

**KOBE  
ECONOMIC & BUSINESS  
REVIEW**

10th  
ANNUAL REPORT



**THE RESEARCH INSTITUTE FOR  
ECONOMICS AND BUSINESS ADMINISTRATION  
KOBE UNIVERSITY**

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# REVISED ACCOUNTING PROVISIONS OF THE COMMERCIAL CODE OF JAPAN

— WITH SPECIAL REFERENCE TO THE CORPORATION INCOME TAX LAW —

Susumu WATANABE

## I

Accounting provisions of our Commercial Code were revised at the 40th ordinary session of the Diet on April 13, 1962, and they are to come into force on April 1, 1963. In view of the many differences existing between the revised accounting provisions and the present Corporation Tax Law Enforcement Regulations, the problem we take up here is, how the present Regulations should be amended in relation to the revision of the Commercial Code, or what adjustment should be made between corporate income computed in accordance with the provisions of the Commercial Code and taxable income under the Corporation Tax Law.

In considering this problem, however, a difference of viewpoints may lead to dissimilar conclusions. That is to say, one can assert that since accounting provisions of the Commercial Code and the tax law have different purposes and aim at dissimilar incomes, we have only to prepare financial statements for each purpose, needing no adjustment between them. In this case, an income computation of a business during a fiscal period would result in the preparation of different independent sets of financial statements.

But in both fields we use the same accounting records as materials for income calculation, and moreover no essential difference can be found in the method of income calculation. Therefore, it is more effective and reasonable to regard the income under the tax law as derived from the financial statements under the Commercial Code. Namely, the income by the tax law is determined on the basis of financial statements prepared according to the accounting provisions of the Commercial Code, with necessary adjustments for tax purposes added to it.

In fact, the Corporation Tax Law, hitherto, has adopted this principle, stating that a corporation liable to pay tax shall file with the government a return within two months after the closing date of each accounting period, showing the amount of the income of the accounting period concerned which is the basis of assessment and the amount of the corporation tax on this income

on the confirmed settlement of accounts. The confirmed settlement of accounts means the settlement of accounts of the accounting period approved at the general meeting of stockholders, or by the whole body of partners or by others corresponding to them as the case may be, and within two months after the closing date of the accounting period the settlement of accounts should be confirmed and a return filed.

Thus, the Corporation Tax Law does not, as a rule, require a corporation to close the books so as to reflect the provisions of the tax law—to settle accounts so that the computed annual profit shall directly show the taxable income—but the taxable income is calculated on the basis of the confirmed settlement of accounts of a corporation, with necessary adjustments added to it. The necessary adjustment, being made on the return in practice, is called “the adjustment in the return”.

As a corporation does not necessarily close its books in accordance with provisions of the tax law, there are some items which must be adjusted without fail on filing the return. Adjustments are required (1) when its accounting does not conform to the provisions of the tax law, and (2) when it does not reflect the fact. For example, when a corporation sets up a bad debts reserve, a reserve for retirement allowance, a price fluctuation reserve, etc., in excess of the amount permitted by the tax law, the excess should be adjusted in the return. To take another example, to value a current asset at an amount above or below the current price is not permitted by the tax law, so when the computed profit or loss of a corporation includes such valuation profit or loss, the excess should be adjusted in the return. These instances come under (1). Accounting not reflecting the fact is found when a corporation makes its income too small by means of omitting some of its sales, or showing some hypothetical purchases, etc., or when it lists fictitious assets or liabilities. As taxable income should be computed in accordance with facts, when a corporation's accounts include these untrue items, adjustments should be made.

Next, exclusion from taxable income of dividends received by a corporation, and the exemption from taxation of the income from the manufacture of new staple commodities are approved on condition that they are stated as such on the return. Certainly they also belong to a kind of adjustment in the return, but they differ in character from the above-mentioned ones. In this case, by stating them as such on the return, the intention of getting an application for those provisions is regarded to have been expressed. On the other hand, there are those items that do not become effective unless they have already been included in the settlement of accounts of a corporation, i.e., the adjustment in the return shall not be approved. The tax law states as follows:

Since by “a return based on the confirmed settlement of accounts” is meant a return based on the financial statements approved at the general meeting of stockholders or by the whole body of partners, on filing a return the following points should be observed.

(1) The amounts of valuation profit or loss on assets and of depreciation shall not be increased or decreased in the return, because such amounts must not, as a rule, be other than the same amount that has been approved at the general meeting of stockholders or by the whole body of partners.

(2) What are allowed to be treated in tax calculations as deferred assets shall not be deducted from the amount of income in the return in cases where such items are already listed as deferred assets in the financial statements approved at the general meeting of stockholders or by the whole body of partners.

The existing tax law only limits the maximum amount of depreciation, and the depreciation is not compulsory for a corporation. Whether to charge depreciation or not, and the amount to be charged, are at the discretion of a corporation. Therefore, as to depreciation, the tax law regards what have been reported on the confirmed settlement of accounts as an expression of the intention of the corporation, and disapproves the adjustment in a return. Thus, a corporation is not allowed to charge depreciation below the maximum amount on a confirmed settlement of accounts and to increase depreciation up to the maximum amount in its return. This principle applies also to the deductions for various allowances and reserves. Likewise, when a corporation lists as assets in its confirmed financial statements what are allowed to be treated as deferred assets by the tax law, they cannot be deducted from the amount of income in the return. If the adjustment in a return were recognized in such cases, the reported income and the taxable income would be so widely alienated that the basis of computation of taxable income would be lost.

Among items whose adjustment in a return are not recognized, we find those different from the above-mentioned in character. For instance, in regard to governmental subsidies appropriated to capital expenditures, customer contributions to the cost of constructing facilities, gains on insurance claims, gains on exchange of properties specified in the tax law and so forth, it is approved to include the amount reduced in a deduction on the condition that the book value of assets is reduced (this is known as ‘reduced entry’). In other words, the special favor of deferment of taxation, which is the substantial effect of the reduced entry cannot be enjoyed, unless the reduced entry is adopted. Differing in character from the above-mentioned limitations, the compulsory adoptions of such a procedure is considered as an unjust interference of the tax law with business accounting.

The existing Commercial Code has but very brief provisions concerning the valuation of assets. It states that movables and immovables, credits and other properties cannot be valued in excess of their current values, and fixed assets of business may be valued at the amount of their acquisition or construction costs less reasonable depreciations (Commercial Code §34). Further, as to a fixed asset of a corporation for business purpose it is disallowed to put a value above its acquisition or construction cost. (Commercial Code §285)

But now through the revision of accounting provisions for corporations, valuation bases of various assets have come to be provided, accompanied with a prescription on allowances. And they have turned out to be different from provisions of the tax law in many respects, making it necessary to find some way of adjustment between them. In the following, we are going to study differences and ways of adjustment between them concerning important items.

## II

The revised Commercial Code stipulates concerning the valuation of current assets as follows:

A current asset shall be valued at its acquisition or production cost. But in cases where its current price falls far below its acquisition or production cost, the current price shall be put, unless its price is expected to recover up to its acquisition or production cost.

The preceding clause does not preclude putting the current price so long as it is lower than the acquisition or production cost. (§285-2)

As the chief content of current assets is inventories, we shall treat it as a problem of valuation of inventories in the following.

The above provision is said to adopt the cost basis as a principle, the selection of "cost or market, whichever is lower" basis being exceptionally admitted. Accounting provisions of the Commercial Code essentially aim at the computation of business profit distributable for dividends and adhere to the "increase in net worth" concept of assets which emphasizes their realizable value. From this standpoint we can understand the admission of the "cost or market, whichever is lower" basis. But from the viewpoint of modern accounting whose purpose is to achieve proper periodic income computation by means of periodic allocation of costs, the "cost or market, whichever is lower" basis cannot be supported, because it absorbs unrealized losses in the income of the current period, although it excludes unrealized profits.

As to the valuation of inventories the tax law approves a selection of the cost basis, the market value basis or the "cost or market, whichever is lower"



basis. (Enforcement Regulations §20)

The revised provision of the Commercial Code does not recognize the market value basis. Neither does the Business Accounting Principles, from the standpoint of excluding unrealized profits. Now the tax law should also come closer to the modern income accounting and exclude the market value basis, since the market value basis unreasonably leads to the inclusion of unrealized profits in the income of the current period. Originally the tax law is said to have approved the market value basis for the convenience of small enterprises that do not keep accounts in good order. But the exclusion of the market value basis would not cause much trouble in practice, for among the valuation methods belonging to the cost basis, we find the last purchase cost method or the gross profit method which is comparatively easy to apply. Further, Article 17 of the Enforcement Regulations recognizes the writing up of inventories to the extent of the market price, but to fulfill the purpose of excluding unrealized profits, reporting of a valuation profit of inventories should not be approved.

The tax law properly recognizes the valuation on the cost basis. This basis charges realized costs against realized revenues excluding unrealized losses as well as unrealized profits. According to the Commercial Code, however, we cannot continue a valuation on cost, when the market value falls far below the cost with no expectation of recovery of the price up to the cost. But if a corporation wishes to continue the valuation on the cost basis for tax purposes in spite of a remarkable decline of the market value on the closing date (though such a corporation would seldom be found in practice), the tax law should approve the writing up of inventories, once written down to comply with the requirement of the Commercial Code, to the cost in a return.

### III

As to the valuation of fixed assets the revised Commercial Code stipulates as follows:

A fixed asset shall be valued at its acquisition or construction cost, and a reasonable depreciation shall be made on each closing date.

In cases where an unforeseen deterioration has occurred on a fixed asset, reasonable reductions shall be made. (§285-3)

When a fixed asset has been acquired, it is proper to record it with its acquisition cost. The provision of the tax law concerning the valuation of fixed assets is the same as that of the Commercial Code. But a special problem arises when the "reduced entry" method is taken with regard to governmental

subsidies appropriated to capital expenditures (which shall be simply called governmental subsidies hereinafter), customer contributions to the cost of constructing facilities, gains on insurance claims and gains on exchange of properties. Namely, the tax law takes a step of not immediately taxing the governmental subsidies and so forth subject to the reduced entry (which means making an entry at the actual acquisition cost less a certain amount specified by the tax law. The amount thus reduced shall be called, hereinafter, the reduced value). In this case the basis of depreciation is the reduced value, the amount deducted being excluded from depreciation. Thus, governmental subsidies and so forth, though not immediately taxed in the year of grant, are later made subject to taxation in instalments through underdepreciation (for the total amount of accumulated depreciation and residual value does not come up to the actual acquisition cost).

But the reduced value is not clearly the acquisition cost. It is not reasonable for the the tax law to claim that the reduced value should be listed on the closing balance sheet in order to enjoy deferment of taxation, in spite of the requirement of the Commercial Code to record the acquisition cost. Such a claim must be looked on as an unjust interference of the tax law with business accounting. Primarily the reduced entry method has derived from convenience for tax purpose so as to exclude from depreciation and transfer cost the amount of governmental subsidies and so forth that was not treated as income at the beginning. So the provision of the tax law should be amended so as to admit that the same effect as the existing reduced entry shall be granted even when fixed assets are recorded at their acquisition cost. This seems attainable by a book keeping method which divides the acquisition cost of a fixed asset into the part which may be depreciated or included in the transfer cost and the part excluded therefrom.

