this study of Japanese policies for small business is on the evaluation of their potential effectiveness in promoting economic

---

<sup>1</sup> <sup>1</sup> In this paper, I am obliged to refer to a huge number of names and titles of Japanese "policies" and "policy measures." They are quite often not understandable even in Japanese, therefore, hard to translate into English. It is mostly because many of new policies are only the reproduction of the old ones, adopting newly created pharases for nominal differentiation. In the following, readers may be puzzled and ask the difference of each policy. Note that it is because of the political and administrative reasons in Japan.

development in developing countries<sup>2</sup>. In studying the effectiveness of such government policy, however, one should keep in mind the same skepticism that scholars of U.S. policy have shown toward regulation generally.

Perhaps one-fifth of United States national income originates in industries subject to some direct regulation, and yet economists know very little about how regulation affects the market performance of an industry. The preambles of regulatory statutes hardly provide a reliable guide. Neither does the intensity of the complaints of regulated businessmen. Caves[1964]p.172  
[T]he innumerable regulatory actions are conclusive proof, not of effective regulation, but of the desire to regulate. Stigler and Friedland[1962]p.1<sup>3</sup>

These points apply also to the effectiveness of all government policy. Granted, there is a wide variety of opinion on the magnitude of the contribution of government policy to economic growth in Japan, at least among economists, however, the view that its contribution had been great has lost ground and the opposite view has become predominant<sup>4</sup>.

We have little to gain by asking such questions as "what do government leaders think have been their policies," "what objectives have government

---

<sup>2</sup> <sup>2</sup> Calder[1988] instead asks why and how such bias has emerged, and analyzes the power-politics and the characteristics of the political decision process.

<sup>3</sup> <sup>3</sup>Also, from Posner[1969]: "regulation may be a ritual in which the participants make a noisy but empty show of adversity in order to reassure their respective constituencies of their zeal, and then compromise at a level not far different from what the free market would have dictated." p.548

<sup>4</sup> <sup>4</sup> For example, see Komiya et al (eds.)(1988] and Miwa[1990b]. Not only "industrial policy," but antitrust policy and the "postwar deconcentration policies" have also been ineffective. See, Miwa [1988,1990a, 1990b, 1993].

officials pursued" or "what are their evaluation of the effectiveness of the policies."<sup>5</sup> Officials in active service in responsible positions seldom tells us how effective they think government policy has been. What we can acquire are, at most, opinions and "explanations" of retired officials and members of various advisory committees. Although active service officials are thought sometimes to express their opinions through retired officials or through these committees, the reliability of this informations is fuzzy. Obviously, it is also biased, and it would be simple-minded and dangerous to carry out a policy study depending too much on such information<sup>e</sup>.

Instead, we should ask "in what sense and to what degree has each policy been effective?" To answer this question, we need to clarify the standard by which we evaluate the effectiveness of each policy, and estimate the cost of the policy<sup>7</sup>. With this information, we can then try to identify the effect of the actual policy. Again, it should be obvious that we cannot do

---

<sup>5</sup> <sup>5</sup> They are by themselves not easy tasks. Under the present system in Japan, precise check and evaluation, even ex post, of whether each policy has attained the prescribed objectives is rarely carried out officially, except for whether it has been within its authorized limit, especially focusing on the execution of their budgets. Detailed information on what is done and how the policy is carried out are seldom disclosed, which make the precise check and evaluation from outside almost impossible.

<sup>e</sup> <sup>e</sup> Concerning these points, see Miwa[1990b,ch 11].

<sup>7</sup> <sup>7</sup> There is a widely held view, especially among political scientists and Japanese government officials, that since the Meiji Era economic policies in Japan have been planned and organized for rapid economic growth, and have attained a great success. Most Japanese economists would find it impossible to agree with this view. See footnote 4.

it simply by calculating the vast amount of loans from government-affiliated financial institutions<sup>a</sup>.

## B. The "Image" and "Reality" of the small business policies

Government policies for small business began in Prewar Japan as "social policies", not as "economic policies." The government imposed them, in other words, for reasons of "equity" rather than "efficiency." At least until the beginning of the 1970s' post-war policies strongly reflected this character. The policies for small business during this period were designed to solve the "medium and small enterprises problem."<sup>a</sup>

Several important events in small business policy occurred in the early post-war period. For example, the Small and Medium Enterprise Agency was created in 1948 as an extra-ministerial bureau of MITI (Ministry of International Trade and Industry), the People's Finance Corporation was founded in 1949, and the Small Business Finance Corporation was founded in 1953. Together with the Central Cooperative Bank for Commerce and Industry founded in 1936, the latter two corporations became the principal means by which the

---

<sup>a</sup> <sup>a</sup>Ideally, the task of identification can be accomplished by finding the deviations between the actual state of affairs and the hypothetical state without the policy actions. The difficulty lies in how to model such a state. In my view, many studies do not recognize the necessity and importance of this identifying task. The same is true for the studies of postwar deconcentration policies. See Miwa[1993].

<sup>a</sup> <sup>a</sup> For a critical review of the debates and policies on "medium and small firms," see the chapter 2 and 3 of Miwa[1990b]. The English translation of this chapter 3 appears in the Winter, 1991-2, issue of Japanese Economic Studies.



government channels loans to small firms. However, it is after the late 1950's that the policies for small business drew public attention.

The Economic White Paper of the government in 1956 is famous for the phrase, "we are not in the post-war state any longer", and it is the next White Paper that asserted the existence and emphasized the seriousness of the "dual structure"<sup>10</sup> of the Japanese economy. This argument was widely accepted immediately, and "dual structure" became one of the most popular phrase of the time. The argument apparently struck a responsive chord in the public, and these words came to be the "key words" to studying the Japanese economy.

It was in 1963, 15 years after the establishment of the Small and Medium Enterprise Agency, that the Small and Medium Enterprise Basic Law was enacted. It had the wide support of the public and enthusiastic political backing. It ordered the Government to conduct fact-finding surveys on small and medium enterprises (hereafter, SMEs) and to submit to the Diet an annual report (the so-called "White Paper on Small and Medium Enterprises in Japan") on trends among the SMEs and the measures taken to assist them.<sup>11</sup> It is from this point that the policies for SMEs began to be carried out systematically<sup>12</sup>.

---

<sup>10</sup> <sup>10</sup> The words "dual structure" suggest that there are two distinctly separated sectors in the economy, and that one sector consists of small enterprises of traditional type with low productivity and low wages, and the other consists of large enterprises with modern technology and character with high productivity and high wages.

<sup>11</sup> <sup>11</sup> So, the first issue is for FY 1963.

<sup>12</sup> <sup>12</sup> The standard definition of SMEs in Japan derives from Article 2 of this Law, and depends on the type of industry. In manufacturing, mining, etc., it includes enterprises 100 million yen or less in paid-in capital, or 300 or

Ironically, with the rapid economic growth the support for the view that the Japanese economy had a dual structure weakened rapidly. By 1970, the White Paper on SMEs had a subtitle: "The Transfiguration of Dual Structure and the Increasing Variety of SMEs Problems." Either the situation surrounding SMEs or the public's "image" of SME had changed.

In chapter 2 of Miwa[1990b], I investigated the causes of these changes. I examined the relationship between the "image" and the "reality" regarding SMEs, and asked whether the "dual structure" ever really existed<sup>13</sup>. I thus focused on whether such phenomena as "structural changes" actually took place. I concluded that: (1) a wide gap has existed between the "image" and "reality" of SMEs; and (2) the image of SMEs has changed more radically than has the reality of SMEs.

The analysis in Miwa[1990b] was directed at the "image" that large corporations exploit SMEs either directly or indirectly, or use them as a cushion. This image comports with the "image" of the subcontracting and affiliate system that has also been criticized as embodying a "dual structure." Roughly classified, four points emerge<sup>14</sup>.

(1) The Japanese economy grew rapidly even before the "dual structure" was "dissolved." Within this environment, both SMEs (subcontractors) and large (parent) firms grew smoothly. This implies that large firms provided a

---

fewer employees.

<sup>13</sup> <sup>13</sup>It was held to have been resolved, for example, by Kiyonari[1973].

<sup>14</sup> <sup>14</sup> See Miwa[1990b, ch.2,4], for details.

stable demand for the products of rapidly growing SMEs. Such a fact is not consistent with the exploitation of the SMEs.

