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THE WINDOW DRESSING OF ACCOUNTS AT THE PRESENT STAGE AND THE ACCUMULATION OF CAPITAL IN JAPAN

By Hidekazu NOMURA*

I

The main topics keenly discussed of late in economic circles as well as in newspapers are focussed on an ever-renewed record of business bankruptcies and, to make matters worse, a trend showing no signs of any better prospect including at the same time the problem of the window dressing of accounts as an open question. Among various views some even go as far as to speak as if the practice of window dressed accounts were responsible for such bankruptcies. Nevertheless, in spite of frequent controversial talk on the subject of window dressed accounts, such practices are frequently used not only as a means to push forward so-called "rationalisation schemes" at the sacrifice of working people, for instance the suspension of hostilities between capital and labour on the pretext of a so-called "deficit", or the attack on a capitalist footing against the working class under the mask of cooperation between capital and labour, but also as an instrument to reinforce or reorganise financial and administrative control, for example a big shake-up in the top management staff, leading to the further reinforcement or reorganisation of personnel relationships under the control of monopoly capital. In spite of the fact that certain specific aims as pointed out above are concealed in each case, whenever window dressed accounts are generally discussed as an open question, such aims have usually been neglected and such a practice has only been taken up so far to be blamed.

Although we have to admit that there are a variety of different countermeasures proposed for the solution of problems like that of certified public accountants (C.P.A.), the problem of organisational improvement, the problem of preparing consolidated financial statements, etc., while on the other hand some hold opinions that go as far as insisting that the improvement of the financial audit system would bring all matters to a settlement. Be it what they say, there can be little doubt that topics or discussions on the subject of window dressed accounts constitute one of the biggest questions in recent paper warfare.

Now, it must be noted that so-called window dressed accounts which are

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taken up as an open question are concerned with such cases that are characterised by an overstatement of profit. In other words, the characteristics of such a practice are those that give a semblance of some pretended profits without there being any actual profit in reality.

In this connection, however, it is necessary to study critically whether it can be adequately concluded that this practice which is in reality being carried on in the forementioned manner is definitely a typical trend these days or not. The reason is because it seems to be very likely that what is sought at the present stage by one of the main enterprises or industries operated under the financial and administrative control of a certain monopolistic financial body lies not in the overstatement of profit, but rather in reinforced internal accumulation through the understatement of profit. Putting it in another way, it is quite natural to assume that there could be no reason whatsoever for the necessity of overstating profit, and it might be more likely to produce the reverse effect in reality, even if one of the main industries or enterprises operated by a monopolistic financial body would proceed to carry out a policy of closing accounts solely for the purpose of reinforcing their own internal accumulation by setting forward their "rationalisation scheme", taking full advantage of the ever-renewed frequency-record of bankruptcy and business depression, and thereby attempting to complete the reorganisation of medium- and small-scaled capital through monopoly capital.

Needless to say, it must be admitted that the current business depression is in such aggravated and serious circumstances that some large-scale enterprises or industries have been forced to be partially involved, and I have no intention of underestimating the due acknowledgement of this fact. Yet I have a firm belief that their fundamental character should be sought in the trend of putting such a manner of closing accounts into practice, by which the principal monopolistic financial bodies have taken full advantage of the intensification of such critical situations for the purpose of their own accumulation. It is in this way that so-called "consciously exaggerated publicity", or demonstration of window dressed accounts, has come to be practiced as one of the indications of such a trend, and in this connection it must be noted that such a practice has come to be practiced with sufficient expectation of a certain effectiveness.

Before going into further clarification of the problem it may be necessary to elucidate the specific characteristics of the movements concerning financial activities in this country for the last few years on the basis of a few available data, during which period this practice of window dressing accounts has come to be much talked about.

In short, their characteristics may be described as a "liberalised" economic system, but the business depression or panic due to excessive production after the year 1963, when the liberated financial structure gradually began to play its part on a full scale, was "probably one of the most serious experiences that has ever been

Table 1. Bankruptcy Outlook

(Unit: ¥1,000,000)

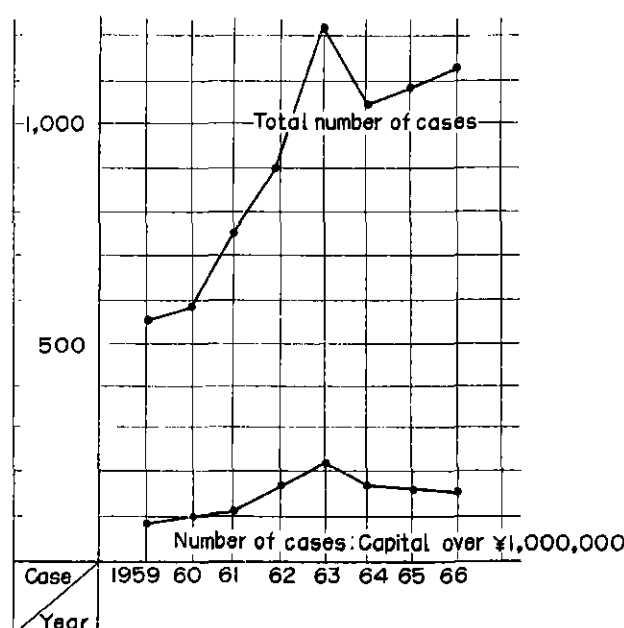
Year	Number of Cases	Total Amount of Debts
1963	1,738	1,694.6
1964	4,112	4,631.2
1965	5,690	5,378.0
1966	5,919	3,971.0
1967	8,486	5,169.0

Surveyed by the Teikoku Koshinsho.

faced after the war"¹⁾, making a sharp contrast with the most favourable business prosperity that had ever been enjoyed during the previous period.

As far as the bankruptcy outlook is concerned, the following trends can clearly be seen from Table 1: the frequency of cases of bankruptcy and the total amount of debts are found to show a far greater increase in 1964 and thereafter than in 1963, and this extraordinary situation has been kept up every year since then. This is a good indication of the facts that the intensity of the business depression did have the greatest import that had ever been experienced after the last World War, and at

Figure 1. Changes in the Total Number of Cases of Consolidation and Transfer of Business



Prepared from *The Annual Report of the Fair Trade Commission*, 1967, p. 39.

