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THE SURVIVAL OF SMALL UNDERTAKINGS IN JAPANESE INDUSTRY

1. FOREWORD

The theory was advanced by early critics of capitalism that with the development of this economic system, large undertakings would make their triumphant march, driving small undertakings to the wall. If it is taken to refer to a general tendency in the world of economic phenomena, this theory holds good: the gradual concentration of business undertakings cannot be disputed. It is seen in Japanese economy as in European and American economy. In Japan, as in the West, large undertakings have been gradually forcing smaller ones into a position of difficulty and inferiority. The problem of business concentration in its manifold aspects is thus challenging the keen attention of scholars as well as of financiers and business men in present-day economic society. The most important phase of this problem is the concentration of undertakings in industry.

What are the causes of the phenomenon of the concentration of undertakings in industry? Although one cannot overlook such potent extra-economic factors as political causes and the will and fancies of industrialists, yet there is no doubt that the most important cause is to be found in the various factors that determine the profitableness of invested capital. Economic factors giving rise to the concentration of undertakings in industry can be also found in such phases as production, distribution and financing. But what should be noted in this connection is the fact that these economic factors are not the same for all industries or for all countries. For this reason, one should anticipate different

industrial development for different industries and in different countries. In the present article I shall attempt to study the survival of small undertakings in the Japanese *sake* (rice-beer) industry as a contribution to the study of the problem of industrial concentration.

Japanese *sake* is made from boiled rice. It is the national beverage with a long tradition behind it and contains about 15 per cent of alcohol. *Sake* is a purely domestic product, the demand of which is limited practically to the Japanese only, and is but little exported to other countries. Nor is there any industry in foreign countries in competition with it. Thus, the Japanese *sake* industry is in every respect a purely domestic industry. At the same time, it is one of the chief industries in Japan in respect of both the amount of production and the capital invested. Moreover, this industry produces a vast sum of revenue* for the State treasury in the form of tax, and has extremely important relations with agriculture, which provides it with its material. It is interesting to note that the *sake* industry has striking similarities with the beer brewing and wine making of European countries.

1. THE CONCEPT OF THE SMALL UNDERTAKING

A undertaking is the unit-organization of business activities united by a single owner's account. It is the same as unit-capitalistic economy. An undertaking is often confounded with a plant, but this is, of course, a mistake. A plant is a unit-organization of technical activities controlled by a unified will.

The present article is concerned with small undertakings, not with plants. We must first decide in what way the size of undertakings can be determined. The size of undertakings

* The average annual amount of revenue from the tax on *sake* during the period 1921-1930 was ¥197,000,000, constituting about 22% of the total average annual revenue from taxes for the same period. (See the annual reports of the Taxation Bureau of the Department of Finance.)

constitutes an important topic of economic discussion and enters greatly into the questions of the making of statistics. It is well known that various criteria are employed today for this purpose. In some cases, the amount of the capital invested is taken as the criterion; in other cases, the number of the employees is adopted. Sometimes recourse is had to the scale of the productive means or the quantity of the output. But all of these have the common defect of being arbitrary when actually applied to decide whether the industries in question are big, medium or small.

I shall propose to define small undertakings from a new viewpoint. My criterion has its basis in the stages of the natural development of industrial undertakings and can be used in connection with all branches of industry. It refers to the nature of the administrative organ of any given undertaking.

My definition of a small undertaking is any industrial undertaking in which usually a single person directly, controls the production, distribution and financing, as well as all the other industrial activities. The maximum production of a small undertaking as thus defined in the Japanese *sake* industry in a single fiscal year is limited by technical considerations to about 1,000 *koku* (1,801 hectolitres). We shall therefore consider *sake* brewing undertakings where the annual production is below 1,000 *koku* a fiscal year as being small undertakings in this industry.

3. GOVERNMENT POLICY TOWARDS THE SAKE INDUSTRY

The feudal government of the Tokugawa period placed various restrictions on the *sake* industry. This interference was mainly on account of its economic policy of regulating the price of rice and its moral policy of encouraging thrift and temperance by means of sumptuary laws. Each brewer had to secure a government permit in order to undertake the manufacture of *sake* and his maximum output was fixed by the Government. These were the chief restraints on the

making of *sake* during the feudal period. This feudal policy remained in force during a period of 237 years (1634-1870). It was abolished along with other restrictions of the feudal system by the Imperial Government, which adopted a policy of general economic liberalism, and swept away all the feudal restraints on industry.