(2) As shown in Table 1 and Fig. 1, the rate of profit for SMEs has been much higher than that of larger firms. This too is not consistent with the argument that SMEs were exploited by large firms.

Table 1. Rate of Profit on Equity (Paid-in Capital) of Corporate Enterprises in Japan: before tax, all industries

equity firm below size (million yen)	Profit rate (5 years running average)						number of years of average profit rate		
	1953-59	60-64	65-69	70-74	75-79	80-84	60-84	60-74	75-84
2 - 5	22.4	32.4	30.7	34.6	22.2	16.1	7	0	7
5 - 10	20.9	34.1	31.4	35.4	23.0	17.8	6	0	6
10 - 50	21.2	28.7	31.2	35.5	24.4	20.9	1	0	1
50 - 100	18.7	25.3	26.7	30.4	23.1	24.4	2	0	2
100 - 1000	13.1	20.5	23.3	25.6	22.0	22.3	12	10	2
1000 -	16.2	19.8	21.3	17.8	19.5	23	15	8	

note: Numbers for 1953-59 are adopted from Komiya[1962], Supplemental Table A. Source: Ministry of Finance, Hojin Kigyo Tokei Nenpo (Financial Statement of Incorporated Businesses, annual)

----- Fig 1 -----

(3) Newly entering SMEs have consistently been observed. As shown in Table 2, throughout the period 1951-84, before and after the time of the "structural changes," the number of establishments in every size increased constantly. This is not consistent with the argument that SMEs were

exploited, as rational entrepreneurs would not enter markets in which they would be exploited.

-----  
 Table 2. Changes in the Number of Establishments by Employee Size  
 (Private Manufacturing)

	(unit:100)											
Size/Year	1951	54	57	60	63	66	69	72	75	78	81	84
To												
tal(*)	3,938	4,304	4,637	4,871	5,633	5,948	6,469	7,026	7,360	7,443	4,365	4,290
1-9(*)	3,155	3,357	3,430	3,456	4,155	4,334	4,751	5,229	5,607	5,698	2,518	2,432
10-29	569	698	866	974	960	1,072	1,148	1,200	1,190	1,203	1,293	1,293
30-99	164	193	266	335	391	406	418	441	420	405	412	416
100-199	26	30	41	58	71	77	84	88	81	79	82	88
200-499	16	18	24	31	38	40	46	47	43	40	42	44
500-	8	9	11	15	18	19	23	22	21	18	19	19

\*1981 and 1984, excluding the size 1-3.

Source: Statistics Bureau, Management and Coordination Agency, Establishment Census of Japan, annual.

(adopted from Miwa[1990b], Table 2-1, p.35)

-----

(4) The supposed "dual structure" in the financial sector, often called "Loan Concentrating Mechanism,"<sup>15</sup> never existed<sup>16</sup>.

If the above four points are acceptable (or even if readers can accept at least one or two of the four), the following three propositions follow.

<sup>15</sup> <sup>15</sup> There is a widely held argument that the financial sector is organized so as to target loans to large firms rather than SMEs. For details, see Miwa[1990b, ch.5].

<sup>16</sup> <sup>16</sup> Concerning this point, Calder[1988] refers to the following statement of Patrick[1965]. "As Hugh Patrick points out, credit restraint was the primary tool employed by the financial authorities in dealing with balance of payments deficits and inflationary pressures during the high-growth period; this restraint fell disproportionately on small firms lacking a close ties with the commercial banks."(p.318)

If the above four points are acceptable (or even if readers can accept at least one or two of the four), the following three propositions follow.

(a) The assertion that a large majority of SMEs were "exploited" between the latter 1950s to the early 1960s is inconsistent with reality.

(b) That assertion that they have been exploited in more recent years is likewise inconsistent with reality.

(c) "Structural change," in the sense of a shift to the situation where the proportion of SMEs "being exploited" drastically declined from a situation in which a great majority of SMEs are "exploited," never occurred.

In short, the problem that the SME policies were ostensibly designed to address did not exist. If the destruction of the "dual structure" is the standard by which to measure the effectiveness of the SME policies, the policies could not have been "effective." Consider, therefore, whether SME policies might still have helped promote the economic welfare of SMEs.

### C. An Overall View on Policies for SMEs

In reviewing studies on SME policies, one quickly finds that, although many studies address "policy ideals", "policy targets" and "policy measures," few address "policy effects." Among the few that do address effects, take the words of Mr. Hajime Takaki, the former chairman of the Central Cooperative Bank for Commerce and Industry. Soon after the depression of the early 1970s, he observed:

"There are so many different policy measures for SMEs that most of us would be amazed to discover how tiny the scale of each policy is. Policy efforts have been directed widely but thinly. It is as though the government waters large flower pots with small sprinkling cans. .... In the present severe depression, there is a strong demand for such policies for SMEs in order to encourage their owners and managers.... Each policy is well designed and sensitive, however, the scale of government's policies are too small to have any effect." (Nihon Keizai Shinbun (Japan Economic Journal), Jan. 12 1975, cited in Miwa[1990b] p.39.)

Following Yokokura[1988], however, let us introduce the essence of the more standard view, concerning the character and effects of SME policies.

(1) Until the 1950s policies for SMEs comprised one facet of social policy, consisting of financial and cartel policies. In the 1960s, policies for assisting in the modernization of SME facilities formed one facet of industrial policy. In the 1970s and 1980s, modernization policies emphasized human resources (people) and technology (information) and industrial adjustment policies consisting of measures such as assistance for firms to change their line of business.

(2) Policies for SMEs tended to be indiscriminate in the policies on which they focused and the policy instruments they used. This was in part because of the great variety of disadvantages faced by SMEs, but this indiscriminate use was also due to the operation of political-economic mechanisms. Nonetheless, the indiscriminate use of policies for SMEs, such as

in the designation of industries under the Modernization Promotion Law,<sup>17</sup> inevitably weakened their collective impact (effectiveness).

(3) In policies for SMEs, the primarily use was of financing, operating through the market mechanism, rather than of competition restricting measures and direct subsidies. Despite the indiscriminate nature of policy, this served to put a stop to the use of policies for SMEs as protective policy. There is a sharp contrast in this to agricultural policies, which depended on the use of import restrictions and direct subsidies<sup>18</sup>.

#### D. System for Financing Policies

There is wide agreement that, among the policy measures for SMEs, the most important was financing<sup>19</sup>. Therefore, special attention should be paid to the role of financing policies and the magnitude of their effects. Before

---

<sup>17</sup> <sup>17</sup> This Law was enacted as the embodiment of the Small and Medium Enterprise Basic Law of 1963, and the number of the industries designated in the five years ending in FY 1967 was 137. By 1975 the number of designated industries had increased to 232. For a brief explanation, see Miwa[1990b], p.45, fn.34.

<sup>18</sup> <sup>18</sup> "If...one compares the amount and content of the budget for SME policies with that of agriculture and fisheries, the other sector that along with SMEs has been labeled "pre-modern," then the following differential can be observed. Subsidies for agriculture, forestry, and fisheries in the 1980 General Budget came to 1.9 trillion yen(including funds for land improvement and other activities to improve the infrastructure), while 1980 FILP(Fiscal Investment and Loan Program) investments came to 890 billion yen. In contrast, 1980 General budget subsidies for SME policies came to 61 billion yen, while 1980 FILP investments came to 3.4 trillion yen. In contrast to the huge subsidies expended on agriculture, those for SMEs are small, and the dependence is on FILP investments." (Yokokura[1988],p.524)

<sup>19</sup> <sup>19</sup> See, for example, Yokokura[1988] and Calder[1988], p.318.

proceeding to the evaluation of the effectiveness of financing policies for SMEs, let us see how they are implemented.

The central roles in carrying out government policies on SME finance are played by three government-affiliated financial institutions: the People's Finance Corporation (PFC), the Small Business Finance Corporation (SBFC) and the Central Cooperative Bank for Commerce and Industry (CCBCI). Among these three institutions, here we concentrate on the SBFC, since it is the newest and has the most clearly specified policy oriented character<sup>20</sup>.

The Government established these three institutions to furnish SMEs with funds for their business operations and to promote specific policies. The former target is sometimes expressed as "quantitatively to complement financing available from private banks."

