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CHARACTERISTIC FEATURES OF JAPANESE SMALL INDUSTRIES AND POLICIES FOR THEIR DEVELOPMENT

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I. PREFACE

By small industries in the present article are meant manufacturing firms which, besides being operated with small owned capitals, have also the form of individual enterprises. Let us fix the concrete dimensions of the "small owned capitals" by the following method. "Owned capitals" in all manufacturing enterprises in the national economy are first classified into a number of grades, according to the size of each owned capital, each grade being limited to a rather narrow range. We next, enquire how the various forms of ownership are distributed among these grades. We then discover the highest of the grades in which the form of individual enterprises is represented by over about 90 per cent of all forms. Owned capitals up to the limits of the highest grade just referred to are defined as "small owned capitals". There are, however, many manufacturing firms, which, despite the smallness of its owned capital invested, are operated in the form of company enterprises. These may be treated as "quasi-small industries".

Small industries in our country have hitherto constituted an important industrial section of the national economy, performing the valuable function of absorbing surplus population, producing at the same time commodities for domestic consumption and light industrial goods for export. Now, however, under the system of wartime economy, they are

faced by a serious crisis for a variety of reasons. In view of this situation, I propose to study, in the present article, the characteristics of Japanese small industries, to begin with, and then to expound the fundamental principles on the basis of which a policy for encouraging them should be framed.

II. THE CHARACTERISTICS OF OUR SMALL INDUSTRIES

As a necessary preliminary to the study of the general lines along which a policy designed to stimulate our small industries should be framed, I should like to consider some of the characteristic features of these industries, which serve to distinguish them from other types of industrial enterprise.

1) The large number and variety of unit enterprises. Little difficulty attends the process of setting up small industries. If anyone decides to start a small industry, he can do so quite easily, partly because the capital involved is comparatively small and partly because the official procedure required for starting such industries is simple. In this respect, small industries offer a striking contrast with enterprises organized on the company basis, especially on the joint stock company basis. Many of the small industries of Japan are run with a capital of only a few hundred yen. The largest personal capital investment is ¥ 50,000 or thereabouts. Personal capital of this size can be provided comparatively easily out of personal savings, out of the inherited property, or by other similar means.

Such being the case, small industries necessarily spring up in large numbers where economic conditions permit of their existence with some prospect of profit.

The existence of numerous small industries involves severe competition. Consequently also there is a tendency in the direction of a wide distribution of industry locally. Keen competition, over-abundance and the lack of control are serious drawbacks in any industry, and this is especially the case among small industries which are operated with small

capitals, as these factors perpetually operate to weaken their foundations and to reduce the margin of profit. Herein lies the one of the principal causes of the general instability of our small industries. The tendency of small industries to become widely distributed locally is, in itself, an important feature of our national economy, however; as it tends to strengthen local finance and contributes to the balanced distribution of the national economic power throughout the provinces. This positive feature deserves high appraisal in the present age in which the tendency for population and wealth to become concentrated in a few specially-favoured districts grows ever more pronounced.

2) The intensity of labour and the limited scale of manufacturing operations in the technical constitution of small industry. The intensity of labour on the technical side is one of the characteristics of our small industries. There are two causes responsible for this feature. As to the passive cause, it may be mentioned that, due to the very limited resources which they have at their command, small industries cannot afford to install elaborate and up-to-date mechanized equipment. The active cause for this intensity of labour is due to the factor of labour cost which is, as a rule, low in small industries, as a result of circumstances which will be explained later.

Although intensity of labour characterizes the technical aspect of our small industries, the principle of the division of work cannot be fully applied, as the number of employees is too limited. Notwithstanding the fact that handicraft skill is demanded as a first requisite, this skill must also be many-sided. It is, therefore, impossible for the employees of small industries to attain the highest degree of skill in any special line. Much less is it possible for these small industries to provide advanced equipment for scientific research.

The low standards and the poor organization of the technical aspect of our small industries involves, from the point of view of the national economy, an enormous waste

of material and labour, and tends, at the same time, to impede the development of the heavy industries—especially the machine manufacturing industry. It is true that this waste arising from the lack of rationalization in the labour organization of small industries is somewhat counterbalanced, as some people contend, by the fact that in small industries the surplus or fractional labour of the wives and other members of the families of the industrialists concerned can be utilized, whenever necessary or possible. In this study, however, I shall refrain from any detailed study of this point.