The new Government, as soon as it came into power on the overthrow of the feudal regime, established a policy of encouraging the *sake* industry. The new law provided the minimum annual production for each brewery 100 *koku* (180.1 hectolitres), and various administrative measures were taken in order to assist the development of this industry, in strong contrast with the negative policy of the feudal authorities.

This was because the *sake* industry had always formed an important source of revenue for the State treasury. Now, although more than sixty years have passed since this country was placed under the capitalistic industrial policy of the new Government, even today the *sake* breweries where the annual output is below 1,000 *koku* occupy a position of paramount importance in respect both of their number and their total output.

I shall review in the following pages the changes that have taken place in the *sake* industry of Japan during the fiscal period, 1914-1930, by means of the statistics contained in the Annual Reports of the Taxation Bureau of the Department of Finance. This period is one in which Japanese industry underwent rapid progress and an important transformation in its structure.

4. SMALL UNDERTAKINGS IN THE NADAGOGO REVENUE OFFICE DISTRICT

There is a demand for *sake* everywhere throughout Japan, but the transportation of *sake* involves a large expense and risks. Moreover, it uses as its raw material rice, an agricultural product which is grown extensively in

Japan. For these reasons, *sake* breweries are found everywhere. But in former times, when there was but little of the scientific and technical knowledge we have today, the *sake* making was often impeded by some unsuitable quality in the water or the rice or by unfavourable climatic conditions. Thus, there came into being in the course of time certain districts noted for their excellent *sake* and which came to supply such *sake* to other parts of the land. These special *sake* districts have markets all over the country and have built up traditions and firm business foundations for themselves, with the result that their productive output is much larger than that of other less favoured districts. Now in order to make clear the survival of small undertakings in the *sake* industry, it is necessary to treat these special *sake* districts separately from other districts.

Of such special districts, by far the most important one is undoubtedly the Nadagogo revenue office district near the port of Kobe. Its normal annual productive output constitutes about ten per cent of the total annual output in Japan.

We shall first investigate the conditions of small undertakings in the Nadagogo district. We have already defined a small undertaking as one whose annual output is below 1,000 *koku*. Let us examine the changes brought about in the economic power of such small undertakings in the Nadagogo district during the seventeen years in question (1914-1930). Table I shows the changes under consideration, as it contains the ratio per thousand of the number and the output of the small undertakings in relation to those of the total number of undertakings in the district.

The same table indicates that the small undertakings in the Nadagogo district have relatively decreased during the 17 years under consideration. But let us examine the changes brought about in the position of large undertakings with an annual output of more than 10,000 *koku* (18,018 hectolitres) in the same district. Table II, which indicates these changes, shows more clearly the concentration of the *sake* industry of the district.

Table I
 Indicating the Changes of the Position of Small Sake Breweries
 in the Nadagogo District

Year	A	B	C	D
1914	324	100	74	100
1915	219	68	48	64
1916	178	55	33	44
1917	110	34	19	25
1918	134	41	25	33
1919	119	37	20	27
1920	212	65	39	52
1921	158	49	27	36
1922	176	54	30	40
1923	175	54	29	39
1924	207	64	33	44
1925	214	66	35	47
1926	173	53	28	37
1927	248	77	39	52
1928	214	66	33	44
1929	226	70	33	44
1930	265	82	42	56

Note: A stands for the permillage of small undertakings to the total number of sake undertakings in the same district; B stands for the index number of the same permillage; C for the permillage of the output of the small undertakings to the total output in the same district; and D for the index number of the same permillage.

Table II
 Indicating the Changes in the Position of Large Sake Breweries, each
 with a yearly output of over 18,018 hectolitres, in
 the Nadagogo District

Year	A	B	C	D
1914	61	100	333	100
1915	70	115	354	106
1916	93	152	395	118
1917	119	195	453	136

1918	109	179	445	133
1919	127	208	464	139
1920	97	159	437	131
1921	100	164	434	130
1922	109	178	478	143
1923	108	177	484	145
1924	112	184	493	148
1925	116	190	518	155
1926	136	222	559	167
1927	129	211	558	167
1928	143	235	574	172
1929	118	193	505	151
1930	145	238	597	179

Note: A stands for the permillage of large undertakings to the total number; B for the index number of the same permillage; C for the permillage of the output of large undertakings to the total output; D for the index number of the same permillage.

We have seen the phenomenon of the concentration of *sake* making in the Nadagogo district by means of Tables I and II, but Table III indicates the real and absolute retreat of the small undertakings and the real and absolute advance of the large undertakings. Herein we see industrial concentration in its real or narrow sense.