The Government holds 100% of SBFC stock, and all the SBFC funds for loans come from FILP (Fiscal Investment and Loan Program.) SBFC has two types of loan systems, the general loan system and the special loan system. Until the mid-1980s the share of the former had been more than 80% (for

---

<sup>20</sup> <sup>20</sup> There is no basic difference of roles and characters between PFC and SBFC, except for the identity of the main customers. The PFC specializes in loans to smaller firms than does SBFC, but both provide only long term loans. The CCBCI is not very different from a typical private bank and functions like such a bank. The government, however, provides 70% of its capital (200 billion yen) and allows it to issue financial bonds in the market to raise loan funds.



example, at the end of FY 1984 on a loan balance basis, 82.8%). Therefore, we pay attention mainly to this general loan system<sup>21</sup>.

The SBFC provides its loans directly through its own offices, whose number is about 60. Indirectly, it also provides loans through private financial institutions appointed as its agents, whose number is 846 (15,131 shops). The share of the former was 75.5% at the end of FY 1989.

The SBFC's loan rate is its designated "base rate," which is equal to "long term prime rate", now at 5.5%. As SMEs are not always able to borrow at this rate, especially when the market is tight, this loan necessarily includes a subsidy to SMEs. That subsidy is of course proportional to the amount of loan. However, this "subsidy" is not large, as the discrepancy between the base rate and the market rate seldom exceed 0.5 - 1%. The SBFC and its agents check the loan applications and collateral presented by their borrowers so rigorously that it is sometimes said their requirements are severer than

---

<sup>21</sup> <sup>21</sup> Under the special loan system, the SBFC and PFC provide special low interest loans to be used for certain purposes, such as improving the industrial structure, preventing pollution, saving energy, etc. But readers should keep in mind that these loans constituted less than 20% of all loans by these institutions and that the "special low interest rate" is not as "low" as might be expected, except for unusual cases. The share of special loans rose in the mid-1980s, in connection with loans to SMEs to deal with the depression caused by the yen appreciation after the 1985 "Plaza Agreement," and to smooth the introduction of the consumption tax. There are now four types of special low interest rates. The highest is 0.05% lower than the base loan rate, the second highest is 0.1% lower, and the third highest is 0.45% lower. The lowest rate applies only to very rare cases, such as special loans to the textile industry at 4.85% and to small retailers at 4.6%.

private institutions<sup>22</sup>. In sum, the SBFC general loan includes a "subsidy," although the amount is small, and the loan scrutinies are strict.

The doors of SBFC offices and their agents are open to any SME. Borrowers can go and negotiate with them directly. They need not, in other words, acquire recommendations from third parties such as local governments, the Boards of Commerce and Industry, the Chambers of Commerce and Industry, or other financial institutions. At the end of FY 1989, SMEs borrowed from the SBFC or its agents loans with an average value of 32.18 million yen, and a term of 6 years and 11 months. The borrowers had on average 23.49 million yen in paid-in capital and 48 employees.

#### E. Evaluation of the Effectiveness of Financing Policies

Let us proceed to an evaluation of the effectiveness of the financing policies for SMEs. Consider both the direct impact of the policies and their final consequences. The effectiveness of the policies that limit the benefits to SMEs depends on the state of the capital markets and the relation between the SMEs and larger firms.<sup>23</sup> If capital markets clear, below-market loans are equivalent to a direct subsidy equal to (the difference between the loan rate and the market rate) \* (amount of the loans). If capital markets do not

---

<sup>22</sup> <sup>22</sup> In this system, agents are responsible for choosing their customers and projects. If a default occurs on an indirect loan, the agent bears 80% of the loss.

<sup>23</sup> <sup>23</sup> Actually, in some cases, direct competitors of SMEs in the policy targets are SMEs in other countries, not "large firms" in Japan.

clear and SMEs cannot obtain loans at any rate, the policies may have additional policy impact.

The government-affiliated financial institutions were established in order to complement the financing available from private banks. The assumption was that SMEs faced strong quantitative constraints in financing. These constraints were thought to reflect the targeting of loans to large firms, which, as noted in B., never occurred. As a results, the below-market loans could not have had any impact beyond the direct value of the subsidy.<sup>24</sup>

In order to assess the policy impact of the subsidy, we should note the ratio of policy loans to total loans for SMEs. Yokokura[1988] shows that during 1960-80 the three government-affiliated financial institutions provides only 10% of the total amount of funds SMEs borrowed from all kinds of financial institutions<sup>2526</sup>. Therefore, when policy loans are provided at 1% below the market rate, the average rate of funds for SMEs can be lowered only 0.1%, which cannot be considered very significant.<sup>27</sup>

---

<sup>24</sup> <sup>24</sup> See Miwa[1990b, ch.2 and 5], for details.

<sup>25</sup> <sup>25</sup> See Table II of Yokokura[1988,p.523]. On the loan balance basis, 8.7% in 1960, 8.8% in 1965, 9.3% in 1970, 12.8% in 1975 and 12.6% in 1980.

<sup>26</sup> <sup>26</sup> Readers who believe there were significant quantitative constraints should recognize that, even if so, this 10% implies that those policies expanded the funds for SMEs only 10%. Much of gain, moreover, would have been passed through to other sectors via the capital markets.

<sup>27</sup> <sup>27</sup> Even 2 or 3% below market rate lending could lower the average rates only 0.2 of 0.3%, which can not be evaluated as "quite effective," either.

In order to assess the final consequences of these policies, we should pay attention additionally to one more fact. Usually, it is easy to enter the markets where there are many SMEs, and the keenest competitors for each SME are SMEs in the same industry. Therefore, even if the amount of subsidy for SMEs are huge and impresssive, most of them should have been passed through via market competition to the users and consumers of their products.<sup>28</sup>

#### F. Menu of Policies for SMEs in Japan

In the preceeding two sections we focused, among various measures, on financing policy. I tried to evaluate its effectiveness, and concluded that it was negligible. Before going to the concluding section of Part I, for readers' convenience, I catalogue the menu of policies for SMEs in Japan<sup>29</sup>. Here I cite only the table of "basic measures" found in the "Outline of the Small and Medium Enterprise Policies" in "Outline on SME Policies of Japan" written by Small and Medium Enterprises Agency in October 1992<sup>30</sup>.

---

<sup>28</sup> <sup>28</sup> The same logic can and should be applied to the evaluation of the effectiveness of preferential corporate tax treatment for SMEs.

<sup>29</sup> <sup>29</sup> As mentioned in Calder[1988, pp.316-7], according to a survey by the Organization for Economic Cooperation and Development, Japan has the most extensive range of policy tools for assisting small business in the industrialized world. Japan uses all major means of support for small business surveyed by the OECD, a record equaled by no other nation. See Table 7.3 of Calder[1988, p.317] and OECD[1978, p.17].

<sup>30</sup> <sup>30</sup> Readers should keep in mind what is written in the beginning of A. of this paper, and refer to the citations there. Also, readers should note that, although the Small and Medium Enterprise Agency is established to promote SMEs, it is not the only government institution which does so. The Ministries of Labor and Construction, Fair Trade Commission of Japan, MITI,

## 1. Finance

\* Financial assistance by the three government-affiliated institutions, the Small Business Finance Corporation, the People's Finance Corporation, the Central Cooperative Bank of Commerce and Industry.

\* Loan from the Japan Small Business Corporation for the promotion of joint business activities by cooperatives.

## 2. Credit Supplement (Financial reinforcement by means of credit supplement)

When small firms get a loan from financial institutions, they need to have their loan guaranteed by the Credit Guarantee Associations, and then, CGAs apply for the Small Business Credit Corporation to insure the guarantee.

## 3. Small Business Taxation

Reductions of the corporate income tax.

## 4. Cooperatives

Aid for the joint business activities (such as joint production, joint processing, and joint sales etc.) of about 50,000 cooperatives.

## 5. Consulting and Guidance

Provision of management consulting and guidance by the specialized personnel at the prefectural government.

## 6. Personnel Training (for human resources development)

\* Variety of training programs at the institutions for small business.

---

and local governments, all have policies to aid SMEs.

- \* Basic training courses at the prefectural governments.

#### 7. Technological Development

- \* Technical training courses at the institutions for small business.

- \* Technical assistance by prefectural and other public research institutes.

#### 8. Promotion of Small Enterprises

- \* Management guidance by specialized personnel at the Board of Commerce and Industry, and the Chamber of Commerce and Industry.

