

## **Risk Management and Risk Disclosure**

Kenji Tanaka

A conceptual framework for risk management and risk disclosure is essential for corporate governance reform. This paper examines the relation between risk management and risk disclosure with respect to derivatives. While derivatives are used extensively as a risk management tool, derivatives transactions have a substantial leverage effect and are subject to sudden price fluctuations. To use derivatives effectively, companies are exerting more control over derivatives activities.

Risk disclosure is changing in line with developments in risk management. Previously, fair value information on derivatives was provided in the notes to the financial statements under the conventional cost-based accounting. However, derivatives now are measured at fair value on the balance sheet. As a result, the focus of notes disclosure is on the future risk information rather than fair value information.

The Joint Working Group proposes that all financial assets and liabilities should be shown on the balance sheet at fair value. This approach is certainly consistent with current risk management practices. However, the approach does not always reflect the risk management for non-financial assets and liabilities and anticipated future transactions. Fair value accounting should extend beyond the financial assets and liabilities to all assets and liabilities shown on the balance sheet, as well as other items that do not appear on the balance sheets under current accounting standards, such as internally generated goodwill and future transactions.

## **The Development of the Standards for Reporting Financial Performance in the United Kingdom**

Nobuhiko Sato

Today in the United Kingdom, the Financial Reporting Standard (FRS) No.3 "Reporting Financial Performance" requires companies to prepare not only the Profit and Loss Account but also the Statement of Total Recognised Gains and Losses as a means of reporting financial performance. Items included in the Statement of Total Recognised Gains and Losses have the nature of an appraisal variance related to certain assets or liabilities, but some argue against FRS No.3 because the meaning of financial performance itself becomes unclear as the types of these items increase in number.

Under this circumstance, the Financial Reporting Exposure Draft (FRED) No.22 "Reporting Financial Performance" which is an exposure draft for revising FRS No.3 was pronounced in response to the G4 + 1 Position Paper "Reporting Financial Performance: proposals for change". FRED No.22 proposed that all items, including the items carried in the Statement of Total Recognised Gains and Losses, should be included in a single statement and almost all the items that have been carried in the Statement of Total Recognised Gains and Losses should be included in the category of "other gains and losses" in a new financial performance statement.

In a sense this can be interpreted as regarding all appraisal variances as items reflecting financial performance. The reason is not simply because these items are included in the financial performance statement. Rather, the reason is that the items concerned are not included again in the category of "operating" or "financing and treasury," in other words, recycling is not made, when assets or liabilities underlying the items included in the category of "other gains and losses" are sold or settled. This is a unique point concerning the concept of financial performance and its reporting in the United Kingdom.

## The Service Economy and the Value-Producing Labor

Osamu [Kakuta](#)

To show that Marx's labor theory of value is still valid in modern capitalism, it is necessary to prove that the value-producing labor has still the quantitative superiority in the modern service economy. To understand why, one must note—as is also clear from his argument on merchant capital—that Marx's theory of value includes the idea that even capital functioning in those sectors that do not create value participates in the formation of general profit rates, and that constant and variable capital, as well as the profits, associated with these sectors must be compensated for with surplus value created in productive sectors. This theoretical understanding becomes meaningful only when considered together with the quantitative superiority of the value producing labor in reality. This paper tries to contribute to the debate over the service theory by verifying whether or not value-creating labor, defined in the prevailing opinion, remains quantitatively dominant.

Assuming the value-producing sectors are involved in the production of use-value, an analysis of actual figures on post-war Japanese capitalism, which applied this definition loosely, showed that the amounts of labor in the value-creating sectors are of roughly the same size as that of the non-value-creating sectors. This demonstrates that it cannot be said that the former has quantitative superiority. Consequently, if the labor theory of value is not to be abandoned, the definition of the value-creating labor must be expanded. Whether this expansion means expansion of the meaning of involvement in the production of use-value or, on the other hand, concept of the value-creating labor to include service must be addressed.

## **The Evolution of Marxian Political Economy in the Field of Value-Price Theory**

Yuji Oishi

If evolutionary economic theory is the study of rational evolution in a given field, then economic theory based on the concept of historical materialism as espoused by Marx is unmistakably evolutionary economic theory. Herein lies the basic premise of this paper, which identifies some problems with the value-price theory that represents the core foundations of modern economics. In particular, rational understanding of Marx's market price theory together with a critical examination of the theory of market price setting mechanisms (the underlying basis of micro-economic theory) is used to develop a scientific discourse on value-price economic theory.

In *The Capital*, Marx successfully demonstrates that values of commodities in the real world are in substance abstract human labor. Values are transformed as a result of competition forces between different types of capital, and develop theoretically as market values within each section and also by taking the form of production prices in wider society. But he fails to properly address many issues connected to market prices, such as the relationship between supply and demand on the one hand and market prices on the other. In this paper, I will propose a unified theory for market prices that combines both sets of rules, and use this to perform a social science-based analysis on supply and demand movements.

No attempt to extend value and price theory can be complete without a critical examination of micro-economic theory based on the concept of utility value. While micro-economic theory has certainly provided an established formula for describing value movements as phenomena, the theory itself is based on a number of hypotheses that are predicated on rather fragile assumptions. If we wish to adopt the more constructive ideas of micro-economic theory, we need to first look at the hypotheses underlying the protagonist, time, and location of market behavior in price formation theory, and critically examine the rational assumptions on which these are based. This paper represents an attempt to do just that.