In connection with technical backwardness of small industries, to which I have referred, there is one point which must be carefully noted. In recent years there has been a more extensive use of small electric or oil burning motors in small factories, and a corresponding increase in the number of small manufacturing machines used. This progress in the mechanization of small factories is a prominent feature in the present field of production in our country. Although this involves a certain progress in the technical constitution of our small industries, it cannot be hailed as unqualified good, from the standpoint of the national economy. The promiscuous development of numerous small factories, which make use of petty mechanical devices involves a waste of material, motive power, fuel, etc. The progress of mechanization in small factories also leads to a marked increase in the amount of fixed capital, which results in a deterioration in the financial position of the factories themselves. Other unfavourable results are stringency in the liquidation of capital due to increase in borrowings, to the irrationality of repayment plans, and to a general diminution in the elasticity of business activity in time of market fluctuation. In this way, the instability of small industries is accentuated. It will thus be seen that progress in mechanization tends to deprive small industries more and more of their independence.

3) Characteristics of employment in small industries.

Owing to their technical drawbacks, small industries suffer certain restrictions as to the kinds of work which they can undertake. The manufacture of goods which require highly technical or mechanized processes of production, and the manufacture of articles of great size or of articles which call for mass production according to exact and uniform standards are all outside the field of the small industries. The more intensified the process of standardizing manufactures becomes, under planned economy, as a means of rationalizing consumption, the more restricted will become the field of production suitable for isolated small industries.

At any rate, the types of goods suitable for production by small factories are limited, generally speaking, first, to those in which handicraft forms the principal element of manufacture, second, to those for which either the demand fluctuates severely or the market is small, and, third, to those articles which, being of small size, can be produced with comparatively small-scale mechanized equipment. In other words, such factories are chiefly concerned with the manufacture of many kinds of small articles for public consumer's demand, parts of large-sized articles, and the repair of small-sized articles. The part which small industries play in supplying the domestic market is necessarily important. Inasmuch as the production of goods for public consumer's demand gives rise to very complicated problems under wartime economy, it becomes necessary to devise suitable measures to control such small industries.

4) The subordinate position of small industries in the system of marketing. Generally speaking, small industries have no economic independence in regard to the sale of their manufactures. They do not constitute perfect independent units in the market of competitive transactions as contrasted with large-scale capitalistic enterprises. We find some exceptions, however, in the case of those small industries which supply their manufactures directly to the final consumers. We often note such exceptional instances in the case of small industries in urban districts which are concerned with

the production of the necessities of life. These industries have a fairly high degree of economic independence in regard to marketing. Most small industries are, however, so circumstanced as to be obliged to enter into business relations with large business interests in order to secure the sale of their manufactures. Partly because of the financial necessity of entering into such business relations and partly because of the fact that the purchasers of their manufactures are limited in number, small industries have little free choice in the marketing of their goods. That is to say, most small industries exist in subordination to influential capitalists, who perform the rôle of customers, in the sale of their manufactures. It is no exaggeration to say that in the present-day market organization they are entirely dependent on powerful capitalistic concerns for their existence. They enter into this relationship of subordination to large-scale capitalist through indirect business relations (sub-contract system). Such relationship deprives the small industries concerned of their choice of purchasers. It robs them also of their competitive power as sellers. Thus, their economic independence in the market is ruthlessly restricted. There are two types of sub-contract relations. The first consists of indirect business relations with commercial firms and the second of indirect business relations with industrial firms.

When important commercial capitalists become buyers of the goods produced by small factories, the above-mentioned business relationship with commercial firms comes into being. When the goods produced by small industries are intended for consumers not only in the districts in which they are located but in various other parts of the country or abroad, commercial capitalists necessarily step in as intermediary agents in the process of circulation and constitute themselves direct purchasers from the small manufacturing firms. The interposition of powerful commercial capitalists takes various forms, but those who stand highest in the order of interposition in the process of circulation for domestic consumption are big wholesalers or the proprietors of department stores,

while for circulation abroad, they are the big export traders.