The revised Commercial Code provides that reasonable depreciation on fixed assets shall be made on each closing date. This requirement is quite natural from the standpoint of accounting provisions of the Commercial Code having as its chief object the computation of profit distributable for dividends. Here the depreciation is understood to be forced, whether revenue is sufficient to cover it or not. On the other hand, depreciation in the tax law is not compulsory, but only limits the maximum amount of annual depreciation. Theoretically, depreciation should not be influenced by the size of profit, and it is proper to determine taxable income as the amount after deducting reasonable depreciation. Therefore, it seems proper that the tax law takes a step towards compulsory depreciation. When depreciation becomes compulsory, the carry-over of under depreciation will no longer be recognized, for a reasonable depreciation constitutes an expense for a business and it is not proper to

compute distributable profit or taxable income leaving proper depreciation unconsidered. If the profit before depreciation is insufficient to absorb the reasonable depreciation of the year, a deficit will result. The carry-over and carry-back of this deficit should be approved to continue as before, for it would lead to excessive taxation on a business and conflict with the principle of equitable taxation, only to tax the incomes of profitable years but to neglect deficits of unprofitable years. We believe that the disapproval of carry-over of underdepreciation is never incompatible with the recognition of carry-over and carry-back of deficits.

The "reasonable depreciation" in the Commercial Code is understood to mean disapproval of not only a depreciation below the reasonable amount but also a depreciation above it. Consequently, a problem arises when the extraordinary depreciation recognized in the Special Taxation Measures Law exceeds a reasonable depreciation. The amount of the extraordinary depreciation (the excess of depreciation charged by a corporation over the amount of reasonable depreciation) has the character of a retained profit in the year when it is charged. The present tax law states that the amount of depreciation deductible in computing the income is what a corporation has charged within the maximum amount. But it is proper to change the provision so that an extraordinary depreciation can be deducted from gross income in the computation of taxable income even when it has not been treated as an expense in the income statement of a corporation, when it is an extraordinary depreciation which has an implication of tax policy.

#### IV

As regards the valuation of stocks the revised Commercial Code prescribes as follows:

Stocks shall be valued at their acquisition cost. The provisions of Article 285-2 shall be applied to stocks having stock exchange quotations.

Stocks without stock exchange quotations shall be written down to a reasonable amount when the financial position of an issuing corporation has markedly grown worse. (§285-6)

The revised Commercial Code divides stocks into (1) those having stock exchange quotations and (2) those without them, requiring a different valuation basis to be applied for each of them.

Concerning stocks having stock exchange quotations, it provides that when current prices on the closing date lie far below their acquisition costs they are to be valued at the former, unless their prices are expected to recover up to their acquisition costs. Or instead of adopting this basis, it is allowed, in

all cases, to value them at current prices on the closing date, so long as these are lower than their acquisition costs.

The present Commercial Code prohibits a valuation in excess of the current price. So the valuation basis for stocks of the Commercial Code has now been greatly changed as in the case of current assets. Namely, according to the new provision it is disallowed to take a valuation profit into account when the current price exceeds the cost.

In compliance with the present Commercial Code, the existing tax law admits of taking a valuation profit due to a rise in the prices of stocks into accounts, and it is possible to write up their book value to the current prices. In accordance with the amendment of accounting provisions of the Commercial Code, it is reasonable to revise the tax law so as to disapprove the valuation at the current price above the cost, for from the standpoint of computation of taxable income it is also inappropriate to make unrealized profit an object of taxation.

Concerning stocks without stock exchange quotations the revised Commercial Code takes the cost basis, except when the financial position of an issuing corporation has become markedly worse. On the other hand, the tax law recognizes writing up or writing down to the extent of the current prices. It is proper for the tax law to disapprove the valuation at the current price above cost for the same reason that was stated as to stocks having stock exchange quotations. On the other hand, when the current price has fallen below cost, the tax law may well approve write-down of stocks to the extent of the current price even when the financial position of an issuing corporation has not markedly grown worse, on the same ground that justifies the "cost or market, whichever is lower" basis with inventories. Therefore, the tax law should retain the provision of write-down of stocks without stock exchange quotations.

The tax law has provided in 1962 a special valuation basis relating to stocks held for the purpose of controlling other corporations.

Under the tax law the valuation of stocks held for the purpose of controlling other corporations is treated in the same manner as the valuation of fixed assets. In other words, they are, as a rule, to be valued at their costs and write-down is disapproved except in a special case where the current price of stock has fallen owing to the degradation of the financial condition of an issuing corporation. A fall in their value not resulting from the degradation of the financial condition is not recognized as a reason for a write-down. As to stocks held for the purpose of controlling other corporations it is approved to write up their book value to the amount of cost or market whichever is the lower, but a valuation profit in excess of it is not to be included in the income.

Consequently, so far as financial statements submitted to the general meeting of stockholders are to be prepared in accordance with the provisions of the Commercial Code, adjustments in a return should be approved relating to the difference between the Commercial Code and the tax law.

## V

Organization expenses, issue cost of new stock, bond discount and interest during construction has been recognized as deferred assets by the existing Commercial Code. In addition to them, the revised Code has approved as deferred assets the initial cost of business, development expenses, experimental and research expenses and bond issue cost.

The tax law treats as deferred charges the expenses paid by a corporation whose utility lasts more than one year after the date of expenditure, and recognizes the following deferred charges (or prescribes following items to be treated as deferred charges).

The first group. To this group belong organization expenses (which means expenses paid for the purpose of organization and to be borne by the corporation concerned. They include rewards paid to promoters and the registration tax paid for incorporation), interest during construction, stock issue cost and bond issue cost (excluding bond discount). As regards these expenses, it is admitted either to treat a total amount as deductions in the year of expenditures or to treat a part of them as deductions carrying forward the remainder as deferred charges to be amortized at any time from the following accounting period. According to the Commercial Code, organization expenses should be amortized within five years after the foundation of a company, by an amount not less than equal to the division for each period. Similarly, the issue cost of new stocks should be amortized within three years after the issue of new stock, and bond issue cost within three years after the bond issue (but within the term of retirement if it expires within three years). As to interest during construction, whenever the dividend of a year is in excess of six per cent of the capital, the amount equal to or more than the excess is required to be amortized. Since the tax law approves amortizing these expenses at any time as one likes, the settlement of accounts in accordance with provisions of the Commercial Code never runs counter to the tax law.

The second group. The initial cost of business, development expenses and experimental and research expenses belong to this group. All of these expenses may be deducted as expenses in the year of expenditure, or all or part of them can be treated as an asset. However, that part of these expenses which was treated as an asset may be amortized in five years. Thus, the

treatment is different from the expenses belonging to the first group, in that the amount carried forward as an asset may not be amortized whenever one likes.

According to the Commercial Code the initial cost of business is to be amortized within five years after the commencement of business, development expenses and experimental and research expenses within five years after the expenditures, by an amount not less than equal to the division for each period. Therefore, there is no fundamental difference between the Commercial Code and the tax law.

The third group. Besides, there are many items that are to be treated as deferred charges in the tax law. In other words, we find many items that can not be deducted all at once in a period of expenditure but to be treated as deferred charges in order to comply with the tax law.

While the deferred assets under the Commercial Code are extremely limited, there are many deferred charges in the tax law. Such a difference arises from the fact that the Commercial Code considers an asset on the basis of the "increase in net worth" concept (viz. whether it is transferable or convertible into money) but the tax law takes it from the viewpoint of periodic matching of cost and revenue.

Most of the items which are to be treated as deferred assets taxwise but are not recognized as deferred assets under the Commercial Code, however, can be considered as expenses required to get some right or long-term benefit (intangible assets) and seem to have sufficient quality to be listed on a balance sheet under the Commercial Code, too.

## VI

As regards allowances the revised Commercial Code provides as follows:

When an allowance is set up and shown in the liability section of a balance sheet to provide for a specific expenditure or a loss, its object shall be made clear on the balance sheet.

When an allowance of the preceding paragraph is put to a different use from the stated object, its reason shall be shown on the income statement. (§ 287-2)

But allowances approved by the tax law are very much limited in comparison with the Commercial Code.

In regard to allowances and reserves, whether the amount put in them are treated as deductions or not is a matter of great importance from the standpoint of the tax law. As the extent of allowances approved by the Commercial Code is larger than in the tax law, there is no problem between them.

Namely, allowances and reserves which can be included in deductions under the tax law will be naturally reflected in the financial statements of a company prepared in accordance with the Commercial Code, and items shown on the financial statements but not allowable by the tax law, can be cancelled in the return by the corporation.

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# SOCIAL ACCOUNTING AS AN INSTRUMENT OF POLICY

Nobuko Nosé

## *Introduction*

As a result of the recent development in the theory of social accounting, it is now fairly generally recognized that we may consider some effects of the use of national accounts on the course of the economic policy. There are, of course, different systems of social accounting including Professor Colm's forecast<sup>(1)</sup>, or Professor Tinbergen's<sup>(2)</sup> works, but now we have the concise systems of Professor J.R.N. Stone<sup>(3)</sup> or Mr. A.T. Peacock<sup>(4)</sup>, which are based on the works of Professor J.R. Hicks<sup>(5)</sup> and of the late Lord Keynes.<sup>(6)</sup>

Also it is apparent too that objectives of policy will be attained by means of various combinations of elements in social accounting according to their characters.

This paper points out the suitability of national income accounting as an instrument of policy, especially under the conditions of post-war economy. For this purpose, we submit a summarized model for the appliance of national income accounting to the concrete objects of policy.

Before considering the problem in detail, it is interesting to note that the recent development of national accounts is based on the most important objects of Japanese economy as well as other capitalistic economies, especially after the war. And in this field, the most advanced is U.K. economy.<sup>(7)</sup> Since the 1941 Budget was framed in the U.K., there was a necessity to make

- 
- (1) G. Colm, "Public Revenue and Public Expenditure in National Income", *Income and Wealth*, vol. 1., 1937.
  - (2) J. Tinbergen, "On the Theory of Economic Policy", 1952.
  - (3) J. R. N. Stone, "Measurement of National Income and Construction of Social Accounts", 1947. Stone, "Fundctions and Criteria of a System of Social Accounting", *Income and Wealth*, series 1, 1951. Stone and G. Croft-murray, "Social Accounting and Economic Models", 1959.
  - (4) H. C. Edey and A. T. Peacock, "National Income and Social Accounting", 1954.
  - (5) J. R. Hicks, "The Social Framework", 1942.
  - (6) J. M. Keynes, "Income and Fiscal Policy of Great Britain", *E. J.*, Dec., 1937.
  - (7) As the historical survey of social accounting, see N. Nosé, "On the Theory of Social Accounting", 1961. pp. 19-36.



an estimate of the resources available for the conduct of the war. In the mean while, there was a borrowing from the U.S. in 1945. And during these periods, there was a deficit which encroached on consumption and investment. But we had an epoch in 1947, where overall planning of the economy was held by the government. This latter planning urged the U.K. Budget to design the bringing about of full employment without inflation under the maintenance of economic stability from 1949.

Theoretically, the complication of their national income analysis as well as national income accounting emerged the annual series of statistics of national income and expenditure which was designed to throw light on the problems of economic policy, and this is promoted by the Blue Paper.