1) Mitsubishi Economic Research Institute, *Analysis of Management of Enterprises*, Latter Half ed., of 1965, p. 1.

the same time that the crablike fluctuations of the total amount of debts in contrast to the increasing frequencies of cases of bankruptcy showed the process of the reorganisation of medium-and small-scale capital by some monopolistic financial bodies.

Figure 1 shows the changes in the total number of cases of consolidation and transfer of business. It can be seen that this index, which shows the concentration of capital, gives us a striking indication of a concentrated state at a much higher level during the period from 1963 and thereafter, with the peak in 1963, than in any other years in the preceeding period. Therefore, it can positively be stated from these facts, as discussed already, that it was obviously during those days of the greatest business depression after the last World War when business bankruptcies spread in strikingly increasing tendency and the consolidation of minor enterprises was being effected in a mushroom growth, that the practice of window dressing accounts has come to be so much talked about as an open question.

II

It is rather inadequate, if viewed from the aspect of the current Japanese economic situation as already discussed, to regard the fact that the practice of window dressing accounts, which had been problematically taken up so often by press criticism, is none other than an overstatement of profit as the typical form of actual financial management of most of the principal monopolistic financial bodies, but it is true that whenever the practice of window dressing accounts is taken up as an open question, what is concerned is the dishonest overstatement of profit in the form of the earmarking of fictitious profit. Consequently, it leads us to conclude that the more watchfully attention is directed only to the point of overstatement of profit, whenever the practice of window dressing accounts is talked about, contrariwisely the more doubts are obliged to be induced as to the possibility of the practice of window dressing accounts under the mask of the understatement of profit which can be theoretically conceivable.

Therefore, as far as the major monopolistic financial bodies are concerned, it follows that the practice of window dressing accounts at the present stage is characterised by the understatement of profit, and at the same time the problem involved here naturally gives rise to another debatable which is the point, suspicion of different possibilities that the primary purpose of the practice of overstating profit carried on by the major monopolistic financial bodies may be not merely to detract public attention from window dressing in the form of understatement of profit, but may also be to conceal a great many deliberate attempts to push forward so-called "rationalisation schemes" under a feigned pretext, as if it were the responsibility of the administrative staff to do so by agitating the sense of the pinch of hard times, and to carry on their further accumulation of capital, thereby

reinforcing their own administrative control over many smaller enterprises or industries.

The logical conclusion from such a conception of the problem is that the key-subject to be analysed should be concentrated on those financial statements that have been made public by the main enterprises or industries operated under the control of the major monopolistic financial bodies, and a factual trend, if any, should be corroborated from the concrete figures of such data. In this case it is needless to say that a detailed explanation with respect to some limited conditions of such corroboration and certain theoretical problems may be required to a certain extent.

In the meanwhile it must be understood that the figures in those financial statements are of such a nature, generally speaking, as to have been prepared and made public with due consideration of their publicity effect. In this sense it must be taken into consideration that all enterprises or industries usually make it a point to settle accounts with sufficient consciousness of the benefit or object to be obtained by publicity. Of course it is true that not all figures of financial statements are of such a nature that can be prepared entirely volitionally, but as far as those profits that may be made public in the form of financial statements are concerned, their calculations are, fundamentally speaking, characterised more or less with the presupposition of such a publicity effect, and are prepared and established by adopting a varied kind of systematical calculation in conformity with the business accounting system, commercial law, tax law, etc., respectively each of them having its own exclusive method of calculation.

Consequently, profit according to the accounting system of any enterprise is something completely different from the profit of substantial individual capital in the economists' sense. It is, so to speak, a concept of profit conceived through the instrumentality of "the exclusive method of calculation for the financial accounting system". From this point of view it is impossible to regard substantial profit and publicised profit in the accounting system as being identical in nature.

The data with which we are directly concerned are, of course, the figures made public in the form of the accounting system by some enterprises or those appearing in such financial statements, and accordingly we are going to deal only with those figures that are entered within the extent of the exclusive accounting system of each enterprise or industry.

Now, in addition to the limitation of the present problem described above it is helpful for further discussion in this connection to make the meaning of the term "window dressing" clear. In other words, it is possible to distinguish two different kinds of "window dressing" in the sense of accounting in the following two different categories of concept. By "window dressing" is meant in both cases the fact that the figures made public are not consistent with a certain criterion, and what is problematical is concerned with the content of such a criterion.

- (A) The First Concept—That which is based on the criterion of profit conceived only in conformity with the exclusive system of accountancy. Window dressing in this case is composed of deliberate dressing of an unlawful nature, which involve some financial makeshift, concealment or illegality.
- (B) The Second Concept—That which is based on a substantial profit in the economists' sense of the word. Therefore, window dressing in this case is composed of dressing that is authorised by the existing financial system, settled disposals on regulations.

Of the two above-mentioned categories what is generally taken up as an open question is window dressing in the first category. It is, however, natural that the more important the role played by a nation at the monopolised stage is, the more fundamentally essential window dressing in the second category becomes for such monopolistic bodies. Consequently my opinion about window dressing has to be limited of necessity to window dressing not in the first but in the second category.

It is a well-known fact that legal systems such as the business accounting system, taxation law and commercial law, etc., are intrinsically none other than reflections of the needs of monopolistic bodies at the present stage when viewed from the process of their formation, and they are so established that, should there be any inadequacy to the slightest extent, they would after all be immediately revised, if not in the course of a certain lapse of time. In this connection it must be noted that in such systems a certain window dressing of the understatement of profit is fundamentally warranted, and its typical manifestation is the "Principle of Conservatism" prescribed in Clause 6 of the general principles of business accounting. This principle of conservatism prescribes that "whenever there is a possibility of inflicting an unfavourable influence upon the finances of any enterprise, a sound accounting disposal should be adequately effected". Now, what it means in actual practice is, in short, that the anticipated profit is not to be appropriated and the anticipated loss is to be appropriated, which would result in the understatement of profit.