When the direct purchasers of the manufactures of small factories are big industrial capitalists, the typical relationship of indirect business with industrial firms springs up. The division of work which necessarily develops in the high-class technological weaving industry or in the ceramics industry, in which manufacturing materials are multifarious and the process of manufacture is complex, gives rise to a type of the above-mentioned business relationship, though it is somewhat different in motive and purpose from regular relationships of this kind, or from the capitalistic relationship of indirect business. Whereas the former arises from an inadequate accumulation of funds, the latter arises concurrently with the possession of abundant funds. The regular type of an indirectly-ordered business relationship develops when big industrial capitalists decide to purchase from outside small industries, at certain fixed unit prices, such articles as form parts of their own manufacture or are included among the goods which they put on the market as their own. In some cases, they supply raw materials to these small industries, but in other cases, they do not. They make this arrangement naturely with a view to promoting their own interests. It will thus be seen that small industries which enter into such business relationships with big industrial capitalists are exploited by the latter as instruments of their business policy, and with a view to protecting their own interests.

The fundamental weakness of the modern large-scale industrial organization is the increasing pressure of fixed capital and accordingly of invariable expenditure. Big industrial capitalists are, therefore, prone to seek remedial measures in two directions. That is, they strive to reduce the amount of capital locked up in the enterprise in so far as this can be done without interfering with the economic profitableness of their business. First, they see to it that their fixed equipment is on a scale somewhat smaller than would be necessary for meeting the maximum prospective

demand. Secondly, they entrust to outside small industries the manufacture of all or of some of the parts of articles, the production of which does not require highly mechanized equipment. Industrial sub-contracts (indirectly ordered business relations) owe their existence, as already mentioned, to the desire of big industrial capitalists to reduce, from motives of self-defence, the possibility of the economic "scleroma" of their capital. There are nevertheless some technical and economic conditions imposed on small industries which enter into such contracts. These conditions are, namely, that they must have sufficient technical ability to supply the goods in question and that their prices remain sufficiently low to induce big industrial capitalists to make such arrangements. The former condition operates in the direction of increasing the dependence of small industries on their "patron" factories in consequence of the expanding burden of fixed capital investments or of weakening their stability, while the latter condition necessarily presupposes the relative inferiority of labour conditions in the small industries.

Both in commercial and in industrial sub-contracts, there exists a relationship of mutual reliance between "patron" capitalists and small industrialists. Needless to say, small industries, as a whole, comprise an enormous share of the productive power in the economic life of the nation. In order to ensure the utilization of this enormous productive power in the best interests of national economy, therefore, it is very important to have a good objective knowledge of the relationship of mutual reliance between "patron" capitalists and small industries.

5) The limited capacity to raise funds. Another characteristic weakness of small industries is their limited capacity to borrow money. The lack of good securities on which to raise funds, the blurred line of demarcation between family and business accounts in factory management and the comparative smallness of the loans which they negotiate are all factors which share in the responsibility for the above-

mentioned weakness. The fundamental defects, however, are that small industries show a very small margin of profit and that they lack a secure economic foundation. The lucrativeness of business is the best basis for securing loans. Any industry which lacks this requisite can enjoy but little solid credit.

Due to their lack of credit, small industries have to rely more on wholesalers, money-lenders, pawnbrokers and *mujin* (mutual credit societies) than on regular banking organs in obtaining their funds, and this tends to lower their credit still further. The tendency for their fixed capital to increase despite their small borrowing capacity adds to their difficulties in obtaining the necessary funds, and only serves to impair their credit the more. The only way by which small industries with limited borrowing capacity can ensure their financial stability is by holding surplus funds in reserve. They must try to build up their capital by putting part of their profits into reserve. It may be said that controlled economy has deprived small industries of their chances and prospects of extra profits, through the fixing of official prices, thereby blocking or impairing the only sound, if rather narrow, means of financial accommodation open to them.