The activities of the government at present are, therefore, directed towards several objectives as Professor Colm<sup>(8)</sup> or Mr. A.R. Ilesic<sup>(9)</sup> write: (1) the maintenance of a high and stable level of employment, so-called 'full employment'; (2) the most equitable distribution of wealth and income compatible with the attainment of the maximum national products; (3) the maintenance of an adequate rate of investment; (4) the maintenance of external stability in the balance of trade; (5) the stability of prices. But if we rearrange these objectives, the first two objectives are the most important, because the other three objectives belong to the former two objectives. In other words, full employment without inflation and equitable redistribution are main objects of their economic policy.

We shall discuss the problems of attaining these objectives in such a way as to use the instrument of social accounts connected with the historical and political economy in U.K., and we shall raise some questions concerning this.

## I

### *Social Accounts for Full Employment*

We begin with the problem for attaining the full employment level  $N^*$ , which is the primary aim, as indicated above. As is well known the measurement of  $N^*$  will be gained by the level of national income  $Y^*$ , which corresponds to  $N^*$ , approximately as well as the measure of economic welfare.

Our problem induces us, therefore, to solve the maximum level of national income not exceeding  $Y^*$  and without inflation. This means we get a solution of any policy to attain  $Y^*$  putting it as the 'target'.

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(8) Colm, *ibid.*

(9) A. R. Ilesic, *Government Finance and Fiscal Policy in Post-War Britain*, 1955. p. 15.

Let us assume that this aim is realized for a particular year under the condition of multi-sector market, and therefore, it should be necessary to introduce social accounts in our analysis.

According to the fundamental model of Mr. Peacock, social accounts are summarized as follows, if we can calculate each propensity to spend of income for each sector in an economy:

$$y_i = \sum_{j=1}^5 a_{ij} y_j \quad (i=1, 2, \dots, 5) \dots \dots \dots (1),$$

where  $Y_i$  is the income of  $i$ -sector and a  $a_{ij}$  is the propensity to spend from  $y_j$  to  $i$ -sector. If we classify the points main concrete situations, one is the case (A) in which all  $a_{ij}$  s are constant, which means all tax rates are constant in the government sector, which government expenditure increases, and the other is the case (B) where at least one  $a_{ij}$  is variable, e.g. the rate of income tax changes, with increased or decreased government expenditure.

(A) If the paramcters including the rate of taxes are constant, and only government expenditure increases, which is a case of well-known 'alternative budget policy', we have the relation of

$$ay_i = \frac{\Delta_{ij}}{\Delta} aG_i \dots \dots \dots (2)$$

if the government expenditure is put on  $i$ -sector, where  $\Delta = |\delta_{ij} - a_{ij}|$  but  $a_{ij} = 0$ , and  $\Delta_{ij}$  is co-determinant. This gives us the relation

$$aG_i = \frac{\Delta}{\Delta_{ij}} ay_i \dots \dots \dots (3)$$

Since the autonomous government expenditure, during a given year increases national income as indicated, we may calculate the necessary increased level of government expenditure in an inverse relation. If we set  $Y^* = Y_0 + ay_i^*$  as the full employment level of national income, we can easily guess the level of  $aG^*$  from the equation(3).

But it should be remembered, in this case, that the repercussions of the government expenditure cover all sectors, and there is an increase of national income at factor costs as well as at market prices. This involves the danger of inflationary effects in the Keynesian sence, because, under constant propensity to spend, all incomes of all sectors increase, which government saving increases also. There were situations in the U.K. from 1945, at which forrowings from the banks were very great to the post-Korean boom of 1950-1951, where living costs and ways became higher while full employment was secured.

This expresses merely a simple state. When the autonomous expenditure

is paid for benefit services to the consumers, e.g. subsidies for food, hospital, health insurance, etc., as shown in the 1945 Budget, the inflationary effects on national income will prone an additional contribution to economic welfare if it is connected with high real productive capacity.

[For Reference] . . . . . Numerical Examples . . .

The relation we indicated above for example, is numerically, estimated as follows, according to the data by Mr. Peacock<sup>(10)</sup> in the U.K. 1952.

Original tableau of national accounts in 1952 is,

dr \ cr	Firms	Households	Government	Rest of the World	Capital	Total
Firms	—	105	29	2	19	155
Households	112	—	15	—	—	127
Government	30	17	—	1	—	48
Rest of the World	—	—	—	—	3	3
Capital	13	5	4	—	—	22
Total	155	127	48	3	22	(355)

we may arrange this in a matrix form, :

$$\begin{pmatrix} 155 \\ 127 \\ 48 \\ 3 \\ 22 \end{pmatrix} = \begin{pmatrix} 0 & 0.83 & 0.60 & 0.67 & 0.86 \\ 0.72 & 0 & 0.31 & 0 & 0 \\ 0.19 & 0.15 & 0 & 0.33 & 0 \\ 0 & 0 & 0 & 0 & 0.14 \\ 0.09 & 0.02 & 0.09 & 0 & 0 \end{pmatrix} \begin{pmatrix} 155 \\ 127 \\ 48 \\ 3 \\ 22 \end{pmatrix},$$

as is well-known 'Transaction Matrix'.

On the Ground, from equation (2), we get

$$\Delta = \begin{vmatrix} 1 & -0.83 & -0.60 & -0.67 & -0.86 \\ -0.72 & 1 & -0.31 & 0 & 0 \\ -0.19 & -0.15 & 1 & -0.33 & 0 \\ 0 & 0 & 0 & 1 & -0.14 \\ -0.09 & -0.02 & -0.09 & 0 & 1 \end{vmatrix} = 0.087.$$

Then, if newly autonomous government expenditure valued 2 is put into the sector of firms (Business Sector), and according to the calculation of  $\Delta_{13} = 0.303$ , we can get a relation corresponding to equation (2) as follows:

$$\alpha y_1 = \frac{0.303}{0.087} \times 2 = 3.5 \times 2 = 7$$

We can conclude from this, as an inverse relation, that if we expect addi-

(10) Peacock, *ibid.*, p. 85.

tional national income 7 as a target, we may put government expenditure to firms valued 2. This is the essential idea of national income accounting.

(B) The other case concerning full employment policy is under the situation in which at least one rate of tax changes with variable government expenditure. In this case, we may guess that the policy through the national accounts will have less effect on the national income, because repercussions may occur as the result of net effects. This gives us the relation.

$$ay_i = \frac{\Delta_{ij}}{\Delta} aa_{ij} + \frac{\Delta_{ij}}{\Delta} aG_i \dots \dots \dots (4)$$

if any  $a_{ij}$  changes and government expenditure is settle in  $i$ -sector.

As a result of this repercussion, the necessary government expenditure will be smaller than that of case (A), because the government saving from increased tax revenue will be substitutable with the government expenditure. It should be, however, clearly remembered that there are three points which are valuable in a dispute.

First, an increase of tax-rate, e.g. an increase of rate of indirect tax for firms, means an increased government saving in national accounts, while it is a decreased disposable income in the Keynesian sence, and it serves to an increase government contribution to welfare unless it is not delivered for unproductive objects. This is proved by the facts and the efforts of U.K. Budgets from 1927 to 1953 since the Colwyn Committee critisized the regressive effects of indirect taxes. Second, the problem is the best choice of how to obtain taxes. Although we are interested only in a simple linear combination in national accounts, it will be possible that some taxes will have effect on consumption or investment. Therefore, the variable policies will have secondary effects on the elements of national income, including rather unstable investments. These happen, as we can guess, at Investment Allowances in 1948-'49 and increased consumption in the 1944 Budget. Considering these effects, a policy should be forward for the object of minimizing volatile private investments. Third, we will suppose that a change of indirect tax-rate has better effects than a change of government expenditure for our object, as the national income at factor cost, the measure of real product, will be smaller than that of case (A). Thus it will be recognized that any procedure in which all financial factors are considered adequately is the best policy for full employment without inflation.

[For Reference] . . . . . Numerical Examples . . . . .

Let us assume that an indirect tax rate  $a_{31}$ , for firms changes and government expenditure pours into firms the same as in case (A), we have the numerical relation on the basis of 1952 U.K. national accounts as follows:

$$\begin{aligned}
 dy_1 &= \frac{A_{31}}{\Delta} da_{31} + \frac{A_{13}}{\Delta} dG_1 \\
 &= \frac{0.647}{0.087} da_{31} + \frac{0.303}{0.087} dG_1 \\
 &= 7.4 \times da_{31} + 3.5 \times dG_1
 \end{aligned}$$

Then if we assume  $dy_1 = 7$  just the same as case (A) and additional government expenditure  $dG = 1.5$ , we get the rate of the change of the indirect tax for firms

$$da_{31} = \frac{7 - 3.5 \times 1.5}{7.4} = 0.236 .$$

This concludes that a warranted level of national income with additional 7 (£100 m) will be attained through increasing the rate of indirect tax for firms by 23.6%, the decreased rate is  $0.14 = 0.19 (1 - 0.236)$ , and with the additional government expenditure to firms by 1.5 (£100 m) that is smaller than that of case (A). And we may have some complexed combinations for the object of national account system, only if we arrange these elements adequately and approximately after considering the points discussed above in this context.

## II

### *Social Accounts for Income Redistribution*

The second important object of policy relates to the redistribution of the national income in order to maintain an adequate standard and stable level of the welfare of the nation. In the opinions of the economists, economic welfare depends on the appropriate distribution of income on the ground that the object of production is satisfactory to consumer's wants and the structure of modern taxation should assist this situation, which is recognized from data during and after the war.

When we take a social accounts system as an instrument of policy, this problem will be treated as an application of the analysis described above. It involves the contents (1) the total level of national income is unchangeable, but (2) the rate of taxes and the propensity to spend of the government sector will be changeable. In the processes, there will occur the intermediate offset of incomes among multi-sectors.

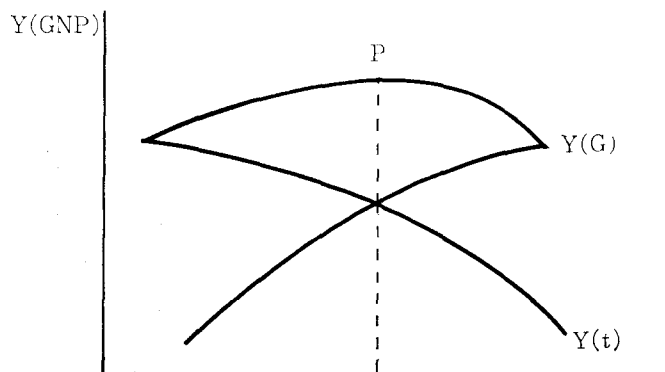
Corresponding to equation (4), we have the relation in this case

$$dy_i = \mp \frac{A_{ij}}{\Delta} da_{ij} \mp \frac{A_{ji}}{\Delta} dG_i = 0 \dots \dots (5) .$$

It is, however, rather difficult to enquire processes of a substantial redistribution owing to changes of elements in the government sector. But we may discuss this further some detail. One effect is considered from the revenue side, and the other from the expenditure side of the government sector. First, as has been pointed out in the preceding context, on the revenue side, we have secondary effects of taxation on consumption and investment. For example, a decreased rate of indirect taxes causes increased bargaining power of the low income class as pointed out by Professor Hicks, an increased rate of death duties means *disturbing amassing of wealth of high income class*, and so on.