Table III

Indicating Changes in the Absolute Figures for the Number of Large and Small Undertakings in the Nadagogo Revenue District

Year	A	B	C
1914	7	37	114
1915	9	28	128
1916	11	21	118
1917	14	13	118
1918	13	16	119
1919	15	14	118
1920	11	24	113
1921	12	19	120
1922	13	21	119

1923	13	21	120
1924	13	24	116
1925	13	24	112
1926	15	19	110
1927	13	25	101
1928	14	21	98
1929	11	21	93
1930	12	22	83

Note: A stands for the number of sake breweries whose annual output is more than 18,018 hectolitres; B for the number of sake breweries whose annual output is below 1,802 hectolitres; C for the total number of sake breweries in the Nadagogo district.

I have given above the changes which were brought about during the period 1914-1930 in the position of small *sake* breweries in the Nadagogo revenue district, which is representative of the special *sake* producing districts of this country. The small undertakings in this particular district do not have usually their own brands of *sake*, unlike other small *sake* undertakings in other parts of the country. They cannot make direct sales of their own products to the consumers. Their products are purchased by large undertakings as unbranded *sake*. With the advance of various capitalistic factors, it has become more profitable for large and medium-sized undertakings to increase their own output rather than to purchase the products of small undertakings to be sold as their own brands. For this reason, the small undertakings in the Nadagogo revenue office district have been experiencing difficulties in surviving such as are not experienced by small undertakings in other parts of the country. It is noteworthy in this connection that, in spite of these difficulties, the small undertakings in Nadagogo have at any rate survived to this day. In 1930 they numbered twenty-two, which is twenty-six per cent of the total number of undertakings in the same district.

5. SMALL UNDERTAKINGS IN JAPAN PROPER AS A WOLE

We shall now proceed to examine the real conditions in the position of small *sake* undertakings in Japan proper as a whole. Table IV gives the total number of *sake* undertakings throughout Japan proper together with other related figures.

Table IV
Containing the Total Number of Sake Brewers Throughout
Japan Proper

Year	A	B	C	D
1914	10,452	100	100	100
1915	9,971	95.4	105.4	110.5
1916	9,936	95.1	125.1	131.8
1917	9,970	95.4	138.1	144.9
1918	9,939	95.1	133.1	140.9
1919	9,895	94.7	159.6	168.8
1920	9,463	90.5	115.6	127.8
1921	9,523	91.1	150.2	165.1
1922	9,562	91.5	150.8	165.1
1923	9,543	91.3	148.0	162.2
1924	9,455	90.5	140.6	155.7
1925	9,345	89.4	139.8	156.5
1926	9,163	87.7	130.4	148.9
1927	8,944	85.6	122.7	143.5
1928	8,765	83.9	126.8	151.4
1929	8,562	81.9	115.1	140.6
1930	8,374	80.1	97.2	121.6

Note: A stands for the total number of sake brewers in Japan proper; B for the index number of the same total number; C for the index number of the total output throughout Japan proper, 100 being 6,636,077 hectolitres; D for the average annual output per undertaking, 100 being 634 hectolitres.

Table IV shows that the production of *sake* expanded rapidly during several years around 1921 and gradually decreased after that brief period. But the index number of

production for 1930 is about the same as that for 1914. However, the total number of undertakings has been steadily dwindling since 1914, the index number for 1930 being less than that for 1914 by about 20 per cent. In consequence, the average amount of production per undertaking has increased in inverse ratio to the total number of undertakings. Thus, industrial concentration is seen in the *sake* industry also when a nation-wide survey is made.

On the other hand, we should consider also the position which small undertakings throughout Japan proper occupied during the same period of seventeen years.

Taking the average annual output per undertaking throughout the whole country, it appears that the average in 1919, when the highest total was registered, was only 1,070 hectolitres. On the other hand, in the case of Nadagogo, the average per undertaking in the same year was 4,144 hectolitres, the highest record having been attained that year. We see by this comparison that in the case of the *sake* industry in general, unlike the conditions prevailing in the special *sake* districts, undertakings on a small scale occupy a very important position. This fact will be made clear by Table V, which gives the total number of small undertakings with an annual production of less than 1,801 hectolitres and the changes in the percentage of their number to the total number of undertakings throughout the country.