A great number of demands for revisions of the business accounting systems which were actively proposed to protect the capitalist's interests by the Federation of Economic Organisations, as well as the Federation of Kansai Economic Organisations, during the period after the year 1960 when "the policy of rapid growth" came to be adopted in the national economic policy of this country may be summarised as follows:

- (1) Revision of the Anti-Monopoly Law—Its import is the necessity of further concentrating capital and further reinforcing administrative control over minor industries to cope with the liberalisation scheme at hand.
- (2) Revision of the Taxation System—Its import is to put priority on the reduction of corporate income tax.

- (3) Proposal so that the useful life of fixed assets may be shortened and depreciation may be interpreted in an elastic manner.
- (4) Proposal to enact legislation so that the temporary measures for allowances may be perpetuated.
- (5) Proposal to extend the extent of allowance and not to limit its maximum amount, breakdown amount or transferable amount.
- (6) Proposal to leave everything at the disposal of a sound financial convention without making any circumstantial provisions.

The fact that the fundamental imports of all these proposals have been materialised through legislative measures by the government can be sufficiently confirmed by the realities, such as the shortening of the useful life of fixed assets by the revised taxation regulations in 1961 and 1964, the reduction in the rate of corporate incometax²⁾ and the establishment of special allowances introduced by the revised commercial law in 1963.

Henceforth the present study is intended to analyse the following two issues at question based on the above-mentioned facts: (a) To what extent did the monopolistic financial bodies make use of the practice of window dressing accounts, tolerated both by the business accounting system and legal regulations which were originally orientated to favour the understatement of profit? (b) To see how the practice of this tolerated window dressing of their accounts was utilised in the published financial statements of individual enterprise or industries, particularly during the period of the business depression and specifically in those days when this practice of window dressing in the sense of the first category was so much talked about as an open question, taking advantage of the frequent bankruptcies at that time. Next it will be clarified in this brief paper that there does exist a very close relationship between the two different patterns of window dressed accounts in the sense of the first and second categories. And when it has been made clear that these two types of window dressing in reality happen to be related with each other by nature, then the involved problem of the practice and structure as a whole of window dressing accounts at the present stage can adequately be brought to light.

III

It is not so rare for the causes of business bankruptcies to be sought in the practice of window dressing accounts, but it is obvious enough that they are not

2) The successive reduction in the tax rates for assessable incomes runs as follows: 38% for 2 million yen or more and 33 % for less than 2 million yen up to 1964: 37% for 3 million yen or more and 31% for less than 3 million yen in 1965: 35% for 3 million yen or more, or capital of 100 million yen or more and 28% for less than 3 million yen in 1966. However, a special tax reduction has been effectuated for a specific kind of monopolistic financial body by the Special Taxation Act, which has been put into effect every year in a variety of forms. In addition, apart from such a partial measure the tax rates for corporations have also been reduced.

caused by window dressing due to the overstatement of profit. Business bankruptcies at the present stage are inevitably caused by the international liberalisation scheme and domestic over-production, and they are at the same time consciously facilitated by the monopolistic financial bodies. There is no need to repeatedly point out the fact that administrative control through the power of capital and reorganisation in the form of consolidation are being reinforced. It is in this sense that the problem of window dressing accounts comes to be talked about as a means of attack used by the monopolistic financial bodies. In other words, they are availing themselves of a clever use of the problem of window dressed accounts as a means of reinforcing their capital.

In the meantime the monopolistic bodies are availing themselves of that kind of systematically tolerated window dressing in the form of the understatement of profit under the mask of talking about the problem of window dressing belonging to the first category. Now, what could they achieve in doing so? In other words, what is intended to be achieved by the tolerated window dressing of accounts in the sense of the second category through the understatement of profit?

According to Mr. Shintaro Kawai³⁾ the following six cases are pointed out: (1) when corporate income tax is to be evaded, (2) when a secret reserve or secret assets are to be created, (3) when there is the necessity of preparatory action to acquire the company's properties, (4) when there is the necessity of providing means to strengthen the financial foundation of an enterprise, (5) when there is a need to plot the balancing of profit sharing and (6) when there is the necessity of raising funds to make a defensive purchase as a means of preventing the company from being taken over. In a similar manner the following nine aims are pointed out by Mr. Fujiyoshi Sakamoto:⁴⁾ (1) legalised tax evasion, (2) restriction of labour wages, (3) limitation of profit sharing, (4) limitation of dividend sharing, (5) standardisation of profit, (6) reinforcement of the financial foundation, (7) prevention of competition with other enterprises, (8) concealed consumption of properties and (9) patching up of errors and illicit gains. Taking these views into due consideration, the present writer would rather summarise the possible aims of the understatement of profit in the following six items: (1) tax evasion or exemption, and tax reduction, (2) counter-measures against "rationalising schemes"—restricted labour wages, discharge, and loss shifted to sub-contractors, (3) limitation of dividends and their balancing, (4) reinforcement of competition and control, (5) furnishing of data to support the increase in prices or fees and (6) seizure of properties.

Next turning to specific ways of understating profit for financial statements in order to achieve such aims, they can be summarised in the following three ways:

3) Shintaro Kawai, *Window Dressing of Accounts and Legal Responsibility*, 1965, p. 5.

4) Fujiyoshi Sakamoto, "Problems of the False Statement of Business Income", *Knowledge of Finance*, Vol. 4, Jan. 1955, p. 33.

- (1) The understatement of properties comes naturally to result in the overstatement of expenses. Its content is composed chiefly of overdepreciation and partly of appropriation of allowance for doubtful debts against accounts receivable.
- (2) The excessive establishment of allowance. For the reasons that the special allowance which is approved to be established by the revised commercial law and the establishment of a reserve fund by the tax law are lawfully allowed to make an understatement of profit, these items including the liability reserve must be placed under our close scrutiny.
- (3) The appropriation of disposed profits to expenditure comes naturally to result in the overstatement of expenditure. These which are contained within entertainment expenses and advertising, etc., are essentially what should be entered as profit and should not be entered as expenditure, which comes to result in the understatement of profit.