Second, as for the expenditure side, policy for investment will be incentives to production and capital accumulation unless it does not cause inflation and keeps a stable level. But from the point of view of national economic welfare, the expenditure for social services and benefits, e.g. subsidies for consumption goods and houses, etc., will be rather superior to high unstable spending to firms and will cover the disadvantage of deterrent effects of taxation. This was the situation in 1938-'48 U.K. Budget and the fiscal policy after the War for retired men or landlords, where propensity to consume became higher while scarcity of savings occurred.

Generally speaking, there is a contradiction between the spending policy and tax policy, between sellers' market and buyers' market. But the object of modern economic policy should be to get an exact solution of national income redistribution to attain a stable and high standard of welfare. And we may predict the point graphically as follows, and it is possible to solve in multi-sector national accounts system,



where point  $P$  is the most adequate solution to maximize social welfare, and the object of policy should be to arrange all financial factors to achieve the point corresponding to the stable level of national income under the condition

of multi-sector market. This is the idea to which we shall attempt to give content in the future.

This seems a reasonable solution, since there is an optimal solution for redistribution, but we can not neglect concrete political problems and the administrative system as is well shown in the history of public finance in U.K. As is pointed by Mr. Ilersic, every reform of the tax structure is based on some political situation, like introducing the progressive income tax in 1909, death duties in 1949, especially after the War. And so, the political choice of the art of tax and items of expenditure are the most important for attaining the most equitable distribution of national income through public policy. This should be noticed when we use national accounts as an instrument of policy.

[For Reference] . . . . . Numerical Example . . . .

If we assume, for example, an indirect tax rate  $a_{31}$  and government expenditure for firms  $G_1$  change, and additional spending is 1.5 (£ 100 m), we get from the relation

$$\begin{aligned} 7.4 \times da_{31} + 3.5 \times 1.5 &= 0, \\ da_{31} &= -0.71 \end{aligned}$$

As a result, an indirect tax rate  $a_{31}$  decreases from 0.19 ( $= 1 - 0.71$ ) to 0.13, while government expenditure based on the other tax revenue increases 1.5 (£100 m).

### III

#### *Social Accounts for Economic Stability*

It was mentioned in the introduction of this paper that some of the other objects of policy to be dealt with have dependence on the first and the second main objects. But there are considerable differences also for the other three objects of policy in analyzing those under national accounts system.

First, we should consider the object of the maintenance of an adequate rate of interest. This problem was a great concern in the 1945 U.K. economy, where much borrowing from banking systems was held, like Roosevelt's New Deal policy in the U.S.A.

In the absence of monetary factors in national accounts, it is rather difficult to solve this problem directly. The monetary policy will have effect on the liquidity preference both through transaction money and through speculative money.

As is well known in the Keynesian Theorem,

$$M = M_1 + M_2 = \frac{X(\bar{c}, r)}{V} + L_2(r)$$

Then national accounts estimate only national income which relates to transaction money  $M_1$ . On the other hand, the rate of interest concerns the money stock. It is interesting to note, however, there may be some relation between national accounts and the monetary system in order to solve this problem. If we assume velocity of money in all sectors  $v_j$  and then rates of liquidity in speculative markets  $\delta_{ij}$ , we get a relation as follows,

$$M_1 = \sum_j \frac{a_{ij}y_j}{v_j} + \sum_j \delta_{ij} M_{ij} \dots \dots \dots (6),$$

$$M = \sum_i M_i \dots \dots \dots (7).$$

National accounts relate only to  $\sum a_{ij}y_j$ , but if it would be possible to integrate 'Flow of Funds System' to it, <sup>(11)</sup> we may trace the effect of a change in the rate of interest. When total  $M = \sum_i M_i$  is unchanged, rates of speculation change with a change of the rate of interest, which will have some effect on transaction markets especially through investment markets. In an inverse relation, we might arrange an adequate level of the rate of interest indirectly through national accounts system.

Second, as for the maintenance of external stability between exports and imports, the object will be easily treated through ex-ante estimation of the rate of exports and imports in the same way as we discussed in the preceding contexts. It is reasonable in this case that there is a discrepancy from internal changes between the rate of imports and exports which is as similar to that between government expenditure and tax revenue. Imports have an advantage for productivity in some contexts but not so whenever they do not coincide with productive power. As for exports, the situation is vice versa. That is the main problem in the U.K. or Japanese Economy after the War.

Finally, we have an object to stabilize prices. The policy for this object depends on the full employment policy without inflation which we have discussed already. In the U.K. economy after the Korean boom of 1950—'51, living

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(11) This theme is the most recent and there are two types. First is (A) OEEC, Statistics of Sources and Uses of Finance, 1948-1958, 1959. This method based on Prof. J. J. Polak, "Monetary Analysis of Income Formation and Payment Problem", Staff Papers, vol. VI, No.1, Nov., 1957. Second is (B) Board of Governors of The Federal Reserve System, Federal Reserve Bulletin, Aug., 1959, pp. 828-25. For the present status of money-flow accounting, See G. Dorrance, "The Present Status of Financial Accounts: A Review of Recent Developments", 1961. Income and Wealth series, IX. For the present status of Financial Accounts and the integration problem (with National Accounts) in Japan, See The Board of Economic Planning, Japan, "Report of the Committee on the National Economic Accounting", 1962. and N. Nosé, "The Integration Problem in Social Accounting," Kokumin-Keizai-zasshi, vol. 105, No. 6, pp. 62-79.



costs rose with increased wage rates, and these divergences belonged to the rather unstable increase of national income. Theoretically we may guess that any price of any object will rise or fall in accordance with an increase or decrease of income in any sector, but not proportionately and not continuously. The strategic policy for income is variable, then prices become variable. Therefore, the stabilizing policy through national accounts, which is the first main object of policy, is necessary for stabilizing prices, only if the latter has not negatively dangerous incentives to the productivity of national economy.

#### IV

#### *Conclusions and Some Problems*

We have explored, by means of the system of social accounts, ways in which some objects of policy may be able to influence the final object for attaining the national economic welfare of the nation. At the same time, we have shown how an appropriate choice of such financial factors may preserve equitable policies for full employment without inflation or adequate redistribution, avoiding unstable changes rates of interests, balance of payments and prices.

Although the model we have used is rather abstract and involves a number of simplifying assumptions, in some cases they are only propositions, we may put some light on how to use national accounts as an instrument of policy.

One approach is to proceed with the above analysis including government sector. On the revenue side, the theory of shifting and incidence of taxation under multi-sector market is necessary. It will be composed of each analysis for each tax under the present tax structure. On this point, we should examine further government's depreciation policy e.g. extraordinary rate of depreciation for tax purposes.

On the other side, the public expenditure, is fairly easily proceeded through multi-sector multiplier theorem, after considering the effects of government activities.

We have treated social accounts as an instrument of policy rather economically. But it should be the most important problem of how we define 'government sector' and 'government activities' as well. There are some complexities and discrepancies in this matter, because, in some cases there are differences between the administrative or institutional division and the functional division of sectors. For example, in capital account, we have a different division of sector about same articles, i.e. pianos or motor-cars,

etc. This is one of the main reasons. Thus the rearrangement of divisions for government sector will be necessary. Still more, we must promote the study of the input-output accounts and integration of two macro accounts to analyze the effects of economic policy on multi-sector in detail<sup>(12)</sup>.

Finally, it should be notice that national accounts as an instrument of policy has some limitation especially contributed from the point of view of the political system and of economic function. It sheds some light on the proceeding plans of national economy by arranging some financial factors between revenue and expenditure, which the role that this method is able to play in attaining some political objects is limited. This un-suitability is one of the most important problems which must be disputed in the future.

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(12) See Stone & Croft-Murray, *ibid.* "National Economic Accounts of the United States", 1958. Conference on Research in Income and Wealth, "Input-Output: An appraisal", 1955. T. Barna (ed.), "The Structural Interdependence of the Economy", 1955. As the present status of integration of the social accounting systems, N. Nosé, "The integration problem", *ibid.*

# INDUSTRIAL ESTATES FOR SMALL BUSINESSES IN JAPAN

Minoru BEIKA

## I

The modernization and rationalization of small businesses have been one of the most important industrial problems in Japan. Therefore many policies for the problem have been planned and executed by the Government, but the changing conditions around a small business continue to raise many difficult problems. Recently the construction of "industrial estates for small businesses" has drawn the attention of the industrial world in Japan, as a newly planned unique policy by the Government. This idea was initiated voluntarily by several small business groups two or three years ago, and since 1961 it has been formulated with the financial aid of the government, and has been recommended to small business firms by the local public bodies. Many projects for establishing industrial estates of small business groups have been planned, some of them have already been completed and still other projects are now under construction.

So-called industrial estates can be usually found in American and European countries. But industrial estates in Japan planned chiefly for combined activity by small manufacturing firms in certain kinds of industries are still rather rare as stated above. The writer intends to explain the outline and significant role of these estates in small business problems in Japan.

## II

The general problems of small business in Japan can not be dealt with here, because they have many complicated aspects and are related to various other economic and social problems. The principal subject in this article is what is the meaning of "industrial estates" in small business problems in Japan.

The industrial estate for small businesses stated here, has some special characteristics different from the so-called ones in American and European countries, as follows. Some of the small business firms in certain kinds of manufacturing industries form co-operative organizations to construct an

industrial estate on a suitable site, the estate being planned to attain the efficient co-operation of the participating members, not only in physical facilities for manufacturing, distributing, and employee welfare, but also in other economical and social activities. Accordingly, industrial estates are one of the most effective means to modernize the management and technology of a small business by co-operative activity. Moreover, these can be used to promote urban redevelopment, more or less, since each small business firm which has been dispersed within a residential or shopping district to bring undesirable land use, have to maintain their own desirable conditions and to adjust to their surroundings.

Several original plans were initiated by a few groups of small business firms in clothing, wood working, and engineering industries, since the beginning of 1960. The inducing motives were labour shortages due to their small scale, the undesirable environment of their sites, and severe competition caused by large scale enterprises and their own business policies.

Just at that time, the summer of 1960, the Joint Japan-United Nations Team in the Hanshin Metropolitan Region (the writer was on the Japanese team) recommended in their report on a planning and action program for the development of the Region, that industrial and commercial estates for small businesses should be developed for their modernization and urban redevelopment. The recommendation suggested that these estates could provide truck facilities, utilities, rented building space and some credit, management and clerical services for small business firms, and that they might be located in areas where particular economic functions were already placed or might be relocated in other more suitable areas.

These recommendations and experimental plans led to governmental action to realize the project of industrial estates for small businesses formally. The Government provided encouragement for co-operative action by small industrial firms through forming an industrial estate with official financial aid. The Government decided to assist in the realization of 10 industrial estate projects in 1961 and 20 projects in 1962, throughout the whole country. In 1963, 30 industrial estates and 10 commercial estates are planned to be developed. Of course, there are a considerable number of other projects which anticipate official assistance in the near future, and many other voluntary projects under preparation. The outline of the 30 projects under realization with official aid as stated above is shown as follows.