- \* Special loan for management improvement. Special loan for equipment modernization.

We will refer to some of the policies in this memo in Part II of this paper.

#### G. Concluding Remarks to Part I

Although the scope of Japanese policies for SMEs are extensive, they have not effectively supported SMEs. Neither, therefore, have they stimulated overall economic growth. Any lessons that one might learn from the Japanese experience are therefore simply negative: it is of no use to imitate Japanese policies for SMEs. To learn why so many SMEs now exist in Japan, we should search for causes and mechanisms other than government policies.

In relation to this conclusion, note two points. First, the business start-up rate among SMEs has steadily declined after staying above 7 percent around 1970. As the business closing rate has stabilized at around 4 percent, the net rate of business increase has been falling. The net rate of increase has been below 1 percent since 1981<sup>31</sup>. Because SMEs are regarded to have been one of the major factors behind Japan's rapid economic growth, the declining business start-up rate gathers wide and keen attention. The most important point here is that this has happened even under the present system of Japanese policies for SMEs.

Second, some observers, especially non-Japanese observers, have been strongly impressed by the existence of Small and Medium Enterprise Agency and wide variety of its policy measures<sup>32</sup>. However, this impression ignores the basic nature of the Japanese administration system. In Japan, almost every industry has a counterpart in the government, which devotes all its efforts to protect, encourage and support the firms in the industry. Therefore, almost all industries are systematically and continuously protected and supported by the government. The case of SMEs is by no means

---

<sup>31</sup> <sup>31</sup> See Small and Medium Enterprise Agency[1992, p.94], for example.

<sup>32</sup> <sup>32</sup> For example, Calder[1988, pp.312-3] wrote as follows. "While the Reagan administration in the mid-1980s was attempting to disband the U.S. Small Business Administration and end its meager and declining volume of subsidized loans, the small business-oriented People's Finance Corporation in Japan disbursed nearly the volume of subsidized loans annually of the vaunted Japan Export-Import Bank."

an exception. The problem comes from the simple fact that nobody can protect and subsidize everybody<sup>33</sup>.

## Part II: Implementation of Policies for SMEs and the Role of Local Government

### A. Introduction to Part II

The main objective of Part II is to provide detailed information on the actual process of policy implementation and the role of local governments. As I address several types of policies other than financing in the following sections, I shall provide information on those policies as well.

Compared with financing policies, it is harder to evaluate the effectiveness of the other policies which we will study, such as technical assistance by prefectural and other public research institutes, management guidance by specialized personnel, provision of management consulting and guidance by the specialized personnel. The evaluations below are drawn only from hearings on various occasions and on scattered materials. Necessarily, therefore, they are quite tentative. They do suggest that the overall effectiveness of these SME policies is no different than the effectiveness of

---

<sup>33</sup> <sup>33</sup> Readers should note that, at least among many economists, it is now the standard view that market competition is very keen in Japan and this keen competition has been one of the major causes of Japan's economic growth. This applies also to the fields of SMEs.



the financing policies. Nevertheless, these policies are so differentiated that their effectiveness should be regarded as totally dependent on the circumstances surrounding the policy. Therefore, even if some specific policy is to be judged quite effective, additional information is necessary before we can draw useful lessons for developing countries from Japanese experience. One of the pieces of information most necessary is detailed information on the actual process of policy implementation. Accordingly, in Part II, I shall place the greater emphasis on providing information than on evaluating the effectiveness of each policy.

#### B. Regional Economic Policies

Before proceeding to the details, most readers will require additional information on the relation between the central and local governments. As considerable information for this purpose appears in other chapters of this volume, I include here only the table of policies that the central government implements for the invigoration of regional economies. Again this table indicates that these policies tend to be indiscriminate in their policy focus and to target every region almost evenly.

----Table 3, attached on the end sheet-----

Table 3 shows the prefectures<sup>34</sup> receiving special treatment on fiscal measures for regional developments. It shows, (1) that in total the government tries to stimulate industries in underdeveloped regions and aims at the redistribution of income, and (2) that the government is nonetheless indiscriminate in its focus on policy targets, especially among areas at the same development level. I will not deal with "regional policies" here, except to note that the central government has no strong powers. It generally cannot use its powers to "control" local governments at its own will. This is particularly true where "regional policies," especially policies for commerce and industry are concerned<sup>35</sup>.

I shall here shift focus from the central government to local governments, and pick up one specific prefecture, "A-pref." The reasons of this shift of focus are as follows:

(1) Most of the policies of the central government for SMEs are implemented through or with the assistance of local governments<sup>36</sup>.

(2) In most cases, the central government decides the general scheme of each policy. Those local governments that consider the scheme useful then

---

<sup>34</sup> <sup>34</sup> Japan is divided into 47 prefectures", which are the basic units for regional self-governance. Each prefecture has its own legislature and government apparatus.

<sup>35</sup> <sup>35</sup> We do not intend to suggest that the other types of policies are also indiscriminate or neutral, whose characters are discussed in other chapters.

<sup>36</sup> <sup>36</sup> In this respect, the financing policies we focused on in Part I are rather exceptional.

design their more detailed plans and ask the central government to accept it. Local governments compete with each other to have their proposal accepted.<sup>37</sup> The policy of the central government is then implemented as the collection of the accepted policies of the local governments. This division of roles reflects the recognition that the effectiveness of such policies depends on the circumstances surrounding them, and that these circumstances greatly differ in each area.

(3) Each local government has its own policies for SMEs<sup>38</sup>. As a result there are a wide variety of objectives, weights, and forms among the actual policies of local governments.<sup>39</sup>

### C. Outline of A-Prefecture.

We focus on the present status of A-pref. (for comparison, I shall sometimes refer to its status in 1967). The population of A-pref. is 5.4 million, 4.4% of Japanese total population. Several indicators show that its economic power is 4 - 5% of that of the whole country. A-Pref. is located in the Kinki

---

<sup>37</sup> <sup>37</sup> The selection process of the proposals often appears to be very much politicized, which may be the reason for the indeterminacy of the focus of those policies in Japan.

<sup>38</sup> <sup>38</sup> Even by Japanese economists and political scientists the roles and policies of local governments have not been studied well, and the information on them is not enough.

<sup>39</sup> <sup>39</sup> Comparison of policies of local governments is provided in Kitayama's paper.

District, and has both densely populated, highly industrialized, urban areas and sparsely populated rural areas with an agricultural base or located in mountainous districts. The total number (not including agriculture and fishery) of establishments is 274 thousand in 1986, and 99.1% of them are SMEs. Of these establishments, 47.9% are in wholesale and retail, 23.9% are in the service sectors, and 12.6% are in manufacturing. 77.75 of the total employees are in SMEs. The manufacturing sector employs 27.5% of the total, and 69.6% of them are in SMEs<sup>40</sup>.

The Bureau of Commerce and Industry (hereafter, Bureau of C&I) within the prefectural government is in charge of policies for SMEs. It has 360 employees. The local government of A-pref. in total employs about 8,500 employees. Therefore, 4.2% of them belong to the Bureau of C&I.<sup>41</sup>

The Bureau of C&I is divided into 7 divisions (in 1967, 5 divisions.) Of these 7, the Industry Policy Division, the New Industry Location Division, the Finance Division and the Industry Division, have direct relation to policies for SMEs. In addition the General Coordination Division has an indirect relation to SME policy. 166 of the 360 employees in the Bureau of C&I are in the central office, and 75 of them are members of one of these 4 SME-related divisions. In addition to those divisions in the central office, two subordinate institutions deal with policies for SMEs. The Institute for General Guidance for SMEs, subordinate to the General Coordination Division,

---

<sup>40</sup> <sup>40</sup> From Establishment Census of Japan, 1986.

<sup>41</sup> <sup>41</sup> In 1967, the corresponding numbers were 404, 8,000, and 5.0%.

employs 19, and the A-pref. Institute for Industrial Research, subordinate to the industry Division, employs 118<sup>4243</sup>.

As shown below, most of the policies for SMEs of the local governments are carried out in line with and as part of those of the central government. Besides, there is such a wide array of policies that there is a strong demand from both sides for means for their coordination and cooperation. Accordingly there is an established route for the dense communication. In the case of the policies for commerce and industry, Japan is divided into 8 districts and Okinawa, and each has its own Bureau of International Trade and Industry. This Bureau is located between the central and local government, and works as a communication node<sup>44</sup>.