Since it is seen that the understatement of profit has been practiced in the manner described above, various financial statements will be taken up as subject-matter for our close examination from the three following angles: (1) the growing tendency of depreciation: in other words, the increasing tendency in the rate of allowance for depreciation, (2) where any allowance account is established irrespectively of any possible name it may be entitled to, the increasing tendency in the amount of its establishment as well as (3) the increasing tendency in expenditure. Needless to say, even if it is impossible to say that the increase in expenditure is directly caused by the appropriation of disposed profits to expenditure, it should be reasonable, enough to consider that at least the possibility of it might be detected. Consequently, as our next step it will be attempted to corroborate, by making a close examination of relevant financial statements made public by monopolistic enterprises, based on the three above-mentioned angles, that the conduct of accounting by monopolistic enterprises is, fundamentally speaking, directed towards making understatements of profit.

IV

When financial statements are to be analysed for the present study, the analysis should proceed to check the overall tendency common to all industries including major manufacturers in order to confirm a general trend to begin with, and then examine the individual tendency with respect to each enterprise which is being operated under the control of a certain monopolistic financial body.

The very first item to be examined, for instance, is the subject of depreciation. A tendency for the rate of depreciation to increase is clearly seen, as indicated in Table 2 which shows the changes in the rate of depreciation.

Table 3 shows the rate of allowance for depreciation during the period under

Table 2. Rate of Depreciation (%)

Year	All Industries	Manufacturing Industry
1956	9.0	9.3
1957	8.7	9.2
1958	8.4	9.3
1959	8.4	10.6
1960	8.9	9.2
1961	9.3	10.1
1962	9.8	10.5
1963	9.9	10.5
1964	11.0	12.0
1965	11.0	12.2
1966	11.2	12.4

The Ministry of Finance, *Monthly Statistics for Finance and Banking*, No. 193, November 1967, p. 39.

Table 3. Rate of Allowance for Depreciation (%)

	Year	All Industries	Manufacturing Industry
1963	1st half	35.87	40.25
	2nd half	36.65	41.25
1964	1st half	38.12	43.02
	2nd half	39.53	44.30
1965	1st half	40.81	45.42
	2nd half	41.93	46.75
1966	1st half	43.37	48.45
	2nd half	44.59	49.78
1967	1st half	45.10	49.79
	2nd half		

Prepared from Mitsubishi Economic Research Institute, *Statistical Edition of Analysis of Enterprise Management, 1963-67*.

discussion when the serious business depression and the resulting frequent bankruptcies began to become widespread, that is, the period when the practice of window dressing accounts came to be so much talked about. Since the increase in the depreciation ratio is observable, it is natural that the increase in the rate of allowance should be indicated.

Next turning to the checking of items of allowance and expenditure (sales expenses and general administrative expenses), it can be confirmed according to Table 4 that the increase in the allowance reserve is greater than that in the total

amount of sales. Furthermore it must be noted that even the absolute amount shows tendency to increase and this tendency should be far more conspicuous than that indicated by the mere figures when the decreased number of companies studied is taken into consideration.

As for the expense item, while Table 4 (1) which is concerned with all industries shows no such striking tendency, Table 4 (2) which is concerned only with manufacturing industry shows a greater increase in expenses than in total sales, though only to some extent. Substantially speaking, the content of such expenses should not increase in proportion to the increase in the amount of total sales because the appropriation of general administrative expenses should be of a fixed nature. Consequently it should not be entirely without good reason to say that the fact

Table 4 (1). Liability Reserves and Expenditure

(Unit: ¥1,000,000)

Year	No. of Companies	All Industries					
		Short Term Allowance	Long Term Allowance	Sales Amount	Sales Costs	Sales Expenses & Administrative Expenses	
1963	1st half	650	153,251	369,835	9,757,179	8,209,645	882,832
	2nd half	650	159,711	440,197	10,938,266	9,201,206	978,070
1964	1st half	640	186,600	513,312	11,709,231	9,870,430	1,073,023
	2nd half	632	194,717	551,770	12,377,712	10,495,427	1,113,509
1965	1st half	632	204,681	610,086	12,678,193	10,776,079	1,157,521
	2nd half	618	218,016	640,814	13,090,591	11,151,728	1,181,545
1966	1st half	618	256,428	727,898	14,063,335	11,918,956	1,277,539
	2nd half	618	289,717	807,499	15,404,665	13,051,507	1,367,090
1967	1st half	614	328,479	928,598	16,639,628	14,098,576	1,463,094
1963	1st half		100	100	100	100	100
	2nd half		104	119	113	112	111
1964	1st half		122	139	120	120	122
	2nd half		127	149	127	128	126
1965	1st half		134	165	130	131	131
	2nd half		142	173	134	136	134
1966	1st half		167	197	144	145	145
	2nd half		189	218	158	159	155
1967	1st half		214	251	171	172	166

Table 4 (2)

(Unit: ¥1,000,000)

Year	No. of Companies	Manufacturing Industry				
		Short Term Allowance	Long Term Allowance	Sales Amount	Sales Costs	Sales Expenses & Administrative Expenses
1963 1st half	476	117,264	242,472	4,994,378	3,980,599	553,303
1963 2nd half	476	133,817	282,056	5,593,873	4,428,011	629,451
1964 1st half	470	156,166	313,973	5,975,138	4,751,528	693,285
1964 2nd half	463	167,749	338,114	6,294,557	5,043,622	724,967
1965 1st half	463	173,832	361,069	6,321,527	5,093,521	739,572
1965 2nd half	452	186,397	379,820	6,566,044	5,298,105	758,558
1966 1st half	452	214,042	422,868	7,092,506	5,683,951	820,486
1966 2nd half	452	244,554	478,990	7,798,339	6,215,476	885,262
1967 1st half	449	281,038	561,648	8,522,953	6,795,116	949,534
1963 1st half		100	100	100	100	100
1963 2nd half		114	116	112	111	114
1964 1st half		133	129	120	119	125
1964 2nd half		143	139	126	127	131
1965 1st half		148	149	127	128	134
1965 2nd half		159	157	131	133	137
1966 1st half		183	174	142	143	148
1966 2nd half		209	198	156	156	160
1967 1st half		240	232	171	171	172

Prepared from Mitsubishi Economic Research Institute, *Statistical Edition of Analysis of Enterprising Management, 1963-67*.

such fairly exact proportional relationships are observed would indicate the possibility of some additional appropriation of disposed profits to this item, even if not all of the increase in question might be ascribable to it. As a result of such an analysis of the general tendency the essential methods which might possibly be used to make an understatement of profit are thus definitely confirmed.