**Industrial Estates for Small Businesses by official financial aid in 1961**

Prefecture	Name I. E. (Cooperative)	No. of Firms	Kind of Industries	Area
Hokkaido	Sapporo Woodworking Center	44	Woodworking	180,000 <sup>m<sup>2</sup></sup>
Chiba	Funahashi Industrial Cooperative Federation	93	Metallurgical, Engineering, Chemical, Textile, Food	140,000
Shizuoka	Osawawatari I. E.	22	Transportation Equipment	86,000
Shizuoka	Shizuoka Engineering I. E.	47	Engineering	165,000
Gifu	Gifu Engineering I. E.	90	Engineering	430,000
Aichi	Toyota Engineering I. E.	22	Engineering	230,000
Toyama	Toyama Engineering Center	39	Engineering	120,000
Osaka	Osaka Clothing I. E.	52	Clothing	430,000
Okayama	Okayama Engineering Center	32	Engineering	120,000
Fukuoka	Northern Kyushu Industrial Coop.	22	Engineering	190,000
<b>Total</b>	<b>10</b>	<b>463</b>		<b>2,100,000</b>

**Industrial Estates in 1962**

Hokkaido	General Engineering I. E.	69	Metallurgical, Engineering	700,000
Tochigi	Ashikaga Knitting I. E.	21	Knitting	200,000
Ibaraki	Ibaraki Switch-board I. E.	21	Switch-board	138,000
Niigata	Kashiwazaki Engineering I. E.	41	Engineering	138,000
Shizuoka	Hamamatsu Engineering Coop.	34	Engineering	165,000
Shizuoka	Shimizu Woodworking I. E.	21	Woodworking	148,000
Nagano	Daiichi Precision I. E.	30	Precision Industry	204,000
Nagano	Nagano Woodworking I. E.	28	Woodworking	100,000
Ishikawa	Kanazawa Josei Engineering I. E.	26	Engineering	54,000
Aichi	Nagoya Men's Wear I. E.	22	Men's Wear	100,000
Mie	Yokkaichi Engineering I. E.	26	Engineering	177,000
Fukui	Sabae I. E. Federation	53	Dye, Grass Frame	1,270,000
Osaka	Osaka Women's Wear I. E.	43	Clothing	165,000
Hiroshima	Tomo Engineering Coop. Federation	84	Engineering	170,000
Kochi	Kochi Woodworking I. E. Federation	52	Woodworking	445,000
Fukuoka	Kokura Higashitani Engineering Coop.	21	Engineering	188,000
Oita	Oita Engineering I. E.	21	Engineering	62,000
Saga	Saga Engineering	25	Engineering	100,000
Nagasaki	Nagasaki Engineering	27	Engineering	165,000
Nagasaki	Sasebo Engineering	20	Engineering	70,000
<b>Total</b>	<b>20</b>	<b>685</b>		<b>4,760,000</b>

### III

The industrial estates for small businesses under construction seem to have considerable merit in overcoming the present difficult problems of small business firms in Japan. This is especially due to their special characteristics different from modern large-scale industrial enterprises.

Small business firms in Japan are chiefly family-owned or relative-owned. Therefore the management of a small business by the owner himself, tends to seek both the prosperity of the business and the happiness of the family or the relatives. Both aims may be coincident in some cases, but in many other cases, both may confront each other. Because, for the object of realizing the prosperity of the business, the management might have to absorb external funds and employ competent management talents outside the family or relatives, so that the power of control by the owner or the family might be necessarily decreased and moreover the management (the owner) would have to deal with new more troublesome management problems. In cases where the firms do not have the chance to develop their business in such ways as stated above, they might inevitably be forced to give up their independence to some degree for some joint business activity with other small firms.

To attain the happiness of the family, the business policies might be so conservative or passive that the management tends to attach importance to business security and to avoid confronting complicated problems. Generally speaking, hitherto, a considerable number of small business managements in Japan, tended to prefer the latter business policy, or to take standpoint of the happiness of the family, rather than the former, or the policy of business prosperity, at any crisis where they would be obliged to decide their policies.

The development of industrial estates for small businesses seems to mean that positive policies to desire the prosperity of the business surpass the former tendency stated above. The industrial estates' need is for the managements (the owners) of constituent small firms to emerge from the status of a family business. This is because, for developing industrial estates, the constituent members who had dispersed sites for apart and had been able to operate their business independent from each other physically, now must come together in one certain area and construct their plants and other facilities, according to integrated plans and standards to some degree, so that they should not only co-operate in some of their business activities with each other, but also would inevitably compare their business performance, wage level, machine and equipment, and business results, and then should necessarily endeavor to develop their business more positively for overcoming their business differences.

It is worth paying attention now to the fact that such a rather drastic policy has been adopted independently by some groups of small business firms in Japan, and that even though there is severe competition in this age of innovation it has brought out such a creative management behavior. The leading causes for such management behavior in small business firms are the labour shortage and lack of competent management talent, due to their small-scale, and the following causes coming from the increasingly undesirable environment of their old sites. They are necessarily urged to endeavor to level up their productivity to that of large-scale enterprises, by overcoming their weaknesses as much as possible. The industrial estate is seen to be one of the most effective means to level up the productivity of small businesses since they would be able to co-operate in their business and relative activities on the estate, outgrowing their former individualistic behavior. On this point, the writer can find a positive meaning in the governmental policy of encouraging the industrial estate of small businesses.

In the U.S.A., the policies of the Small Business Administration have laid emphasis on financial aid and management guidance for individual firms, supporting their independence exclusively. Therefore it does not intend to lead them to organize co-operative activities, or combine their businesses. In Japan, on the contrary, the policies to help small firms, include encouragement for co-operative activities, such as co-operative purchasing, selling, manufacturing and amalgamation in some cases. Because there are so many small business firms in Japan they tend to fall into a too excessive competition in order to coexist and develop. In spite of many experiments to improve such undesirable conditions, these difficult problems have been endured as before. Thus the type of industrial estates is a forward step in approaching a solution to such problems. It especially means that the managements of small business firms have shown their decisiveness in trying to solve their problems.

Recently small businesses in Japan have shown two remarkable trends in their industrial development, and the development of the industrial estate is one of them. The other remarkable trend is the jumping up in the level of small businesses, based on their creative business policies in the innovation age. The latter course also led them to depend upon business-minded policies different from their former family-centered attitude. One of the real evidences is the establishment of a secondary market in stock exchanges, and the formal preparation to establish a corporation for financial-aid to growing small firms. Since the major subject of this article is industrial estates for small businesses, the writer shall cut short further discussion on this problem.

## IV

Some cases of industrial estates for small businesses in Japan are illustrated below:

(1) The industrial estate of small engineering industrial firms.

One industrial estate has almost finished construction at some distance from the Hanshin industrial region. This estate has about 122,000m<sup>2</sup>, consisting of 32 small-sized industrial firms. Some of these firms had co-operated with each other from several years ago chiefly in taking orders from a certain large-sized industrial machine factory. They had been located at different places around a middle-sized city (Okayama). As the city had grown larger gradually, most of them were confronted with the undesirable conditions of their surroundings which were residential and had traffic congestion problems, and their industrial efficiency had been disturbed by old-type machines and equipments. The unsuitable layout had unbalanced their business development. As a result, they could not employ capable trained labourers. Moreover, several new large factories belonging to metallurgical and petrochemical industries had begun to develop on the reclaimed land near Okayama city, and small engineering industrial firms could expect new markets by this development. Necessarily they were forced to adopt some drastic means for overcoming these obstacles and obtain their expected new market.

They devised a kind of industrial estate and put forward their plan. Just of that time, the government policy for industrial estates of small businesses had begun. They realized their plan, prompted by the government policy. Several other firms participated in this plan. But considerable time elapsed before the concerned industrial firms reached an agreement with each other to co-operate in the plan and overcome the many troublesome obstacles concerning legal procedures. Because it belonged to one of the early representative plans the co-ordination between the central and local governments and between different concerned departments of the government had not yet been sufficiently completed. Therefore it must be emphasized that the excellent business leadership of the staff and the strong co-operation of the members of the estate have overcome these many obstacles.

This industrial estate has constructed each plant building with a unified design, and has common employee welfare facilities such as a dormitory for new young employees, a common meeting place and some recreational facilities. Their plan also includes having some common new special machines and equipments through which the member firms can co-operate for their modernization. Actually the employee welfare facilities have helped them



to overcome the labour shortage to some degree. Moreover, they have tried to raise productivity in their manufacturing activities by reducing the productivity discrepancies among themselves. Perhaps these efforts will lead them to enlarge their capacity of taking more orders by their increasing industrial specialization so as to improve the foundation for their development.

However, this industrial estate has several difficult problems. Most of the participating firms are very small-sized and have too old-type machines and equipments, and moreover it needs their further exertion to achieve the desirable co-operative activity in their industrial estate. The land use of the old site of each firm has not yet been planned well for urban redevelopment. This is the other important problem.

(2) The industrial estates of small clothing industrial firms.

One industrial estate of clothing industry for men's wear is now under construction in the northeastern suburb of Osaka-city, and the other for women's wear is under preparation in the southern suburb of Osaka. The former estate has about 430,000m<sup>2</sup>, consisting of 52 industrial small-sized firms, and the latter has about 165,000m<sup>2</sup>, consisting of 43 firms. These projects have in general the same characteristics as the engineering industrial estate stated above, in their aim of industrial modernization and urban renewal.

But as the clothing industry has some special business features in its industrial organization, their projects for industrial estates have implied their special intention for some alteration (or modernization) in their industrial organization. The firms in the clothing industry have been based on the subcontract system, so they have manufactured themselves some parts of their products in their own small plants, but they have subcontracted many of their orders to many smaller subcontracters belonging to the house-hold industry type concentrated in the urban districts. They have a wholesale function too. However, the recent labour shortage which has been brought about by the rapid industrial development and the change in the population structure in Japan, has affected their subcontract system greatly so that they are now confronted with the necessity of adopting some new policy in their manufacturing system. They made their decision to meet the changing conditions by this new project of an industrial estate. It means that they are outgrowing their semi-manufacturing state, not depending on the small subcontracters so much. Therefore this type of industrial estate has another meaning of changing their industrial organization, different from the case of the engineering industry stated above.

This project faces more difficult problems. Each firm is relatively more commercial-minded than manufacture-minded in its characteristic. Accordingly the management of the firm most necessarily emphasize the change of

thinking attitude and business policy in the new industrial estate. Although they are to move their manufacturing divisions to the estate, in the case of the men's wear industry, their head offices and sales offices are to remain in the old sites, and therefore it is anticipated that their overhead cost will increase and the urban redevelopment program will be less than expected in the case of the engineering industrial estates. Moreover some of the small subcontracters might be deprived of a considerable part of their orders. It also is a problem to be solved with the project of the industrial estate. However, the industrial estates are expected to have a great and good influence on the development of the clothing industry in the future.

(3) The case of the voluntary industrial estate of wholesale firms.

Several wholesale dealers in Kyoto have voluntarily put forward their project of an industrial estate in the southern suburb of Kyoto which is the second center of textile business in Japan. This estate proposes to obtain a site of about 115,000m<sup>2</sup> to 165,000m<sup>2</sup>, consisting of 30 or 50 textile wholesale dealers, of whom 8 dealers have already started the first step in the project. The active members of this estate have planned this project to avoid the traffic congestion near the old sites in the central urban district and to develop their business more positively by building this new suitable environment. The new site is near the new modern highway (from Kobe to Nagoya). This is a voluntary project.