6) The existence of non-employed workers and the comparative inferiority of the general conditions of labour. The fact that near relatives of industrialists work in small industries not only adds to the elasticity of labour costs but reduces the cost of production. This is one of the prominent features of small industries from the point of view of labour relations. Another and an even more prominent feature is that in small industries the conditions of work are relatively inferior as compared with the conditions obtaining in large-scale industrial enterprises. This characteristic is attributable partly to the limited financial resources and the low profit-making capacity of small industries and partly to the fact that the pressure of social legislation designed to protect the worker is noticeably weaker than in the case of large industrial organizations. The Japanese laws and regulations

for the protection of factory labour carry two noteworthy immunity clauses in regard to labour in small factories. Firstly, they are not applied to factories which have less than ten workers in regular employ, unless they are engaged in specially dangerous operations, such as the handling of explosives or of articles which are apt to cause poisoning. Incidentally, the twisted-thread-weaving-factories which use motors fall under the purview of these laws and regulations. Secondly, factories which produce such light industrial manufactures as are enumerated in Article 1 of the Ordinance for the Enforcement of the Factory Law are also exempted from the application of the factory laws and regulations, even when they employ more than ten workers, provided they do not use motors. It should be noted here, however, that practically small industries in our country almost employ motors of one form or another.

The relative inferiority of labour conditions and the utilization of family labour reduce the labour costs of small industries to a considerable extent. This is certainly a most noteworthy characteristic of small industries and, indeed, it is the main economic factor which enables commercial or industrial sub-contracts to be concluded. By concluding these sub-contracts, big capitalists seek to exploit this characteristic of small industries. When the situation is viewed from the angles of national production policy and social policy, however, it will be noted that small industries have defects deserving serious attention in so far as they fail to extend adequate protection to labour and because they tend to impede the technical development of industry as a whole.

7) The non-capitalistic objective in business management. The main business objective of small industrialists and accordingly the guiding principle of their operation of business is not to bring their net profits—the balance left after interest on loans, depreciation of fixed capital, cost of raw materials, other expenses including taxes, and the actual and estimated labour costs have been deducted from the gross income for one financial year—up to the ruling rate

of returns on owned capital.

Small industrialists are willing to continue their industries so long as their gross income for one financial year is sufficient to pay the cost of living for their families, after all business expenses including the wages for the employed workers have been met. It is not that they do not aim at the constructive accumulation of personal capitals or at the expansion of their business, but these objectives do not constitute their essential aims. That is to say, the maintenance of the livelihood of their families is the guiding purpose of small industrialists. In the economy of small industry, family labour including that of the industrialists themselves does not constitute an item of expenditure. Herein lies the cause of the lack of demarcation in small industries between business economy and family economy. In a sense, this peculiar circumstance operates to increase the instability of the business basis of small industries, but, on the other hand, it gives rise to the factor of tenacity peculiar to small industries.

How is it, then, that small industrialists do not intentionally seek normal rates of return on their capital or, to put it another way why do they not clearly fix their margin of profits? The reason for this is to be sought in the psychological element of contentment which the possession of a business of their own affords them and their families. They draw satisfaction from the fact that they are able to carry on business on their own account, instead of being employed by others.

Thus, the guiding business principle of small industrialists is the maintenance of the livelihood of their families and the safeguarding of their personal independence in a life of labour.

III. A POLICY FOR THE DEVELOPMENT OF SMALL INDUSTRIES

The fact that small industries with the above-mentioned

characteristics have so far constituted such an important composite element in the Japanese industrial world may be traced chiefly to the following causes. The labour policy of the Government may be mentioned as constituting the fundamental cause. The policy of the Government of leaving the large body of surplus labour, which was created particularly in rural districts, to adjust itself led to comparative laxity in the application of labour protection clauses to small industries, with the result that these industries have gradually become the haven for surplus labour. Thus, small industries have been able to utilize cheap labour to organize their business on a basis of intensive labour. This tendency to absorb surplus labour has been accentuated by the extensive use in recent years of small motors and small-size manufacturing machinery. The simultaneous incidence of these two circumstances has been the fundamental cause of the development and relative importance of small industries in Japan. We might note, as a further factor, that the possibility of the technical organization of small industries on the basis of intensive labour necessarily created a market environment which caused the entire industrial system of Japan to pay special attention to light industries as a whole and to the manufacture of goods for public consumer's demand. This circumstance also tended to increase the importance of the position of small industries in this country.