V

Now, what is going to be further undertaken is to cross-examine the conclusion arrived at through the analysis of the overall tendency as a whole, as already seen,

against what is to be shown by the relevant financial statements made public by each individual enterprise being operated under the control of a certain monopolistic body. Hence, our next analysis will be attempted case by case with due consideration of the special conditions in each individual enterprise.

To begin with, it may be necessary to state the reason why specific kinds of enterprises were selected for the present study. Generally speaking, representative enterprises were picked which belonged to industries that could be regarded as occupying particularly important positions in the capitalistic production structure of this country these days.

For instance, the iron and steel industry, which comprises the key enterprise in the primary group of industries, was selected. This business field has not altogether been enjoying prosperity generally due to excessive investment for equipments and facilities and has sometimes been forced into such a bad situation that some reduction in dividends had to be expected, but this industry was specially selected for our study. Also, the electric power industry, which comprises one of the nuclei of the energy group, was picked and an automobile manufactures and a heavy Electrical Equipemt Machinery company, which has a fundamental position in the Machinery industry, were also selected. The reasons for selection and names of the enterprises selected run as follows:

A. Iron & Steel:

Yawata Iron & Steel Co., Ltd.

Sumitomo Metal Industries, Ltd.

B. Electric Power

Kansai Electric Power Co., Inc.

C. Automobile

Toyota Motor Car, Co., Ltd

D. Heavy Electrical Equipment & Machinery

Hitachi Works (Seisakusho), Ltd.

Reasons for Selection

(1) Yawata Iron & Steel Co., Ltd.

Though their business results have not been entirely satisfactory (in fact their dividends were reduced in 1966), this company is one of the largest iron and steel works in this country which has been protected and brought up by the Government since its establishment. Because its leading position in its business field has been maintained just as before, no company other than Yawata can better represent this field.

(2) Sumitomo Metal Industries, Ltd.

Its relative position in the field of iron and steel business is rather low-ranked. However, its recent growth of productivity is outstanding in this business

Table 5. Growing Rate of Production, 1955-1965 (Expressed in Magnification)

Names	Pig Iron	Blister Steel
Yawata Iron & Steel	4.1	3.4
Fuji Iron & Steel	3.3	3.3
Nippon Kokan	4.2	3.7
Kawasaki Iron & Steel	11.1	5.5
Sumitomo Metal Industries	22.0	7.2
Kobe Iron & Steel	—	7.0

Shiro Nagai, "Domestic Competition and Overseas Marketing of Japanese Iron & Steel Business", *The Economic Review*, May 1966, p. 13.

field and its achievement is clearly seen in Table 5, which shows the growth rate of its production for the period of ten years from 1955 to 1965. Moreover, it is operating as one of the main enterprises operated by the Sumitomo Financial Group.

(3) Kansai Electric Power, Incorporated

This company is not directly connected with any financial Group, but is technically under the control of the Mitsubishi Financial Group, one of the leading financial combines in this country and it comprises a major plant supplying electric power. Though it has the character of a public utility, the amount of its tax-payment ranks very high every year.

(4) Toyota Motor Car Co., Ltd.

The production of this company ranks first among all car-makers in this country, but its business is being directly affected by the influence of liberalisation, being open to the menace of car-making capital from overseas, particularly the U.S.A. However, in view of the facts that the reorganisation and further monopolisation schemes of this business field have been put into effect by the amalgamation of the Nissan Automobile Industry and Prince Automobile Industry and that the more exclusive business of the two companies of Toyota and Nissan-Prince are framed up, this industry represents one of the most promising growth industries, in which needless to say many minor car-making companies other than those referred to participate in the competition. The Toyota Motor Car Co., viewed from the aspects that it not merely maintains the highest position in its business field, and that it comprises one of the major enterprises operated by the Mitsui Financial Group, one of the leading financial combines in this country, deserves selection as one of the representative enterprises showing particularly promising growth.

(5) Hitachi Seisakusho (Works), Ltd.

This company enjoys the position of being in the top position in the field

of heavy electrical equipment and machines. Though they used to develop their own independent activities, they are obliged these days to lean in an increasing tendency on the support of the capital of the Fuji financial group, because of the circumstances of their recent over-production.

Now, after completing the selection of five enterprises for the analysis of the relevant financial statements it may be helpful for the adequate evaluation of the results to be achieved to define clearly the limitation of the analysis to be made. One important point which must be confirmed in this connection is the fact that, although those enterprises which were picked up for our analysis happen typically in each case to be one of the main enterprises, each of which is operated respectively under the control of a certain monopolistic financial body, yet at the same time each of them constitutes an individual enterprise, i.e., an accounting unit as regards calculation from the legal aspect. It is generally accepted that the financial combine or group is of such a nature that the function of accumulating capital is, as it were, controlled by each monopolistic financial body through a banking enterprise which is to carry out the primary aim of such a financial body, which seeks nothing but financial gain and control on the one hand, and through related commercial companies, which are to take charge of securing raw materials and selling finished products on the other. Consequently it follows that the characteristics of a monopolistic financial body—if narrated in the sense of the present problem, an analysis to detect the primary purpose of the publicity-effect of various financial statements—may lead to extremely insufficient or decisively wrong judgements in some cases, unless at least two enterprises in these categories (needless to say, it is not intended to say that the two would always suffice for the purpose) are analysed in relation to other enterprises in charge of their main production.

Now, before proceeding to the further analysis of the financial statements made public by individual enterprises, we must again remind ourselves that the results analysed must be duly evaluated with an understanding of the forementioned limitation, i.e., the fact that the selected individual enterprise undoubtedly comprises one of the main enterprises which is operated under the control of a certain monopolistic financial body, but at the same time it is by no means such a financial body in itself, that is, it does not represent all the phases of such a body. In this sense it should be kept in mind that the analysis to be made here implies a conclusion only within the scope of a fixed limitation.