It seems that this project has two important problems. The first one relates to the voluntary project. The voluntary planning might be threatened with conflict concerning a desirable land use pattern. The second one is that this is the first project of a wholesale function, not a manufacturing function. In view of the urban land use or urban redevelopment, several functions relating to the business or commercial activities in the urban district should be expected to be decentralized and moved to the suburban districts of central cities in Japan. The industrial estate stated above is an experimental one. The estate of a manufacturing industry can be relatively easily and effectively located on a suitable site, since the estate can chiefly be the place of the manufacturing function. On the contrary, the new estate for wholesale trade requires more essential factors for the trading function, especially such as the possibility of easy contact by the customers (both buyers and sellers). Therefore, the project of the wholesale estate must be planned more minutely based on careful preparation. The Government also seems to intend to develop several wholesale industrial estates during 1963.

The three kinds of industrial estates stated above are some of the representative cases in present projects of industrial estates going on now.

**V**

In short, the recent attempts of industrial estates for small business in Japan are expected to be one of the most effective means for their development by overcoming their weakness. Perhaps a considerable number of these projects will be successful in the near future. However, recently it is feared that some of the new planning of industrial estates imitating earlier projects tend to be too stereotyped, lacking the flexibility to fit the respective actual business features of the industries. Most of the early projects seem to be found on careful study and preparation, but several recent projects do seem to be based on such careful arrangement and some of them might be only imitations of the former plans. The policy of industrial estates by the government can be expected to be more flexible to suit the actual business features of each industry in the type and its condition of the industrial estates. And yet it is expected now that the industrial firms themselves will be more creative in their projects and experiments in forming industrial estates.

# RISE OF THE MUTUAL FINANCING BUSINESS IN JAPAN

Tadakatsu INOUE

## I

From the beginning of the 20th century, the system of mutual finance, known in Japan under the general title of "Mujin," come to be made use of as a profit-making concern — so far the Mujin had long been on a mutual aid basis. According to an investigation made by the Ministry of Finance in 1914, the first profit-making Mujin company was the Kyôei Chokin & Co. of Tokyo, founded in 1901 with a capital of 10,000 yen. Since then, stimulated by the successful operation of the firm, company after company was established. In 1913, the year of the highest upsurge of the Mujin enterprise, the number of undertakings reached 1,115. This development is much the same evolutionary movement as occurred when mutual insurance was taken up by joint-stock companies.

## II

Before I give an explanation of how the mutual finance business was carried on in its formative years, it is necessary to make a few preliminary remarks on the traditional mutual financing society, known under the various names, such as "Mujin-Kô," "Tanomoshi-Kô," "Kô," etc.

1. The Mujin-Kô is formed by a certain number of persons, living in the same village or town, or engaging in the same trade, or worshipping at the same temple or shrine.

2. The members agree to subscribe a certain sum periodically and to divide the proceeds periodically by drawing (ballot), or by bidding (auction), or by both.

3. When there is a special beneficiary, for whose benefit the Mujin-Kô is formed, the subscriptions at the first meeting are advanced to such beneficiary without interest, or even as a free-gift. In the first case, the beneficiary has to pay his subscriptions from the second gathering like all other members. In the second case, he has nothing whatever to pay and usually in return undertake the collection and administration of subscription while the Mujin-Kô

continues in existence.

4. From the second meeting, or in cases where there is no special beneficiary, from the first meeting, the paying out to member begins by drawing, or by bidding, or by both.

5. When the method of drawing is adopted, it is pure chance to whom the advance will go and he who may require it most urgently may have to wait the last meeting, where he should draw nothing but the bare money he has paid in month by month. Therefore, in order to correct this unfairness to those members who receive money towards the end of the series of meetings, up to say about half the number of drawings, a percentage at a decreasing ratio is deducted from the prize-money; and after half of the members have drawn their money, this small percentage is added to the prize-money at an increasing ratio. For example, the prize-drawers Nos. 1, 2 and 3, etc. would receive their money minus say 3 per cent., 2 per cent. and 1 per cent., the biggest deduction being made for the first prize-drawer and the proportionately smaller deduction for the second and third drawers, etc. After half of the members have been so dealt with, the sums deducted from them are added to the advance made to the other half of members, the last member receiving the largest addition to his prize.

6. Where the subscriptions are allocated at each meeting by bidding, those members in need of ready cash compete for the advance, in that they state their willings to accept so much below the total amount due to them. Let us suppose that there are fifty subscribers and that the meetings are held once a month and that the duration extends over fifty months and that the subscription is fixed at a yen a month and consequently that the total sum due to each member amount to fifty yen. And then, let us assume that, when the time come round for the third paying out of fifty yen, member C, E, G urgently require to be accommodated on account of financial embarrassment and that C is willing to accept forty-five yen, E forty yen, and G thirty-five yen. Naturally G's bid, being the lowest, is accepted; consequently he must sacrifice fifteen yen, that is, thirty per cent. of what he would eventually pay in, or if he could wait, receive back at the last meeting. This difference of fifteen yen is equally divided either among all the members, excepting the successful bidder G, or among all those members who had not yet obtained an advance.

### III

The Mujin enterprise, which made its first appearance about 1901, was a development from the system of mutual finance organized on such a manner as described in the preceding pages. It should be natural, therefore, that

the former bears a strong resemblance in its method of finance to the latter: it recruits a number of persons; it collects a certain sum from the members at regular intervals; it advances the proceeds to a member at each meeting by the method of bidding, or by drawing, or by both; and it allows the repayment of advances by instalments. However, we cannot deny that there are two points of difference between these two systems, which are as follows:—

1. Whereas the Mujin Kô, sometimes called "Tanomoshi Kô" or simply "Kô," is an association formed for the mutual aid of the members, the Mujin enterprise aims to make a profit out of its financial service to the customers.

2. Whereas the whole working of the mutual Mujin is based on the good faith of members, we find in the business Mujin that there is no mutuality among the members and each member has only to deal with the promoter, not with his fellow members. Thus, in the latter, the loss arising from the evasion of payment of subscription or repayment of advance is guaranteed by the company itself. Here will be found one of the chief reasons why the number of the profit-making Mujin companies increased by leaps and bounds in a decade following the founding of the Kyôei Chokin & Co. in 1901.

#### IV

The method to draw a profit out of the Mujin may be divided into the two: the Tokyo-and Osaka methods.

##### 1. The Tokyo method

The company charges a certain sum as commission to each member equally whether he had received an advance or not. The result is that even the total amount of subscriptions paid by the member who draw his money at the end of the series of meetings should exceed what he gets at the last meeting. Generally speaking, the Tôkyo method seems to be favorable to those members who urgently require to be accommodated.

Table A shows an early example of this method adopted by the Kyôsei Chokin Company of Tokyo. In this case the company charges fifteen yen as commission to each of sixty-three members equally whether he had received the contracted sum of three hundred yen or not.

##### 2. The Osaka method

The company charges a commission only to those members who had received an advance. A portion of this commission may be used to pay an interest to the well-to-do members who receive money toward the end of the series of Mujin meetings. The result is that the total amount of subscriptions of the last member is less than the sum he gets at the last meeting. In general,

the Osaka system seems to be favorable to the members whose interests lie in money-building.

Table B shows an early example of this method adopted by the Kyôei Chokin & Co. In this case the member who receives the contracted sum of one hundred yen at the last (fifth) meeting pays his subscriptions at a decreasing ratio which total ninety yen, thus getting the difference of ten yen as an interest. On the contrary those members who obtain the advance at the early meetings have to pay back with a considerable sacrifice. For example, the first prize-drawer pays in 117.70 yen against the advance of one hundred yen. Through such arrangement the company can expect to earn the surplus totaling 756.50 yen.

Besides the difference between the total amount paid in and the total amount of the loan contracted, the Mujin enterprise gets a considerable profit through the administration of the surplus fund.

Income and Outgo

A Mujin organized by the Tokyo method

Contracted sum to be loaned.....300 yen.

Membership.....63.

Meetings are held every twenty days.

TABLE A

Order of Meetings	Subscription before Loan			Subscription after Loan			Total Amount of Subscription (A)	Loan Contracted (B)	Surplus (A)—(B)
	Sum	Member-ship	Total	Sum	Member-ship	Total			
1 (drawing)	yen 5	63	yen 315	yen 5	0	0	315	yen 300	15
2 (bidding)	5	62	310	5	1	5	315	300	15
3 ( " )	5	61	305	5	2	10	315	300	15
4 ( " )	5	60	300	5	3	15	315	300	15
5 (drawing)	5	59	295	5	4	20	315	300	15
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
61 (drawing)	5	3	15	5	60	300	315	300	15
62 (bidding)	5	2	10	5	61	305	315	300	15
63	5	1	5	5	62	310	315	300	15
Total	315		10,080	315		9,765	19,845	18,900	945

## Income and Outgo

A Mujin organized by the Osaka method

Contracted sum to be loaned.....100 yen.

Membership.....50.

Meetings are held every twenty days.