Table V

Year	A	B	C	D
1914	8,914	100	85	100
1915	8,495	95.3	85	100
1916	8,297	93.1	84	99
1917	9,242	92.5	83	98
1918	8,207	92.1	83	98
1919	7,943	89.1	80	94
1920	8,485	95.2	90	106

1921	8,058	90.4	85	100
1922	8,155	91.5	86	101
1923	8,150	91.4	85	100
1924	8,133	91.2	86	101
1925	8,029	90.1	86	101
1926	7,923	88.9	86	101
1927	7,701	86.4	86	101
1928	7,528	84.5	86	101
1929	7,494	84.1	88	104
1930	7,102	79.7	85	100

Note: A stands for the total number of small undertakings; B for the index number of the same total; C for the percentage of the number of small undertakings to the total number of undertakings throughout Japan proper; D for the index number of the same percentage.

We have seen from Table III that the number of small undertakings in the Nadagogo revenue office district in 1930 was less by 40 per cent than the figure for 1914. But Table V indicates that the total number of small undertakings throughout the whole country in 1930 was less than that in 1914 by only 20 per cent. Moreover, it is noteworthy that the index number of the percentage of small undertakings to the total number has remained almost unchanged during the period of seventeen years. The total production of the small undertakings in 1930 constitutes seventy per cent of the total national production in the same year.

There is one exceptionally large undertaking which was able to produce over 63,100 hectolitres of *sake* in 1930. It is interesting to note that, on one hand, the *sake* industry has factors which allow the existence of such a large undertaking while, on the other, small undertakings whose annual production is below 1,801 hectolitres also occupy a position of great importance, as we have already seen.

6. REASONS FOR THE SURVIVAL OF SMALL UNDERTAKINGS

I have shown that the important element of the *sake*

industry even during that period of rapid capitalistic development that had 1922 as its centre was formed by small undertakings. It is an interesting task to examine the reasons for this economic phenomenon, which is out of harmony with the general tendency of the industrial development of capitalistic society. But here I shall point out only some of what seems to be the more important causes.

(1) The *sake* industry has a very long history. Unlike many other industries in Japan, the *sake* industry was not imported from the West; it is a purely Japanese industry whose origin is lost in the mists of antiquity. An investigation made as far back as some 230 years ago revealed that there were already some 30,000 *sake* establishments scattered throughout Japan. Because the demand for *sake* is limited to the people in the country, the *sake* industry made no special expansion in production during the boom years of Japanese capitalism. Thus, there was no opportunity for the surplus capital of other industries to make inroads into the *sake* industry to be used for establishing large plants on a rational basis. Moreover, the crude productive technique, which I shall discuss presently, seems to have further assisted the above state of affairs.

(2) The productive system of this industry is that of *Manufaktur*. The process of making *sake* is not a simple fermentation process such as is used in making beer or spirits. It is a multiplicative fermentation process. Its fermentation process in its complexity and its technique with its difficulties are not comparable with those of beer brewing. Natural science, advanced as it is, is still unable to mechanize the main process of the *sake* industry, and the result is that this industry is a system of *Manufaktur* even to this very day. This fact has prevented big capital from being used for establishing mechanical productive facilities and equipment for this industry as has been done in other industries.

(3) Splendid locations for this industry are to be found all over the country. Its raw materials, rice and water, are

ubiquitous. Moreover it is not a weight losing industry. For this reason, the location of this industry is a consumption orientation. On the other hand, demand for its product exists all over the country. In consequence, the best locations for this industry are scattered all over the land, instead of being limited to some special districts. Therefore small *sake* plants can be run profitably everywhere in this country, with comparatively little capital.

(4) This industry is a purely domestic enterprise, its markets are limited to within the national boundaries and the chief material used in its production—rice—is a special domestic product. It has no foreign competition and for this reason it is not subject to the price fluctuations which confront industries of international character. Thus, big capital cannot exercise any special power in regard to ability of exist in the case of price fluctuations.

(5) This industry bears a heavy tax burden and constitutes an important source of national revenue. In this connection a simple proportional tax is levied on the amount of production. The fact that the tax, which is an important item in the production cost, is proportional to the productive output weakens the degressivity of costs which is usually a special advantage in large enterprises.

7. CONCLUSION

The causes I have pointed out above have conspired to allow small undertakings in the Japanese *sake* industry to survive. The fact remains, however, that the various advantages of big capital have been gradually recognized in various directions, especially in the preparatory operations of the production process, finishing operations, and storage facilities. It may be anticipated, therefore, that in the Japanese *sake* industry as in other industries, the power of small undertakings to continue to exist will gradually be weakened. But any rate, the factors in virtue of which they survive are still operating vigorously, and for this reason it is likely

that these small undertakings will continue even in the future to remain the important element of this industry.

I have attempted to present materials to show that an industry having factors which prevent big capital from exercising its special advantages, will allow to a considerable extent small undertakings to survive even under a developed system of capitalism.

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