To begin with, the analysis of financial statements of the Yawata Iron & Steel Co., Ltd. is taken up here. Table 6 shows, when checked, keeping the aggravated results of iron and steel business due to excessive investment for equipment and facilities in mind, that the rate of depreciation has been approximately 11% on the average: the annual rate for every fiscal year turning out to be higher than that for the second-half of 1962. What is characteristically noted is an increase by a large margin of the special allowance reserve. The items established in this special

Table 6. Yawata Iron & Steel Co., Ltd.

(Unit: ¥1,000,000)

Fiscal Year	Total Sales		Sales Expenses & Administrative Expenses		Special Allowance Reserve		Retirement Allowance Reserve		Rate of Depreciation
1962/10-1963/3	100,813	100	6,633	100	1,591	100	9,329	100	10.72%
1963/4 -1963/9	113,235	112	7,232	109	2,002	126	10,186	109	11.97%
1963/10-1964/3	130,106	129	7,967	120	3,446	217	10,089	108	11.27%
1964/4 -1964/9	142,227	141	8,901	134	4,944	311	10,999	118	11.97%
1964/10-1965/3	147,138	146	9,141	138	4,570	287	11,123	119	12.02%
1965/4 -1965/9	146,434	145	9,311	140	4,141	260	12,222	131	11.18%
1965/10-1966/3	146,099	145	8,811	133	4,283	269	12,427	133	11.01%
1966/4 -1966/9	166,087	165	10,092	152	4,017	252	13,372	143	11.54%
1966/10-1967/3	204,748	203	12,766	192	11,429	718	13,754	147	11.56%
1967/4 -1967/9	212,759	211	14,836	224	17,260	1,085	14,866	159	10.86%

Prepared from *The Summary of Report on Securities*, No. 11-1.

allowance reserve of this company are composed of the reserve for doubtful debts, allowance for special repairs, allowance for extraordinary depreciation, special allowance for replaced assets, reserve for price fluctuations, reserve for overseas market development and reserve for the loss from overseas investments, but it has come to be a practice that a large separate item of special allowance is to be entered on the credit side, effective since the settlement of accounts in March 1964. It must be noted, particularly when the aggravated business condition of this company was so much talked about, that the added total of the retirement allowance reserve which belongs to the fixed assets and the special allowance reserve is found to be almost equivalent to 10% of the total sales, but the former shows a far greater increase than the latter. The steady increase of expenses is also observed. Consequently, it can be concluded from the facts such as the prominently increasing tendency of allowance as a most influential factor, holding of 11% rate of depreciation and an increasing tendency of expenses, that there are sufficient indications that this company has been making a practice of the understatement of profit, as could be expected when the aggravated business conditions and excessive competition in the field of the iron and steel business are taken into consideration.

Table 7 is concerned with Sumitomo Metal Industries, Ltd. The rate of depreciation of this company is found to remain at a high level after the year 1964, and their allowance reserve came to be appropriated as a separate item on the credit side after the settlement of their accounts in March 1967, its breakdown being composed of reserve for special repairs, reserve for overseas market development, special allowance for replaced assets, allowance for the extraordinary

depreciation and reserve for price fluctuations. However, it was only the reserve for price fluctuations that used to be included in the current liabilities prior to that time, and all other kinds of allowance and the retirement allowance reserve used to be included in the fixed liabilities but from the time of the settlement of accounts in March 1967 the retirement allowance reserve came to be appropriated as current liabilities. Consequently, the allowance reserve shown in Table 7 represents an amount from which the price fluctuation reserve is excluded but in which the retirement allowance reserve is included. For that reason it is not consistent with the amount represented in the balance sheet for the fiscal year of 1967, since these figures were prepared only for the purpose of comparison through the forementioned process. The tendency to of the allowance reserve increase together with the tendency of the price fluctuation reserve to increase are found to exceed the increase of total sales, showing that the accumulation of the allowance reserve is being steadily accelerated.

Table 7. Sumitomo Metal Industries, Ltd.

(Unit: ¥1,000,000)

Fiscal Year	Total Sales		Sales Expenses & Administrative Expenses		Allowance		Price Fluctuation Reserve		Rate of Depreciation
1962/10-1963/3	46,782	100	5,507	100	3,428	100	300	100	10.93%
1963/ 4-1963/9	54,193	116	5,894	107	3,556	104	500	167	11.38%
1963/10-1964/3	67,441	144	7,419	135	3,903	114	1,000	333	10.85%
1964/ 4-1964/9	79,339	170	8,546	155	4,455	130	1,300	433	12.42%
1964/10-1965/3	81,847	175	9,132	166	4,562	133	1,800	600	12.39%
1965/ 4-1965/9	85,623	183	10,100	183	5,515	161	1,800	600	12.10%
1965/10-1966/3	86,153	184	10,076	183	5,882	172	2,000	667	11.22%
1966/ 4-1966/9	98,728	211	11,070	201	7,946	232	2,200	733	11.24%
1966/10-1967/3	121,730	260	12,718	231	14,145	413	2,700	900	11.44%
1967/ 4-1967/9	142,583	305	15,494	281	19,694	575	3,200	1,067	11.64%

Prepared from *The Summary of Report on Securities*, No. 11-5.

As for expenses, it is found that they increase roughly in proportion to the total amount of sales and it is possible to assume that expenses are, relatively speaking, tending to expand when the fixed expenditure included here is taken into due consideration. Consequently, it is seen that this company is also characterised by the tendency of the depreciation ratio to increase at a high level, the tendency to increase of the allowance reserve and tendency of expenses to expand. Hence it can be understood that the accumulation of capital is being enforced by Sumitomo Metal Industries, Ltd., by making use of such tolerated financial procedures as

making an understatement of profit, if the excessive competition in the iron and steel business is taken into due consideration in the same manner as described in the analysis of the Yawata Iron and Steel Co., Ltd.

Table 8 furnished the materials prepared from the relevant financial statements of the Kansai Electric Power Company Incorporated. Here again the tendency of the depreciation ratio to increase is clearly indicated. Particularly the retirement allowance reserve is found show such a striking tendency to increase that an absolute sum to an enormous amount equivalent to 30% of operating revenues is established. The content of this reserve is composed of reserve for water stocks, reserve for price fluctuations and reserve for self-insurance, the decrease of this allowance being ascribable to the flattening out of the reserve for water stocks. On the other hand expenses are found to be comparatively stabilised and no tendency to increase of the disposed profit is observed, with the exception of the settlement in September 1967. Consequently, it can be concluded, from the facts such as the striking tendency to increase of the depreciation ratio and an enormous tendency to increase in the established amount of the retirement reserve, that the further accumulation of capital is also being enforced by this company by overstating their profit, by means of the flattening out of the reserve for water stocks and also by taking advantage of other financial systems.