#### D. Financing Policy

At the core of the Bureau of C&I policies for 1992 are three groups of policy measures: (1) measures for upgrading industrial structures, (2)

---

<sup>42</sup> <sup>42</sup> Roughly, we can find any big change neither in their total scale nor in the weight of each division during these 25 years.

<sup>43</sup> <sup>43</sup> A-pref. appears to be a relatively prosperous and rich prefecture, whose government is large and whose policies are well-organized.

<sup>44</sup> <sup>44</sup> In the case of A-pref. In the Kinki District, Kinki Bureau is in Osaka. Someone may notice the existence of MITI officials in the local governments and emphasize their importance. At the present, 30 MITI officials work in 29 local governments as their members, that is, no MITI officials in 18 prefectures, 1 in 28, and 2 officials only in 1 prefecture. Usually, they work there for 2 - 3 years.

measures for invigorating regional economies and (3) measures for promoting successful SMEs. The budgets for each group reveal the predominant importance of (3), and within (3) two items are predominant: (i) 57.6 billion yen for financial assistance, and (ii) 14.4 billion yen for assisting the independent growth of small enterprises.

Among the measures in (1), the largest budget is 7 billion yen for the "promotion of creative scientific technology." Of this amount, 3.7 billion yen is for developing "xx Technopolis"<sup>45</sup> and 3.2 billion yen is for upgrading technological level of enterprises. Of the former, most is for the construction of a Center for R&D on Frontier Technology, and this is not a part of the policies for SMEs. Among the measures in (2), the most conspicuous budget is 4.9 billion yen for the "invigoration of shopping districts." This absorbs most of the budget for "raising vital retail business." The central measure is the "loan program for invigorating small and medium retail business." The burden of raising the funds for this measure falls wholly on A-pref<sup>46</sup>. In short, the policies for SMEs are situated at the center of the policies for commerce and industry of the local government, and at the center of these policies are the financing policies. There is thus no significant difference between the SME policy priorities of the central and local governments.

---

<sup>45</sup> <sup>45</sup> "Technopolis" is one of the regional policy schemes listed in Table 3 above, and a region of A-pref. was designated as one of the targets.

<sup>46</sup> <sup>46</sup> However, the upper limit of the amount for each policy project is only 10 million yen.

We can observe this consistency more clearly in the 1967 policies. In the "Outline of Policies of the Bureau of C&I(1967)", it was declared at the outset that its most important policy was "to promote structural adjustment of SMEs": "As is stated clearly in The Small and Medium Enterprises Basic Law, established in 1963, the fundamental objective of the policy is, based on self-help efforts of SMEs, to improve the SME environment and to support SME efforts, and therefore, to use measures reflecting basic economic rationality."

This statement denied the traditional view that the policies for SMEs were designed to rescue SMEs, by relieving them from the disadvantages they suffered because of their place in the "dual structure." Thus, already in 1967 at the local governments level, at least ideally, policies for SMEs were regarded as economic policies, not social policies<sup>47</sup>.

The Finance Division contains 4 subdivisions. Three of these subdivisions (14 employees and 3 managers) implement policies directly related to SMEs. The Finance Subdivision (4 employees) is responsible for a wide variety of tasks such as providing information on government loan systems, and assorted financial guidance. The Credit Cooperative Subdivision (7 employees) is in charge of financing through cooperatives<sup>48</sup> and tasks

---

<sup>47</sup> <sup>47</sup> Presumably, it depends on cases, and A-pref. should be regarded as one of the front runners in the process to change the character of their policies for SMEs.

<sup>48</sup> <sup>48</sup> In Japan, SMEs have been recognized as facing various difficulties. The central government thought that it was more effective for them to form associations and carry out business operations jointly than to

related to the credit guarantee system. The Equipment Modernization Subdivision (3 employees) is in charge of the tasks related to loans for modernizing equipment.

Let us take the "Policies for Modernizing Equipment of SMEs" as an example to see the division of roles between the central and local governments. Here four measures are listed. The budgetary burden for (i) and (iii) is equally divided, and that for (ii) and (iv) is wholly on A-pref:

(i) Loans for modernizing equipment. 1.6 billion yen. In line with the Small and Medium Enterprise Modernization Promotion Law.

(ii) Expansion of fund for loans for the promotion and modernization of local industries. 550 million yen.

(iii) Equipment-leasing system<sup>49</sup>. Total leasing size is 1.65 billion yen. In line with the Equipment Leasing System established in 1966, the central and prefectural government provide loans to an equipment-leasing agency (a public-service corporation). The equipment leasing company then purchases machinery and leases it to small enterprises.

---

solve the problems individually. It thus enacted the "Law on the Cooperative Association of Small and Medium Enterprises"(1949), the "Law Concerning the Organization of Small and Medium Enterprises Organizations"(1957) and other laws to establish various systems and to promote the establishment of cooperatives by providing financial support and preferential tax treatment. Some tasks related to these laws were delegated to local governments.

<sup>49</sup> <sup>49</sup> The objective of (iii) is explained as follows. Financial assistance like (i) and (ii) alone is not always sufficient for enterprises which do not have the technical know-how and skills to select and utilize appropriate equipment. This system was established to provide assistance to small enterprises in these cases.



(iv) System for leasing hi-technology and energy saving equipment. Total leasing size is 700 million yen. The A-pref. equipment-leasing agency purchases equipment and leases it.

Two other financing policy measures can be found in the A-pref. budget for 1992. First, there is a budget to complete the Public Credit Supplementation System by making good losses from loans to SMEs. The entire burden of 250 million yen is on A-pref. It compensates the A-pref. Credit Guarantee Association for its losses and financial institutions for losses from loans for R&D on frontier technology. Second, as a part of policy to promote and guide credit unions, A-pref. provides loans to them to strengthen their management base. The entire burden of 5.15 billion yen is on A-pref. This explains most of what is done in the three principal SME subdivisions of the Finance Division. Again, the SME financing policies of A-pref government<sup>50</sup> closely resemble the policies of the central government.

#### E. Industry Division

---

<sup>50</sup> <sup>50</sup>In talking about SBFC in C. of Part I, we talked mainly about its general loan system, as its share is more than 80%. The remaining share of less than 20%, called the special loans system, sometimes requires the assistance of local governments. The special loans system is a collection of policies for certain purposes, with special low rate loans. See endnote 21 above. Some of these loans require a determination of whether each applicant satisfies the conditions requested, and in some cases local government, (mainly cities, towns and villages, and only in rare cases prefectures) play the role, but seemingly rather automatically.

Besides financing policies, consider the other types of policy measures which seem to draw the wide attention of readers. In this section, I review the tasks of the Industry Division. I do so because the recent rise of public interest in Japanese SMEs parallels the spreading awareness of their importance for rapid industrial development and, therefore, the spreading interest in policies for SMEs in manufacturing.

The Industry Division with 17 employees and 6 managers. It consists of two subdivisions and two offices. The Manufacturing and Mining Promotion Subdivision (4 employees) is in charge of the "promotion of subcontracting enterprises" and "fusion<sup>51</sup> of enterprises." The Local Industry Areas Promotion Subdivision (4 employees) is for the "promotion of local industries" and "policies for traditional arts and crafts industries." One of the offices, the Office for Leather Industry (3 employees), is specialized in policies for the leather industry. The Technology Promotion Office, the other office (7 employees), is further divided into two sections. One section (3 employees) is for "technology policy", and the other (4 employees) is in charge of the tasks related to A-pref. the Institute of Industrial Research (118 employees), subordinate to the Industry Division, most of whom are technically specialized personnel.

---

<sup>51</sup> <sup>51</sup> Readers may ask what "fusion" stands for. This is a direct translation of "Yūgō-ka." It is one of the phrases newly created for policy slogan and, frankly speaking, I cannot imagine what it is from this curious and fuzzy phrase. Only I can say in this limited space is that it is one of the policies to promote cooperative activities of SMEs.

"Outline of the Industry Division 1992" shows that it takes a wide variety of task. For an exposition, let us see the list of their 9 types of policies. 1. Promotion of upgrading technology<sup>52</sup>. 2. Promotion of local industries and traditional arts and crafts industries. 3. Promotion of policies for the leather industry. 4. Promotion of industrial design. 5. Promotion of subcontracting SMEs. 6. Promotion of "fusion" of enterprises. 7. Policies for SMEs to keep labor force. 8. Promotion of policies for upgrading management. 9. Promoting policies for underground resources (i.e., mineral)<sup>53</sup>.