The small industries which, under the above-mentioned circumstances, came to constitute such an important section of Japanese industry, have done much to enrich the economic life of the nation up to the present, first, by feeding the surplus population, second, by supplying the public consumer's demand for goods, third, by improving the balance of international accounts through the manufacture of goods for export, and, fourth, by promoting an industrial, economic or financial equilibrium between the different districts. On the other hand, it cannot be denied that they have also had an adverse effect upon Japanese industry. For instance, they afforded big commercial and industrial capitalists an oppor-

tunity to exploit them for their own ends. Moreover, they have been an impediment in the technical improvement of Japanese industry, as a whole, and to the development of the heavy industries of the country in particular. Nor is this all. The wasteful use of labour and material in small industries has impaired the general efficiency of the national economy.

Wartime economy has adversely affected small industries in a variety of ways. The dwindling exports of sundry goods, the inadequate supply of imported raw materials, the restriction of the use of materials, economies in domestic consumption, the shortage of labour, the fixing of official prices and the control of distribution are serious impediments, and they are undermining and even menacing the existence of small industries.

In such circumstances, the question of how to develop or how to relieve small industries is attracting serious attention as one of the important issues attendant upon the present critical economic situation. In this connection, the supply of cheap funds, the accommodation of funds to small industrialists in distress to enable them to change their occupations or the settlement of small industrialists upon the continent are questions engaging the attention of the authorities, and these will, no doubt, give rise to important social policy measures to meet the needs of the moment.

Here, however, I propose to deal, not with such relief measures which are necessarily of a temporary character, but with the fundamental principles on the basis of which a permanent policy vis-à-vis small industries should be framed. To this end, we must direct our attention first of all to the main problems which the paramount interests of Japan's national economy must face. The fundamental policy to be adopted in the furtherance of the interests of the small industries can only emerge from the study of these problems in the light of the characteristic features of the small industries which I have already described.

Of the problem facing the national economy, the following

three have a close and fundamental bearing on the policy to be shaped in regard to small industries. The first is the expansion of productive power, especially in the heavy industries. Factors which ensure the expansion of productive power in industry in general, and more especially in the heavy industries, are not the same in wartime as in times of peace. In times of peace, an increase in the export of heavy industry goods and the general improvement of productive techniques in home industry are essential conditions. Another problem is the rationalization of the use of labour and material to the greatest possible extent, avoiding misuse and waste most carefully, in order that an increase of national economic power may be realized. Still another problem is the reorganization of the national economic life on a highly co-operative basis so as to enable the national economy to cope successfully with the very difficult situation which is expected to persist for some years to come. The fundamentals of the policy to be framed with a view to stimulating the growth of small industries, in conformity with these requirements of the national economy, may be summarized as follows:

- 1) Earnest and systematic efforts must be made to combine small factories on a co-operative basis. It is particularly necessary to promote co-operation in the processes of production. To this end, it is advisable that joint workshops should be set up. By this means, it may be hoped that the technical improvement of small industries and the removal of their defects in the field of marketing may be gradually realized. For the same reason, isolated small industries must be reduced in number, and for this purpose a licence system must be introduced for all small industries. Furthermore, small industrialists must be taught to rid themselves of their traditional individualistic tendencies; while direct financial aid to isolated small industries must be discontinued.

- 2) Commercial and industrial sub-contract relationships must be so adjusted and unified that they can be reorganized

into new relationships between "patron" capitalists and sub-contract associations, so that the former may be made to assume suitable legal responsibilities for the economic and financial aid of the latter.

3) The policy of encouraging small industries by a lax application of labour protection ordinances must either be abolished or reformed.

In order to remove the weaknesses inherent in small industries, which form such an important section of the Japanese industrial world, and in order to stimulate them to contribute more adequately than they have hitherto done to the national economy in the present emergency, it is essential that a new policy should be framed, in accordance with the three principles just enunciated. In short, in view of the characteristics of the small industries themselves and of the present urgent requirements of the national economy, it can hardly be denied that the attitude of uncritical admiration for small industries as such and the policy of indiscriminate encouragement both require revision based upon a strictly realistic and analytic study.