Table 8. Kansai Electric Power Co., Incorporated

(Unit: ¥1,000,000)

Fiscal Year	Total Sales		Sales Expenses & Administrative Expenses		Allowance		Retirement Allowance Reserve		Rate of Depreciation
1963/ 4-1963/9	68,281	100	7,390	100	4,533	100	20,837	100	7.89%
1963/10-1964/3	77,595	114	7,494	101	1,228	27	23,527	113	8.04%
1964/ 4-1964/9	78,003	114	7,195	97	203	5	26,233	126	8.37%
1964/10-1965/3	85,223	125	7,034	95	306	7	28,447	137	8.39%
1965/ 4-1965/9	87,306	128	7,666	104	601	13	31,079	149	8.61%
1965/10-1966/3	90,376	132	6,940	94	1,669	37	32,884	158	8.60%
1966/ 4-1966/9	96,554	141	8,770	119	2,741	60	35,529	170	8.70%
1966/10-1967/3	103,910	152	7,997	108	3,303	73	36,479	175	8.82%
1967/ 4-1967/9	112,209	164	10,434	140	2,693	59	38,830	186	8.77%

Prepared from *The Summary of Report on Securities*, No. 26-3.

Table 9 is concerned with the Toyota Motor Car Co., Ltd. It deserves special note that the depreciation ratio is found to be increasing and to be maintained at as high ratio as 30%. Also, the tendency of the special allowance reserve to increase indicates a startling figure. It does imply some significance that this allowance reserve has come to and been maintained to be appropriated at an amount equivalent

to 10% or more of the total amount of sales after those days when the depreciation ratio increased to as a high level as 30% or more. It can also be confirmed that the tendency of the retirement allowance reserve to increase exceeds that of the amount of total sales and again the tendency of expenses to increase by far exceeds that of the amount of total sales. Even though it can be admitted that the car-making business is confronted with serious excessive competition, such an extreme tendency to increase of expenses must be taken to be an eloquent indication of the very fair possibility that some items of disposed profit might be included here. Consequently, it can be concluded that all possible means which could be utilised to understate their profit are prominently indicated, by the Toyota Motor Car Co., Ltd.

Table 9. Toyota Motor Car Company, Ltd.

(Unit: ¥1,000,000)

Fiscal Year	Total Sales		Sales Expenses & Administrative Expenses		Special Allowance		Retirement Allowance Reserve		Rate of Depreciation
1962/12-1963/5	87,238	100	4,040	100	2,600	100	1,829	100	21.18%
1963/6 -1963/11	92,978	107	5,244	130	6,494	250	2,167	119	23.94%
1963/12-1964/5	108,754	125	6,423	159	10,378	399	2,466	135	34.05%
1964/6 -1964/11	111,252	128	5,080	126	12,324	474	2,543	139	34.56%
1964/12-1965/5	123,553	142	6,941	172	13,680	526	2,887	158	31.87%
1965/6 -1965/11	123,968	142	8,884	220	13,988	538	2,969	162	30.02%
1965/12-1966/5	136,170	156	9,742	241	14,397	554	3,705	203	30.78%
1966/6 -1966/11	157,664	181	12,013	297	16,683	642	4,382	240	30.33%
1966/12-1967/5	183,426	210	14,933	370	19,343	744	5,449	298	30.64%
1967/6 -1967/11	217,874	250	15,627	387	23,167	891	6,099	333	29.91%

Prepared from *The Summary of Report on Securities*, No. 16-21.

It may be added that the breakdown of their special allowance is composed of reserve for price fluctuation, reserve of overseas market development, reserve for overseas investment loss, allowance for repairs, allowance for extraordinary depreciation, allowance for development and allowance for doubtful debts, the last item of which has come to be included in the special allowance since the settlement in November 1964. However, in Table 9 with regard to the settlement terms prior to that period those figures are used which were calculated to include the allowance for doubtful debts (which were not originally appropriated in the item of special allowance) under the title of special allowance.

Table 10 is concerned with the Hitachi Works, Ltd. It can be seen that the depreciation ratio shows tendency to increase. The breakdown of the allowance is composed of reserve for doubtful debts, reserve for price fluctuation, compensation

allowance reserve, export allowance, reserve for taxes and allowance for research expenses: the established amount to cover all these allowances shows a considerably greater increase than that of the amount of total sales. The retirement allowance reserve is also found to show a steady increase. As for expense items, their increase is prominent. Consequently, it can also be concluded in the case of the Hitachi Works, Ltd. that tendency to increase of the depreciation rate, and the same trend of the allowance reserve and expenses, are observed.

Table 10. Hitachi Seisakusho, K.K.

(Unit: ¥1,000,000)

Fiscal Year	Total Sales	Sales Expenses & Administra- tive Expenses	Allowance	Retirement Allowance Reserve	Rate of Depreciation
1963/4 -1963/9	139,753 · 100	18,980 · 100	7,843 · 100	4,282 · 100	13.58%
1963/10-1964/3	138,001 · 106	19,855 · 105	10,047 · 128	4,436 · 104	14.13%
1964/4 -1964/9	153,614 · 110	21,843 · 115	9,860 · 126	4,636 · 108	16.80%
1964/10-1965/3	151,900 · 109	20,397 · 107	9,425 · 120	4,794 · 112	17.32%
1965/4 -1965/9	145,799 · 104	20,969 · 110	9,354 · 119	5,025 · 117	16.95%
1965/10-1966/3	139,739 · 100	18,385 · 97	8,952 · 114	5,535 · 129	16.58%
1966/4 -1966/9	158,957 · 114	21,740 · 115	9,358 · 119	6,013 · 140	18.10%
1966/10-1967/3	162,616 · 116	22,383 · 118	10,112 · 129	6,218 · 145	18.28%
1967/4 -1967/9	197,991 · 142	26,266 · 138	11,485 · 146	6,957 · 162	21.03%

Prepared from *The Summary of Report on Securities*, No. 15-1.