Of these 9 types, let us choose the 5th type and examine it closer. 7 policies are included here, and in all cases the budgetary burden is equally divided between the central government and A-pref.

(1) Smoothing subcontracting trades. 66 million yen.

(2) Organizing meetings to promote the autonomy of subcontracting enterprises. 2.5million yen.

(3) Consultation and guidance for subcontracting SMEs. 9.3 million yen.

(4) Organizing fairs for wider trade areas. 0.7 million yen.

(5) Promoting an on-line system for the broad scale mediation of trades. 3.1 million yen.

---

<sup>52</sup> <sup>52</sup> Most of the types in the list appear to correspond closely to policies of the central government, which reflects the close relation and division of roles between the central and prefectural governments.

<sup>53</sup> <sup>53</sup> At the top of the policies of this type is listed 3.7 billion yen for the construction of the Center for R&D on Frontier Technology mentioned above.

(6) Supporting activities to develop own distribution channels. 3.3 million yen.

(7) Organizing technology fairs for subcontracting enterprises. 11.2 million yen.

This list too reveals the resemblance between local and central government SME policies. Here again the government has adopted a wide variety of policy measures but on a tiny scale. Of these 7 policies, only the 7th is new.<sup>54</sup>

In addition, "Outline of the General Coordination Division 1992" shows that some of its tasks, such as "3. Promoting the establishment of cooperatives of SMEs," "4. Promotion of guidances for small enterprises," and "9. Promotion of consulting and guidance" seem to be for SMEs, and one can find the same resemblance. For example, "Promoting the establishment of cooperatives of SMEs" includes 12 policies, the budgetary burden of which is, in all cases, equally divided between the Government and A-pref., and none except for 12th policy<sup>55</sup> is new.

#### F. Technical Assistance

---

<sup>54</sup> <sup>54</sup> As is the same as the whole tasks of Industry Division, these policies correspond closely to policies of the central government. See the endnote 51 above.

<sup>55</sup> <sup>55</sup> Policy to support the activities of small business cooperatives to accept jointly foreign (workers as ?) trainees.

Besides financing policies, the most conspicuous measures among the policies for SMEs in Japan are the various activities called "consultation," "diagnosis," "guidance," "advice," or "assistance." In the following three sections I examine three of these activities. In this section, I explain the scope of the "technical assistance" granted through the A-pref. Institute of Industrial Research of which the Industry Division is in charge. In the next two sections, I explain the nature of the "consulting and guidance services" provided through the General Coordination Division.

Three technical centers (TCs), each for a special purpose, are subordinate to the Institute: the TC for Machinery and Metals (16 employees), the TC for Textiles (15 employees), and the TC for Leather (13 employees). The Institute has 74 employees of its own, and therefore employs 118 people in total.

The origin of the Institute is the establishment by the prefectural government of the Industrial Experiment Station in 1917. The newest technical center (TC for Leather) was established in 1948, just after the War. In 1967, the allocated number of total employees was 126, and each TC had 20, 21 and 7 employees, suggesting no big change in 25 years.

The total budget for the Institute in 1992 is 1.62 billion yen, of which 1.09 billion yen, 67.2% of the total, is for personnel expenses, and is wholly borne by A-pref. Within the budget, the central government provides 20 million yen of the total budget of 290 million yen for "maintenance and management" and "experiment and research." This occurs because the central

government supports half of the budgetary burden under various "policy expenses" such as "expenses for the training of technical personnel" and "expenses for meetings to study basic technology."

These types of institutes and TCs are not peculiar to A-pref. Every prefecture has its own institutions, whose origins, characters and roles are quite similar. As in the case of A-pref. which has special interests in specific industries such as textile and leather and has established TCs for them, each prefectural government has institutions for specific industries (usually, local industries).

According to "The 1970 Outline of Small Business Policies of the Small and Medium Enterprise Agency," there were 185 public experiment stations established by prefectures<sup>56</sup> in Japan. Employees at these stations served as technical personnel giving consulting and guidance services to SMEs. At the time around 1970, the central government was eager to improve such experiment stations and the quality of their technical assistance. It thus pursued a policy of choosing each year specific themes in the industries where it found an urgent need to raise their technical level. By bearing half of the budgetary burden, it supported policies to expand the scale and improve the quality of the activities for technical assistance and related experiment and research. In FY 1970 the central government chose 52

---

<sup>56</sup> <sup>56</sup> To be exact, we should add "Seirei Shitei Toshi (cities designated by government order)." In Japan, several big cities, such as Tokyo, Osaka, Nagoya etc., are designated and enjoy special privileges and responsibilities. The number of designated cities at present is 11, and at that time fewer than 10.

experiment stations in 38 prefectures<sup>57</sup>, and granted subsidies totaling 280 million yen<sup>58</sup>.

As for the effectiveness of the above policies, that is, technical assistance through these institutions and policies of the central government, readers should at least pay attention to the ratio of the total number of technical personnel to the number of SMEs. In the case of A-pref. there were 118 technical personnel to the 272 thousand establishments (34 thousand just in manufacturing). Even if these policy measures were quite effective, their overall effect could not have been very great<sup>59</sup>.

#### G. Management Guidance by Specialized Personnel

The fourth task of the General Coordination Division, "the Promotion of guidances for small enterprises," mentioned above in E., is to support the activities of the Boards of Commerce and Industry, their Federation, and the Chambers of Commerce and Industry. Through these groups the Division is to

---

<sup>57</sup> <sup>57</sup> Readers should note that there are only 47 prefectures, and 38 in 47 is 81% and not so strictly "selective."

<sup>58</sup> <sup>58</sup> The central government began the subsidy in 1963, and the total amount of subsidy in 1990 was 0.62 billion yen for 66 themes. See Kigyō to Josei (Enterprises and Support) 1991, MITI and Small and Medium Enterprises Agency, pp.471-4.

<sup>59</sup> <sup>59</sup> As we mentioned, originally they were established for specific industries and they seem still to maintain this character. On several occasions we hear from their users that they are quite useful, which does not contradict our overall evaluation.

develop and improve the management and technology of small enterprises in the region. Toward that end, it is to use various measures, including consultation and guidance on management, financing, taxation, accounting and labor related problems provided by management guidance personnel stationed in their offices, and bookkeeping instruction offered by professional bookkeepers and bookkeeping instructors.

The budget of the Division for this fourth task lists five policies. In each case, the burden is equally divided between the central and local governments, and no policy is new.

- (1) Expenses for management guidance personnel. 2.42 billion yen.
- (2) Expenses to complete consultation and guidance. 840 million yen.
- (3) Expenses to strengthen the system for guidance. 140 million yen.
- (4) Expansion of promoting activities for local commerce and industry.

160 million yen.

- (5) Expenses to complete the system for guidance. 1 million yen.

Under policy (1), nearly 700 specialized personnel are employed. They serve in the offices of the Chambers of Commerce and Industry and at the place of business. 321 management guidance personnel and 136 assistants, 93 professional bookkeepers are included there. In addition, a large number of specialized personnel provide consultation and guidance.

These policies of A-pref. are part of the policies of the central government called "Management Improvement Dissemination Program", and similar policies are implemented throughout Japan. The Management



Improvement Dissemination Program is carried out in accordance with the Law Concerning the Organization, etc of Commerce and Industry Association, enacted in 1960, to establish system for guiding small enterprises<sup>60</sup>. Roughly, the total number of specialized personnel in this program in the whole country is 25 times the number in A-pref., that is, 17,500. Of these people more than 8,000 are management guidance personnel and more than 4,000 are assistants<sup>61</sup>.

In order to let the reader gauge the effectiveness of the policies for the "Promotion of Guidances for Small Enterprises" carried out in line with "Management Improvement Dissemination Program," I here provide information on several possibly important points.

(1) It was in 1960 that the law for the program was enacted, on the first stage of Japanese "high-growth era." Therefore, the program did not help SMEs recover from the War or prepare for the coming high-growth era. Even if this type of policy can be effective, it takes long enough to organize the system, to prepare well trained personnel, and to be accepted widely by SMEs,

---

<sup>60</sup> <sup>60</sup> In the "Outline" it is explained as follows. "'Small scale enterprises," which make up a large portion of the small and medium enterprise sector, contribute greatly to the stability of the Japanese economic structure. Many of these small enterprises, however, operate with no clear distinction between management and housekeeping. The measure universally applied to larger enterprises, therefore, are not enough to promote the healthy growth of these small concerns." Here, "small enterprises" stands for enterprises with fewer than 20 regular employees, or fewer than 15 regular employees in commerce and services.