## **The Falling Rate of Profit and Labor Theory of Value**

Akira Suzuki

With the evolution of the economy, the mechanization of the production process has made headway, and today the automation of the production process is advancing. The progress of mechanization has decreased the quantity of labor input into the production process and increased labor productivity. However, the current trend towards automation is not only reducing the quantity of labor input but even makes it possible to imagine an economy in which labor input is completely unnecessary.

Amidst this very real situation, various doubts have been cast on the validity of the labor theory of value. Since the labor theory of value is a theory that explains economic phenomena on the basis of human labor, might it not lose this validity in a society in which labor input is absolutely nonexistent? And even if such a society is only a figment of the imagination and does not really exist, is the theory not gradually losing its validity in the kind of society of today in which labor input is increasingly declining?

In light of these doubts, this paper considers the validity of the labor theory of value in relation to the evolution of the economy. Specifically, it studies the validity of the labor theory of value by looking at the law of the falling rate of profit, which is said to occur together with the evolution of the economy according to an important conclusion of the labor theory of value.

The study results reveal that the law of the falling rate of profit does not follow from the labor theory of value and, moreover, that the labor theory of value is erroneous as a theory explaining the source of profit. As a result, the paper concludes that when economic evolution is looked at from the perspective of profit rate trends, the labor theory of value is not an effective theoretical tool.

## **Complex System Economics and Industrial Organization— Dealing with the IT Revolution**

Tadakazu Miyake

The fight for survival in the modern capitalistic economy has seen massive changes in economic systems, with many different products appearing on the market, some of which enjoy solid growth and some of which die off. The IT revolution has encouraged globalization of economics through the Internet and e-money, bringing a new level of competition to market economies and forcing restructuring and reorganization of individual companies and entire industries. This complex state of economic affairs could be understood in terms of complex economic theory, which takes account of non-market factors including business customs and practices, as well as such concepts as emergence and self-organization. This paper looks at some of the major complex system concepts such as gradual yield increase and limited efficiency, then presents a broad overview of complex system economic theory, before going on to consider industrial organization theory as a complex system. I will examine issues such as: in what way are market structures connected to the revolution in information and communications technology?; how has this technology affected market structures and altered market outcomes?; in particular, has the IT revolution helped to make markets more contestable and promoted competition? and has it at the same time promoted the emergence of monopolies by encouraging large-scale investment and the establishment of de facto standards in the software industry? I will also consider in terms of complex system industrial organization theory the changes that have occurred in industry due to the IT revolution and the associated problems. Technological progress has the capacity to steer market economies in unexpected directions through the forces of competition, in turn influencing the economic behavior of people and causing abrupt socio-economic changes.

## Russia's Attempt at Systemic Transformation and Its Legal Culture

Manabu Suhara

In Russia at the beginning of the 1990s the socialist system collapsed and the new government embarked on an attempt at systemic transformation into a market economy. One of the most striking features during the decade of the Russian transformation, which is often cited, is a dramatic increase in crime, especially the criminalization of the economy. This paper provides a simple explanation of the current state of economic crime in Russia and examines Russia's legal culture, which is likely to be one of the major causes of this somewhat alarming situation. The paper also considers prospects of Russia's economic development, given its legal culture.

Russia has been unable to establish *Rechtsstaat* or the state based on "rule of Law," which is the historical product of Western Europe. Indeed, Russia's legal culture is characterized by a profound distrust of the law, or "legal nihilism." Furthermore, the writer emphasizes that in addition to legal nihilism, Russia's legal culture is also characterized by the concept of ethical dualism. Ethical dualism means that the moral norms Russians apply in relationships with members of their own community differ from those in relationships with people thought to be associated with a different community. Given such a distinctive nature, Russia's legal culture could not be conceived of as being suited for a market economy. As Douglas C. North has suggested, in an economy with such legal and moral norms, transaction costs would be very high: transactions are limited to personalized exchanges, which not only means that potential promising contracts do not materialize, but also causes subsequent losses of the possibility of economic development. In such a society, it might be inevitable that the political system tends to be more authoritarian in order to lower transaction costs and facilitate economic activities.

## **Japanese Capitalism in the Nineties - The Change of the Industrial Relations**

Yoshikazu Hasegawa

The Japanese economy experienced a prolonged period of stagnation during the 1990s in the aftermath of the collapse of the bubble economy, and Japanese-style systems and practices were subject to intense scrutiny as never before. On the labor relations front, the dismantling and/or natural collapse of traditional practices such as lifetime employment and seniority-based salaries has been starkly brought into question. This paper demonstrates the problems generated by shifts in Japanese practices within the context of the prolonged downturn in Japanese capitalism during the 1990s. It examines the evolution in labor relations in terms of major developments during the 1990s in the economy, business management, and labor management. The arguments presented hereunder are backed up with leading employment and wage statistics that serve to illustrate the severity of the changes that have occurred in this period.

However, the real question is the extent to which these developments have succeeded in changing traditional labor relations—in other words, whether any change has actually occurred in Japanese-style practices and management thinking. To answer this question, we begin by looking at the discussions that took place at the Society for the Study of Social Policy during 1999. Some society members maintained that lifetime employment and seniority-based salaries were **collapsing** or being **dismantled**, while others argued that the truth of the situation had been grossly exaggerated. The latter group felt that dealing with the increase in female and part-time workers was of greater importance than dismantling lifetime employment and seniority-based salary systems of full-time employees, the core staff of any organization.

The Society discussions suggest that changes in labor relations during the 1990s were essentially related to differences between “core” and “peripheral” workers in terms of hiring practices and employment conditions (primarily wage levels). The process of change is still continuing today, and it should be carefully monitored.