TABLE B

Order of Meetings	Subscription before Loan			Subscription after Loan			Total Amount of Subscription (A)	Loan Contracted (B)	Surplus (A)—(B)
	Sum	Member-ship	Total	Sum	Member-ship	Total			
1 (drawing)	5.00	50	250.00	0	0	0	250.00	100.00	150.00
2 (bidding)	5.00	49	245.00	2.30	1	2.30	247.30	100.00	147.30
3 ( " )	5.00	48	240.00	2.30	2	4.60	244.60	100.00	144.60
4 ( D )	2.50	47	117.50	2.30	3	6.90	124.40	100.00	24.40
5 ( B )	2.50	46	115.00	2.30	4	9.20	124.20	100.00	24.20
6 ( " )	2.50	45	112.50	2.30	5	11.50	124.00	100.00	24.00
7 ( D )	2.50	44	110.00	2.30	6	13.80	123.80	100.00	23.80
8 ( B )	2.50	43	107.50	2.30	7	16.10	123.60	100.00	23.60
9 ( " )	2.50	42	105.00	2.30	8	18.40	123.40	100.00	23.40
10 ( D )	2.50	41	102.50	2.30	9	20.70	123.20	100.00	23.20
11 ( B )	2.50	40	100.00	2.30	10	23.00	123.00	100.00	23.00
12 ( " )	2.50	39	97.50	2.30	11	25.30	122.80	100.00	22.80
13 ( D )	2.50	38	95.00	2.30	12	27.60	122.60	100.00	22.60
14 ( B )	2.00	37	74.00	2.30	13	29.90	103.90	100.00	3.90
15 ( " )	2.00	36	72.00	2.30	14	32.20	104.20	100.00	4.20
16 ( D )	2.00	35	70.00	2.30	15	34.50	104.50	100.00	4.50
17 ( B )	2.00	34	68.00	2.30	16	36.80	104.80	100.00	4.80
18 ( " )	2.00	33	66.00	2.30	17	39.10	105.10	100.00	5.10
19 ( D )	2.00	32	64.00	2.30	18	41.40	105.40	100.00	5.40
20 ( B )	2.00	31	62.00	2.30	19	43.70	105.70	100.00	5.70
21 ( " )	2.00	30	60.00	2.30	20	46.00	106.00	100.00	6.00
22 ( D )	2.00	29	58.00	2.30	21	48.30	106.30	100.00	6.30
23 ( B )	2.00	28	56.00	2.30	22	50.60	106.60	100.00	6.60
24 ( " )	1.50	27	40.50	2.30	23	52.90	93.40	100.00	△ 6.60
25 ( D )	1.50	26	39.00	2.30	24	55.20	94.20	100.00	△ 5.80
26 ( B )	1.50	25	37.50	2.30	25	57.50	95.00	100.00	△ 5.00
27 ( " )	1.50	24	36.00	2.30	26	59.80	95.80	100.00	△ 4.20
28 ( D )	1.50	23	34.50	2.30	27	62.10	96.60	100.00	△ 3.40
29 ( B )	1.50	22	33.00	2.30	28	64.40	97.40	100.00	△ 2.60
30 ( " )	1.50	21	31.50	2.30	29	66.70	98.20	100.00	△ 1.80
31 ( D )	1.50	20	30.00	2.30	30	69.00	99.00	100.00	△ 1.00
32 ( B )	1.50	19	28.50	2.30	31	71.30	99.80	100.00	△ 0.20
33 ( " )	1.50	18	27.00	2.30	32	73.60	100.60	100.00	0.60
34 ( D )	1.50	17	25.50	2.30	33	75.90	101.40	100.00	1.40
35 ( B )	1.00	16	16.00	2.30	34	78.20	94.20	100.00	△ 5.80
36 ( " )	1.00	15	15.00	2.30	35	80.50	95.50	100.00	△ 4.50
37 ( D )	1.00	14	14.00	2.30	36	82.80	96.80	100.00	△ 3.20
38 ( B )	1.00	13	13.00	2.30	37	85.10	98.10	100.00	△ 1.90
39 ( " )	1.00	12	12.00	2.30	38	87.40	99.40	100.00	△ 0.60
40 ( D )	1.00	11	11.00	2.30	39	89.70	100.70	100.00	0.70
41 ( B )	1.00	10	10.00	2.30	40	92.00	102.00	100.00	2.00
42 ( " )	1.00	9	9.00	2.30	41	94.30	103.30	100.00	3.30
43 ( D )	1.00	8	8.00	2.30	42	96.60	104.60	100.00	4.60
44 ( B )	1.00	7	7.00	2.30	43	98.90	105.90	100.00	5.90
45 ( " )	1.00	6	6.00	2.30	44	101.20	107.20	100.00	7.20
46 ( D )	0.50	5	2.50	2.30	45	103.50	106.00	100.00	6.00
47 ( B )	0.50	4	2.00	2.30	46	105.80	107.80	100.00	7.80
48 ( " )	0.50	3	1.50	2.30	47	108.10	109.60	100.00	9.60
49 ( D )	0.50	2	1.00	2.30	48	110.40	111.40	100.00	11.40
50 ( " )	0.50	1	0.50	2.30	49	112.70	113.20	100.00	13.20
Total	90.00		2,939.00	112.70		2,817.50	5,756.50	5,000.00	756.50



# THE INTRODUCTION OF EUROPEAN-STYLE VESSELS IN JAPAN: A HISTORICAL SURVEY

Seiji SASAKI

## I

Our opinion that the modernization of Japanese shipping was theoretically accomplished through the regular development of a common carriage system with modern European-style vessels after the Meiji Restoration, is based on the following two premises;

1) The past Japanese shipping business remained at the stage of private carrier with Japanese-style sailing vessels.

2) The actual start for modernization was made with the introduction of European-style vessels due to urgent but uneconomical demands.

The first problem can be easily understood by men of good sense and has been described already quite frequently by author. Now as there will be no need to dwell upon it at length, we will point out a few facts briefly; the Japanese owned only out-of-date sailing vessels before the Meiji-Restoration. The greater part of such Japanese-style sailing vessels were the property of the merchants and were operated to carry their own cargoes (private carriage), even though some historical pioneers of the common or semi-common carriers like the Higaki-Kaisen and the Taru-Kaisen certainly were recognized during the Tokugawa Era. —The former were called “Kaizumi-Sen” and the latter, “Chinzumi-Sen”.— Moreover, it seems that almost all of the vessels of the Taru-Kaisen and the Higaki-Kaisen reverted to private carriage type in the latter part of the Tokugawa Era and the beginning of the Meiji Era.

The second problem is itself much more unquestionable. No one can deny the actual historical fact or order. There has even been some explanations that the introduction of modern European-style vessels showed the modernization of Japanese shipping itself. Though we must keep our eyes on the more important fact that the last and most substantial content of the modernization of any shipping industry (or shipping business) should be found in the transition from private carriage to common carriage, the real initiative of introducing European-style vessels and its effective role in the development of the common carriage type has to be given a close attention.

On the other hand, correct and deep research into the introduction process of European-style vessels is particularly important in relation to the general distortion of many previous studies on our modern shipping industry, as they overestimated the development of some earlier special-used steamships and some chartered steamship companies. They interpreted too simply the modern shipping business as nothing but transportation by steamers, and were likely to overlook the slow but steady growth of numerous Japanese-style sailing vessels and their owners. We must remember that early Japanese modern shipping as a whole consisted of a minor force of privileged steamship companies and a major force of many average ship-owners without protection. The former became the so-called "Shasen" group and the latter, the "Shagaisen" group after the middle of the Meiji period. The co-existence, especially the competitive relation, between both forces is very distinctive and is an interesting phase for us to study.

## II

Table (p. 43) shows us clearly two historical facts: first, European-style vessels, either steamers or sailing vessels, were imported before the Meiji Restoration; second, the steamers were greater in number than European-style sailing vessels at the beginning.

The most direct and strongest motive which compelled our country to abandon its national isolation policy was nothing more than the four "Black Ships", that is, the steamers, under the command of General Perry. This led to the emergent import of steamers as naval ships for national defense. The two wars which took place during the first decade of the Meiji Era accelerated this tendency.

So far as it came mainly from such a military or defensive necessity, the early introduction of steamers hardly brought a simultaneous quick evolution in Japan's general commercial transportation business. All average shipowners continued their possession of old-style sailing vessels. On this point, there was a very clear discord between the early emergent introduction of the steamer and the general growth of our modern shipping business. It might be said that our country did not import the modern European shipping business, even if it did introduce the many modern European-style vessels in the earlier days. In fact, all of the European-style vessels, either steamers or sailing vessels, which were imported before Meiji, belonged to the Tokugawa shogunate and some of the stronger feudal clans like the Satsuma, the Choshu, the Mito, etc. From a few reliable historical sources the navigation of the "*Kisho-Maru*", which was operated by a famous merchant, Jirosaku

Table I European-style vessels in Japan after 1870

	Steamer		Sail		Total	
	Number	Tonnage	Number	Tonnage	Number	Tonnage
1870	35	15,498	11	2,454	46	17,953
1871	71	20,934	31	7,909	102	28,843
1872	96	23,364	35	8,320	131	31,684
1873	110	26,088	36	8,483	146	34,571
1874	118	26,120	41	9,655	159	35,775
1875	149	42,304	44	8,834	193	51,138
1876	159	40,248	51	8,790	210	49,038
1877	183	49,105	75	13,648	258	62,753
1878	195	43,899	123	19,624	318	63,523
1879	199	42,763	174	29,551	373	70,314
1880	210	41,215	329	48,093	539	89,309
1881	189	39,305	360	43,354	549	82,559
1882	199	39,874	389	48,583	597	88,459
1883	218	42,250	378	45,611	594	87,861
1884	226	46,448	357	43,689	583	90,137
1885	228	88,765	358	50,772	586	131,537
1886	227	92,415	349	46,592	576	139,007
1887	252	107,808	342	45,220	594	154,128
1888	281	121,627	338	45,227	619	166,904
1889	311	134,548	329	44,253	639	177,774
1890	335	142,997	304	40,267	638	182,237
1891	353	147,574	278	38,539	630	185,082
1892	375	157,147	229	34,163	614	191,310
1893	400	167,490	218	33,666	618	201,156
1894	461	263,629	196	32,103	657	295,732
1895	528	321,374	173	29,322	701	350,696

Source; The Meiji-Unyu-Shi (History of Transportation in Meiji Period), Shipping, pp. 682-69. Before 1884, registered tonnage, after 1885, gross tonnage and after 1880 only registered vessels.

Kano, under the order of the Tokugawa-Shogunate in 1867, and which engaged three voyages of round trip a month between Edo (Tokyo) and Naniwa (Osaka) under the regular schedule, seems to be the first steamer that engaged in the commercial transportation business. She has been given the title "Joki-hikyaku-sen" (Steam-packet-boat) in our history. On the other hand, there were also a few very small steamers in those days, which engaged only in short-haul and very small-scaled passenger service between Edo and Yokohama. The "*Oiran-Marui*" and the "*Inage-Marui*" were famous as examples.

However, these early coasting services of steamers during the late Tokugawa Era were so accidental or tentative that all of them came to an end within a very short period. We must pay attention to the opinion that places doubt concerning the substantial execution of transportation services of the above-mentioned "*Kisho-Marui*" because of lack of sufficient reliable data to prove her real navigation.

The beginning of the Meiji Era brought no sudden or instant change in our shipping business, though a few experimental steamship services were made in the main route from Tokyo to Osaka, and more short-haul passenger services were carried on in limited spheres like Tokyo Bay, Osaka Bay and the Inland Sea of Seto. We can not recognize any definite or successful modern shipping business or firm until the establishment of the "Kaiso-Kaisha" in 1870—though it may have been in 1869.

The navigation of the "Naniwa-Marui" which was operated by the Osaka Unjo-sho, a department of the Meiji Government, between Tokyo and Osaka in 1867, was indeed the earliest attempt of a large-scaled transportation service with the then large-sized steamer after the Meiji Restoration. She engaged a regular official round trip voyage from April of that year as the above-mentioned "*Kisho-Marui*" had done or had planned to do. But she was distinctly a special ship so far as she belonged to the government, and her captain was naturally a foreigner (the English). The carriage of the general public and cargoes, even if they were permitted to use her, were seldom done under such limited conditions as stated, "official use is the prime object of this steamer, and private passengers and their cargoes are only allowed to go on board under our special kindness."

In September of the following year, the Hokkaido Kaitakushi, a commissioner of colonization for Hokkaido, also began a transportation business between Hokkaido and the main land with two European-style sailing vessels, the "*Kanrin-Marui*" and the "*Shohei-Marui*" which were given to the local government by the Dajo-kan, the Cabinet or the central government. Two steamers were added to their fleet afterwards, so that the business scale might be enlarged gradually. However, it had also not only such a limited character that its first aim was the transporting of official goods and thereafter the loading of civil cargoes as a form of side-work, but it showed in fact no satisfying business results throughout its existence. The result was that all transportation business to and from Hokkaido had to be transferred to the new Kaiso-Kaisha as soon as it had been established in 1870.

This steamship company, the earliest in our country, was a semi-official firm too; for the establishment of this company, itself, was planned by the Meiji Government so that it was given not only as much direct aid or pro-

tection as possible, but was also strongly controlled by the government. The fleet consisted of steamers and European-style sailing vessels. Some belonged to the new Government and others belonged to the clans. Of course, the imported steamers played the most active part. Although this company dissolved after less than one year without any practical success, in addition to its above-mentioned special semi-official character, it was undoubtedly the first steamship company in our country which aimed at carrying the general public and its cargo along with governmental goods. Our modern shipping business can be said to have originated with this company.