<sup>61</sup> See Table 7-2 of "Outline (1992)", p.430, for details.

that the policy's effects could have appeared only after people had already lost interest in the "dual structure."<sup>62</sup>

(2) There is a wide variety of views concerning with the objective and the character of the program. On one side is the widely held view that the program was introduced for political reasons. By this view, the program can only be considered a social policy, and cannot be economically rationalized<sup>63</sup>.

(3) In order to reach an unbiased evaluation on the effectiveness of such a program as an economic policy, one should look closer what such personnel can do for SMEs and investigate whether such a government-sponsored, centrally organized system can be efficient. At least at the first stage of the development of market economy, I suspect that it can be effective and efficient as a basic and standardized "education package"<sup>64</sup>.

---

<sup>62</sup> <sup>62</sup> Readers should remember the discussion in Parat I B. of this paper.

<sup>63</sup> <sup>63</sup> This view suggests that Liberal Democratic Party strongly supported the Program in order to acquire the political support of the SMEs. It was chosen just because then the opposition, especially the Communist Party, was gathering the support of SMEs by providing guidance and advice services. See, for example, Yoshitani[1975], Calder[1988] and for brevity fn. 27 of Miwa[1990b, p.40].

<sup>64</sup> <sup>64</sup> In Japan in and after the 1960s, this type of "education" could not be as effective and I am thus quite skeptical about its effectiveness. Some of the supporters of the above extreme view suggest that their central role is to advise SMEs on how to save taxes.

(4) Even if the policies in the program are effective, the program should be big enough to have effect. For example, readers should judge whether the actual ratio of specialized personnel to the number of SME establishments, in the case of A-pref., 700 to 200 thousand establishments<sup>65</sup>, is big enough.

(5) The quality of specialized personnel and their guidance service should be studied closely<sup>66</sup>.

#### H. Management Consulting and Guidance

The ninth task of the General Coordination Division, the "Promotion of Consulting and Guidance," is to promote SMEs' self-help efforts and make their administrative management more effective. The Division is to do so by carrying out research and analysis of the SME's management, at the requests of SMEs and their cooperatives. Seven policies are listed there. The budgetary burden is wholly on the central government in 1, 2 and 6 and equally divided in the others. None of the policies is new.

(1) General consulting service. 24.8 million yen.

(2) Consultation on how to modernize operations. 15 million yen.

---

<sup>65</sup> <sup>65</sup> The number of establishments with fewer than 4 employees is 188 thousand, 68.7% of the total, in 1986.

<sup>66</sup> <sup>66</sup> On several occasions we met the view that their quality, on average at least, could not be very high as the salary was too low to attract "professionals."

(3) Expenses to train small business consultants. 3.7 million yen.

The following four policies are carried out by the SME General Guidance Center of A-pref., which is subordinate to the General Coordination Division and has 19 employees.

(4) Expenses for the management counseling services. 0.3 million yen.

(5) Expenses to support SMEs to keep labor force. 0.7 million yen.

(6) Expenses for the traveling general consulting services. 8.4 million yen.

(7) Expenses for linking with other consulting groups. 0.6 million yen.

These policies of A-pref. are part of the policies of the central government called "Consulting and Guidance Program." Similar policies, including the SME General Guidance Center, are carried out everywhere in Japan. "Outline 1992" lists 30 consulting services, and 11,391 registered small enterprise consultants as of April.1, 1991. However, readers should note the budget for the policies is quite small, and in most cases the prefectural government bear half of the cost.<sup>67</sup>

#### I. A Short Remark on Part II

---

<sup>67</sup> <sup>67</sup> The comparison with the "Outline 1970" shows that the system and their contents have not changed greatly. The total budget size of the central government for this policy was, 170 million yen in 1963, 490 million yen in 1967 and 770 million yen in 1970.

As stated at the outset, the main objective of Part II of this paper was to provide detailed information on the actual process of policy implementation and the roles of local governments. In the process, I expanded the scope of this study in two dimensions: from financing policies to other types of policies, and from central government policies to local government policies. In general, this expansion yields conclusions much like those reached in Part I.

### Part III: Concluding Remarks

Viewed as "economic" policies, Japanese policies for small and medium enterprises have not been effective. This applies both to policies in total and to each policy individually. Therefore, the only lessons for developing countries are, (1) none of the policies has proven to be effective, and (2) some of the policies have proven to be ineffective.

Economists today generally agree that the huge number of small enterprises have contributed greatly to the rapid economic growth in Japan. Toward the promotion of such enterprises, the Japanese government has offered a broad array of policies. However, these policies of the central and local governments for SMEs have not played much of a role in promoting the development of such SMEs.

"Why have SMEs been so successful in Japan?" "what are the necessary circumstances and conditions for such growth by SMEs?" and "what can

government policy do to encourage such SMEs?" still remain open questions. One of the implications of this study is that the answers to these questions do not appear directly in the Japanese experience<sup>68</sup>.

Readers may wonder "then, why has the government's policy menu been so extensive?" "why have SMEs been so enthusiastic about those policies?" and "what are the basic character of those policies?" Although the objective of this paper is not to answer these questions, I will offer a short response here.

(1) The basic and common character of the policies for SMEs has been "social," and not "economic."

(2) Although those policies have not been effective in improving consumer welfare, each policy worked as a subsidy to some SMEs and had redistributinal effects. The enthusiastic response from some political groups follow from this fact.<sup>69</sup>

(3) Almost always a new policy requires a new law and a newly built organization with employees. These employees will then resist any attempt later to reduce the size of government. As a result, in Japan as everywhere else, it tends to be easy to expand government organization but quite hard to reorganize it and almost impossible to shrink it. The expansion trend and

---

<sup>68</sup> <sup>68</sup> As was suggested in A. of Part I, one sees the same kind of relation between Japanese economic growth and "Industrial Policy."

<sup>69</sup> <sup>69</sup>Sometimes those movements appeared to be for the sake of professionals in the movements, not for SMEs themselves, as is often the case for every political movement.

the extensive menu of policies is the straight reflection of this logic of government organization.