So far we have been analysing the figures in the financial statements made public by each individual enterprise respectively and it may generally be drawn as a logical conclusion from such analysis, even if there may be some slight differences, that each of the main enterprises which is respectively operated by a certain monopolistic financial body is making full use of the practice of window dressing accounts tolerated by the current financial system itself, i.e. the understatement of profit, and furthermore it must be noted that the financial statements taken up for our analysis are limited to the kinds of statements that have been made public by each individual enterprise as already mentioned and it is from such data that the forementioned conclusion has been drawn.

Yet, the problem of sharing the money rate on the part of individual enterprises still remains to be solved. Table 11 shows the relative share of the money rate on the part of each individual enterprise picked for our analysis. Here again the share of interest rate is generally found to be increasing and an increasing tendency to bring part of the monopolistic profit to the bank is observed. Moreover, if the following fact that the profit earned by one monopolistic financial body is in reality diverted in the various ways at their own disposal from one enterprise to

another each of which is operated under their own control, is taken into consideration, then it will lead to the conclusion that the practice of window dressing accounts has been carried on under the tolerated mask of the current financial system by every monopolistic financial body, both organisationally and to a far greater extent than that indicated by the results analysed of the financial statements made public by individual enterprises.

Table 11. Appropriated Amount for Interest and Discount to be Paid

(Unit: ¥1,000,000)

Fiscal Year		Yawata Iron & Steel Co., Ltd.	Sumitomo Metal In- dustries, Ltd.	Kansai Elec- tric Power Co., Inc.	Toyota Motor Car Co., Ltd.	Hitachi Seisakusho, K.K.
1963	1st half	7,866	3,234	6,633	823	5,929
	2nd half	8,911	3,784	7,553	913	6,005
1964	1st half	9,533	3,961	7,905	985	7,285
	2nd half	9,514	4,298	8,002	1,053	7,952
1965	1st half	9,354	4,434	8,238	1,172	7,701
	2nd half	9,794	4,448	8,519	1,230	7,379
1966	1st half	10,265	4,599	9,055	1,270	7,346
	2nd half	11,320	5,056	9,174	1,159	7,000
1967	1st half	10,389	5,297	9,529	968	7,128
	2nd half					

Prepared from *The Summary of Report on Securities*⁵⁾.

VI

The particular kind of window dressed accounting which is an open question at the present stage is the window dressed accounting intentionally practiced by means of the deliberate overstatement of profit, and it must be understood that all monopolistic financial bodies are consciously practicing this kind of window dressing in preparing their financial statements to be made public with the specific aim of reinforcing their "rationalisation schemes" and their administrative control over their subordinated enterprises. At the same time, however, in this connection no small doubt is aroused as to the very fair possibility that such monopolistic financial bodies might be making full use of their internal accumulation by taking advantage of the practice of systematically tolerated window dressing through the understatement of substantial profits. Consequently, it is the practice of window dressing

5) What is meant by 'the first half' represents a halfyear settlement ending in September every year with respect to the four companies other than the Toyota Motor Car Co., and that ending in May with respect to the Toyota Motor Car Co.

of the latter kind, which is usually disregarded, that this brief paper originally set forth as the subject matter to be clarified. Henceforth, what was intended in this paper was to clarify how such understatement of profit might be practiced under the mask of tolerated window dressing.

Now that the forementioned purpose of this paper is practically achieved as described above as far as the relevant financial statements made public by five selected enterprises are concerned, each of which operates as one of the main enterprises under the control of the respective monopolistic financial bodies, we are naturally led to the following conclusion, which is corroborated within the scope of data taken from the relevant financial statements which were made public, that all monopolistic financial bodies make use of the practice of tolerated window dressing the financial procedure of understating profit—to the fullest extent, mainly through the instrumentality of the respective main enterprises which are operating under their control.

Moreover, for the reasons that the actual state of reinforced internal accumulation within the monopolistic financial body is concealed by the internal dealings or dispositions among a great number of corporations operating under its control, and that the profit gained by such a financial body is ingeniously distributed among their related corporations, it must of necessity be noted, with no need to repeat it again, that what is meant by the mere analysis of financial statements made public by only one individual enterprise out of so many others of that kind can only be applicable to a small functional part of the monopolistic financial body itself. Consequently, what is now left for us to clarify, keeping in mind that every monopolistic financial body reinforces its accumulation of capital in a variety of ways, on the basis of the analysis of financial statements made public by some individual enterprises, is to confirm the extent to which the monopolistic financial body makes use of the window dressing of accounts under the mask of the practice tolerated in conformity with the current accounting system, and to make proper evaluation of what is thus sought.

Yet, what is important in this connection is not to decide “Which one of the two kinds of window dressing of accounts is more important at this stage than the other?”—In particular whether it is of the type of intentional window dressing in the sense of the first category, i.e. the overstatement of profit, or the type of window dressing tolerated by the current system of accounting in the sense of the second type. The emphasis should rather be placed on such involved situations in the face of the most critical period of liberalisation and over-production that have ever been experienced after the War that permit all monopolistic financial bodies to venture to practice the deliberate overstatement of profit—taking advantage of window dressing in spite of its problematical nature—only to utilise such a practice as an instrument to reinforce their own “rational schemes” and administrative controlling power on the one hand (they are in reality accomplishing their

own “rationalising schemes” and administrative control over weak capital by consciously disclosing the window dressing of accounts of the overstatement of profit practiced on the part of small-scale enterprises), while the monopolistic financial bodies themselves are making extensive use of window dressing to reinforce their own internal accumulation which is tolerated by the current systems of accounting, commercial law and taxation law because they are legally allowed to practice such a manner of accounting to understate their profit on the other. Therefore, it must be pointed out in conclusion that the window dressing of accounts practiced at the present stage is fundamentally characterised by such peculiarities that what is exactly opposite or contradictory from the aspect of window dressed accounting as pointed out above is simultaneously being discreetly utilised by the monopolistic financial bodies as one of the instrumentalities to overcome the peril pressing upon the monopolistic financial bodies itself.