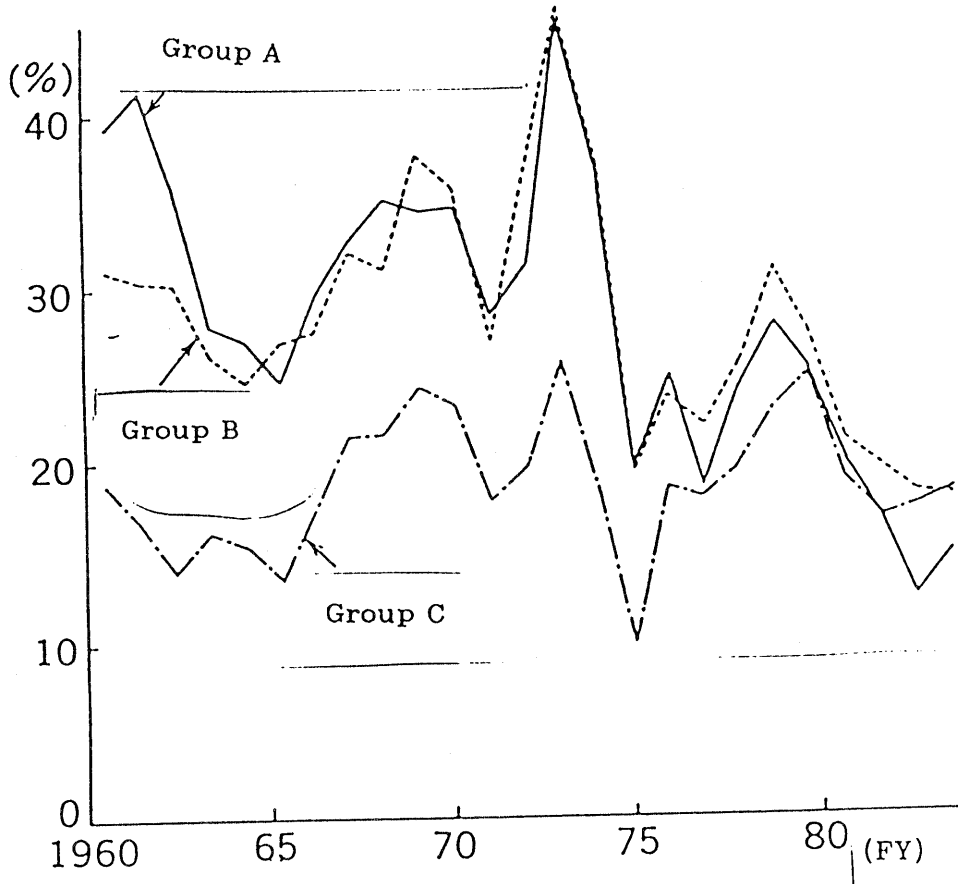
#### REFERENCES

- Calder, Kent E.[1988], Crisis and Compensation, Princeton University Press.
- Caves, Richard E.[1964], "Direct Regulation and Market Performance in the American Economy", American Economic Review, May.
- Kiyonari, Tadao[1973], "Niju Kozoron no Saiginmi (A Reevaluation of the dual structure thesis," Shōkō Kin'yu, Nov.
- Komiya, Ryutaro, Masahiro Okuno and Kotaro Suzumura eds.[1988], Industrial Policy of Japan, Academic Press.
- Miwa, Yoshiro[1988], "Coodination Within Industry: Output, Price, and investment", in Komiya et al eds.[1988].
- Miwa, Yoshiro[1990a], "Book Review of Saxonhouse and Yamamura, eds. Law and Trade Issues of the Japanese Economy", Journal of the Japanese and International Economies, 4.
- Miwa, Yoshiro[1990b], Nihon no Kigyō to Sangyō Soshiki (Firms and Industrial Organization in Japan), University of Tokyo Press.
- Miwa, Yoshiro[1993], "Economic Effects of the Anti-Monopoly and the Deconcentration Policies in Postwar Japan", in Teranishi and Kosai eds.

- The Japanese Experience of Economic Reforms, MacMillan, forthcoming.
- Organization for Economic Cooperation and Development[1978], Industrial Adjustment Policies, OECD.
- Patrick, Hugh T.[1965], "Cyclical Instability and Fiscal-Monetary Policy in Postwar Japan," in William W. Lockwood ed. The State and Economic Enterprise in Japan, Princeton University Press.
- Posner, Richard[1969], "Natural Monopoly and its Regulation", Stanford Law Review, Feb.
- Small and Medium Enterprise Agency (Chūshō Kigyō-chō), Small Business in Japan, annual (White Paper on Small and Medium Enterprises in Japan), Tokyo.
- Small and Medium Enterprise Agency, Outline of Policies for Small and Medium Enterprises, annual (Chūshō Kigyō Shisaku no Aramashi), Tokyo.
- Stigler, George J. and Claire Friedland[1969], "Why Can Regulators Regulate? The Case of Electricity," The Journal of Law & Economics.
- Yokokura, Takashi[1988], "Small and Medium Enterprises," in Komiya et al eds.[1988].
- Yoshitani, Izumi[1975], "Gyōsha Undō to Seiji no Sashin (Movements of Enterprises and Their Impacts on Politics)", in Seiji Keizai Kenkyū-jo (Research Institute for Political Economy) ed. Tenkanki no Chūshō Kigyō Mondai (Medium and Small Enterprises Issue in Transition), Shinhyoron, Tokyo.



Fig. 1. Rate of Profit on Equity (Paid-in Capital) of Corporate Enterprises in Japan: before tax, all industries. (%)



Group A: Enterprises with 5 - 10 million yen in capital.  
 Group B: Enterprises with 10 - 50 million yen in capital.  
 Group C: Enterprises with more than 1 billion yen in capital.

Source: Adopted from Miwa[1990b], Fig.1-1, p.13.

Prefecture	I			II					III								
	1	2	3	1	2	3	4	5	1	2	3	4	5	6	7	8	9
Hokkaido				○		○	○	○	○	○	○	○	○	○	○	○	○
Aomori				○		○	○	○				○	○	○	○	○	○
Iwate						○	○	○				○	○	○	○	○	○
Miyagi				○		○	○	○		○		○	○	○		○	○
Akita				○		○	○	○				○	○	○	○	○	○
Yamagata						○	○	○		○		○	○	○	○	○	○
Fukushima				○		○	○	○				○	○	○	○	○	○
Ibaraki	○				○			○			○		○	○		○	○
Tochigi	○					○	○	○				○	○	○		○	○
Gunma	○					○		○				○	○	○		○	○
Saitama	○							○				○	○	○		○	○
Chiba	○					○						○	○	○		○	○
Tokyo	○									○			○			○	○
Kanagawa	○																
Niigata				○		○	○	○		○		○	○	○	○	○	○
Toyama			○	○		○	○	○				○	○	○	○	○	○
Ishikawa			○			○	○	○		○		○	○	○	○	○	○
Fukui		○	○			○		○				○	○	○	○	○	○
Yamanashi	○					○	○	○				○	○	○	○	○	○
Nagano			○	○		○	○	○				○	○	○	○	○	○
Gifu			○			○		○				○	○	○		○	○
Shizuoka			○		○		○	○	○	○		○	○	○		○	○
Aichi			○		○			○		○		○	○	○		○	○
Mie		○	○			○		○		○		○	○	○		○	○
Shiga		○	○			○		○				○	○	○		○	○
Kyoto		○						○				○		○		○	○
Osaka		○						○				○		○		○	○
Hyogo		○			○	○	○	○	○	○		○	○	○		○	○
Nara		○						○				○	○	○		○	○
Wakayama		○				○		○		○		○	○	○		○	○
Tottori				○		○		○	○	○		○	○	○	○	○	○
Shimane				○		○		○	○	○		○	○	○	○	○	○
Okayama				○	○	○	○	○	○	○		○	○	○	○	○	○
Hiroshima				○	○	○	○	○	○	○		○	○	○	○	○	○
Yamaguchi				○	○	○	○	○	○	○	○	○	○	○	○	○	○
Tokushima				○		○		○		○		○	○	○	○	○	○
Kagawa						○	○	○		○		○	○	○	○	○	○
Ehime				○		○	○	○	○	○		○	○	○	○	○	○
Kochi						○		○		○		○	○	○	○	○	○
Fukuoka				○		○	○	○	○	○	○	○	○	○		○	○
Saga						○	○	○		○		○	○	○	○	○	○
Nagasaki						○	○	○		○		○	○	○	○	○	○
Kumamoto				○		○	○	○	○	○	○	○	○	○	○	○	○
Oita				○		○	○	○	○	○		○	○	○	○	○	○
Miyazaki				○		○	○	○	○	○		○	○	○	○	○	○
Kagoshima						○	○	○	○	○		○	○	○	○	○	○
Okinawa								○									
Total no.	8	8	9	17	7	37	26	43	14	26	7	24	41	44	27	44	22

Source: Adopted from *Chiiki Keizai Tokei Yorán* (Outline of Statistics for Regional Economies) 1991, The Japan Regional Development Corporation, pp.16-17.

Notes on the next page.

## Notes for Table 3.

- I. Policies for Improvement of Functions of Large Cities
  - I-1. Metropolitan District
  - I-2. Kinki District
  - I-3. Chubu District
- II. Policies for Industry Promotion (Sangyo Shinko)
  - II-1. New Industrial Cities (Shin Sangyo Toshi)
  - II-2. Specified Areas for Industrial Reorganization
  - II-3. Developing Areas (Tei-Kaihatsu Chiiki)
  - II-4. Technopolis Regions
  - II-5. Industry Introduction-Encouraged Areas (Yu-do Chiiki)
- III. Policies for Promoting Special Areas (Tokubetsu Chiiki Shinko)
  - III-1. Special Soil Areas (Tokusyu Dojo Chitai)
  - III-2. Isolated Islands
  - III-3. Coal Mining Areas
  - III-4. Heavy Snowfall Areas
  - III-5. Mountain Areas (Sanson Shinko)
  - III-6. Underpopulated Areas (Kaso)
  - III-7. Newly-Developing Areas (Koshin Chiiki)
  - III-8. Isolated Areas (Henchi)
  - III-9. Peninsula Areas