All attempts of the early sea transportation business—including that of the Kaisei-Kaisha—which were carried on by European style vessels imported during the late Tokugawa Era and the early Meiji Era, had a very special and limited characteristic as above-mentioned. These engaged, first of all, in official transportation and had a strong and direct connection with the governments, either the Tokugawa Shogunate, the Meiji Government or some of the stronger clans. The Kiman Steamship Company and the Tsukumo-Shokai—the origin of the Mitsubishi Kaisha and the Nippon Yusen Kaisha—, both of which were established somewhat later than the Kaisei-Kaisha, were also similar special firms; for the former had a close connection with the Kishu clan, while the latter was originally established under the strong protection of the Tosa clan. Without such a chartered situation and privilege no steamship company had any chance of surviving. Even such strong protection did not always mean the successful development of each company without their own spontaneous effort or by accidental opportunity.

### III

Behind the early introduction of steamers and the establishment of a few privileged steamship companies, however, there were a large number of Japanese-style sailing vessels and their owners who continued their work as private carriers. In the actual ratio of shipping tonnage or of transporting capacity the Japanese style sailing vessels were the most important and central force. This distortion or mixed situation in which there were a considerable number of modern European-style vessels, especially steamers, with some pioneering but privileged steamship companies, while all average and traditional shipowners still adhered to their old-style sailing vessels and unprogressive business type, that is, the private carriage, was a very important peculiarity of the then Japanese shipping situation.

An evolutionary rule, "from older and worse to newer and better" is naturally fit in the historical progress of ships. All sea-carrier companies

either Japanese or of other nations, have been and are even now looking constantly for newer and better ships from the time of the oldest dug-outs or reed-rafts in prehistoric days to the newest atomic-ships. Setting apart both the older and newer ships, the appearance of the clipper, barque and schooner in the latter era of sailing vessels was no exception to the above-evolutionary rule. Those newest and best sailing vessels showed us already the dawn of a new age in the middle of the nineteenth century and even suggested the further conclusive transition from sailing to steamer type.

The real modernization process of Japanese ships that had been accomplished during the period from the late Tokugawa Era to the middle of the Meiji Era, was also not only very natural but was common to that of ships of other countries; for everywhere there was a clear progress from older and dated ships to newer and better ships and it finally showed in the transition from sailing ships to steamers. There are, however, the following few very important characteristics which must be definitely remembered:

1) Each newer and better ship which was selected in turn was not a spontaneous growth in our country through any new device or effort on the part of the nation or shipowner. The Japanese people merely imported better ships which had been designed and built in advanced shipping countries.

2) Two distinctive methods can be recognized in the actual introduction process of the newer and better European-style vessels in place of the Japanese vessels, as it has been above-mentioned briefly and will also be more fully stated later on. These are in themselves not only very important and interesting but bring forth all other specialities in the farther developmental process of Japan's modern shipping industry.

#### IV

The two distinctive trends in the modernization process of shipping in Japan resulted apparently in a simple difference between the quick or slow introduction of the steamer. While in the former the steamer was introduced directly and from the outset, in the latter it was done indirectly and as a second step that had been attempted continuously but clearly after the first transition to European-style sailing vessels. When the Japanese traditional shipowners made up their minds at last to substitute their old Japanese-style sailing vessels for newer and better ships, they selected at first the European-style sailing vessels that were clearly more modern and advanced than their own sailing vessels but were undoubtedly not as up to date good as the most modern steamers. In the beginning, they merely introduced the better

ships within the sailing vessel types, and did not yet feel a great interest in the steamers. They finally began introducing the newest and best ships the steamers after about 1888. On the other hand, almost all of the early steamship companies which had already employed the large-sized steamers from the outset were not only the privileged shipowners but were new-comers in shipping circles and were few in number. They were able to approach the steamers more freely and progressively by reason of their inexperience and historical disinterest in the shipping business as compared to the many traditional shipowners.

In brief, one of the most important reasons that led to the modernization of Japanese shipping in those days was the unquestionable low-efficiency of their own sailing vessels. It showed very clearly the fact that the Japanese-style sailing vessels were old and bad and should be replaced by the European-style vessels, even though they were sailing vessels. Apart from the immaturity and many interior limitations of the then Japanese national economy as a whole, the inferiority of the Japanese-style sailing vessels was mainly due to the long isolation policy, which prohibited the building of large-sized (sailing) vessels—1635-1853—and of navigating abroad—1636-1862.

Of course, there were some developmental progress in our navigation and shipping business with such infantile Japanese-style sailing vessels even during the Tokugawa Era; for there were many coastal trade routes in spite of the lack of oceangoing voyage. These sailing vessels which were engaged on such main routes as Edo/Kamigata, Hokkaido/Hokuriku/Bakan/Osaka, and Kyushu/Hyogo (or Osaka) were very prosperous and even became comparatively large in scale due to the mollifying order on the prohibition of building large ships (1638)—this mollifying measure was only available for merchant-ships (cargo-boats). On the other hand, there were also many efficient middle-sized Japanese sailing vessels that were at first called “Kohaya” —meaning “a fast vessel”—and afterwards became well-known by the summary group-name “Taru-bune” (Taru-Kaisen). This fast and efficient sailing vessel group and another group, named the Higaki-bune (Higaki-Kaisen), which was defeated by the former group, were very famous in our shipping history because of their capable navigations between Edo and Kamigata and because of their foremost position as common carriers, as it has already been mentioned.

The actual progress inside the Japanese-style sailing vessels, however, was not only smaller in scale than that of the European-style vessels, but did not show such an epoch-making development to newer and better ships in the rigid meaning; for the appearance of larger or better sailing vessels in our country was negligible compared to the epoch-making design of the

Clipper in American and European shipping circles, more so when compared with that of the steamer. So far as the data that the author of this article has gathered to date, there is no positive proof to show any actual employment of a Japanese-style sailing vessel over 1,000 koku—roughly converted into about 100 tons—before the Meiji Restoration by any famous traditional ship-owners who had carried on their own navigation actively and gradually came to modernize their vessels and business type. Some long-lived men, who were either seamen or had shipping interests in some sailing vessels during the former half of the Meiji Era, have also told us from memories of their youth or hearsay from seniors that almost all of the so-called Sengoku-bune (sailing vessels of 1,000 koku) had a really small capacity of about 700-800 koku, and that it was in many cases only a simple popular name for the comparatively large-sized Japanese-style sailing vessels. The author has already proved the fact that the enlargement of the Japanese-style sailing vessels began just after the first decade of the Meiji Era.

Therefore all progress including the slight enlargement in the size of ship during the Tokugawa Era was really very much limited and partial, even though it is impossible to deny any change at all. It was undoubtedly far less than the progressive transition in foreign shipping circles. As such, the infantile Japanese-style sailing vessels had to be replaced by newer and better ships, first of all, in order to modernize Japanese shipping as whole.

## V

The above-mentioned process of the modernization of ships in Japan can be grasped from the viewpoint that it also conformed to the general rule, "from older and worse to newer and better" which in itself is a natural and theoretical process. Indeed the evident difference between the low productivity of Japanese-style sailing vessels and the high productivity of European-style vessels was a basic and purely economical reason to modernize the then Japanese fleet so quickly. Nevertheless, we can not attach great importance to this economical reason only; for it is insufficient to explain the real modernization process in our country that had two clear different trends.

The earliest introduction of European-style vessels was hardly based on any economical reason or demand. The European-style vessels were mainly imported by the government not by individual shipowners. Moreover, such an advanced introduction did hardly act as the stimulus for the subsequent general employment of European-style vessels by well-known traditional shipowners.

To explain this background more exactly, we must look into the then



real protective policies that were put into practice in order to introduce European-style vessels. With both the major universal or all-inclusive protective policies and the minor special limited regulations like the rules of the captain, mate and engineer's certificates for European-style vessels or the rules of the ship-money, a number of direct decrees for introducing new style vessels were promulgated by the Japanese government, either Tokugawa Shogunate or the Meiji Government in those days. Above all the following four ordinances are well-known and most important. Two were promulgated by the Tokugawa Shogunate and the rest by the Meiji Government; the three top ordinances were positive while the last was negative. We have to place main attention on such mutual relations and on changes in the passage of time.

A) Proclamation for releasing the prohibition against building large-sized vessels in 1853;

"Though the building of large-sized vessels was strictly prohibited hitherto, it shall be permitted for each feudal clan to build such large vessels, because the need has just become pressing. . . . ."

B) Proclamation for permitting the building of large-sized vessels for the whole nation in 1861;

"Even for both the farming population and trading class it shall be permitted to own large-sized vessels. They can build them at their own option henceforth. When they want to buy any foreign vessel, they must give notice to the government office in the nearest port. The owner of such a large-sized vessel can operate it freely and widely inside the country. If they are unaccustomed to this kind of operation business, they can easily get such government aids as the use of mates and seamen."

Both were well-known, epoch-making shipping policies that were put into force without delay as soon as the Tokugawa Shogunate repealed their long national isolation policy. However the former was clearly a special limited permission for each feudal clan to build and own large-sized vessels including European-style vessels. There was undoubtedly a military or national-defense aim behind this proclamation. On the other hand, we can easily imagine that the introduction of steamers was not a direct and important aim of this proclamation at least in the early days, as it was yet impossible to build them in our country.

The latter proclamation had certainly a greater importance than the former in the sense that the road toward the building of large European-style vessels was opened to the whole nation. Moreover it even showed a somewhat economical intention by this proposal of encouraging such new style ships and new operation business beyond only that of the national

defense consideration. However, it was fairly questionable whether the steamer became an object of this encouraging proclamation. From the limitation of navigation inside this country, the main object should rather have been sailing vessels either of the Japanese-style or European-style. It was above all most important that no European-style vessels, either of the steamer or sailing vessel, was owned by any private shipowner throughout the entire period of the late Tokugawa Era in spite of the encouragement.

C) Two Decrees of 1869

The Meiji Restoration Government also issued anew somewhat similar encouraging proclamations under almost same consideration for national defense. The first decree of 1869 had in fact much the same characteristic as the above-mentioned proclamation of 1853; "Each feudal clan hitherto bought navy ships from foreigners without using any third party, resulting that they frequently imported very old roughly built, coarse articles in return for large sums, and consequently they were in financial difficulties. Hence every clan government must give notice to the local port-authority if they want to buy such foreign vessels. Then the authority will investigate and give suitable advise."

This decree was clearly issued as a warning to all clan governments which had bought bad European-style vessels so frequently during the Tokugawa Era. It brought this fact to light, and showed that all past encouragements for introducing European-style vessels had no really satisfactory effect on our country. So far as the quick consolidation of a modern navy fleet was required under the then military or defensive emergency, the government ought to have been more careful as to the capability of such new style vessels. The new Meiji Government which took the place of the Tokugawa Shogunate did not yet have sufficient power and depended mainly on the support of some of the strongest feudal clans. If these clan governments had been in needy circumstances, it would have brought about great political instability. Here was the main reason why the new government dared to issue this decree anew and repeatedly. Another fact must also be remembered that the simple expression "a large-sized vessel" used in the proclamation of 1853 was changed (specialized) into that of a European-style vessel, though it was not yet limited to only the steamer.

Another encouraging decree for introducing European-style vessels was issued in October of the year. This was in fact much the same as the Proclamation of 1861, although there were a few note-worthy points as follows; 1) the fact that it was a simple and perfect repetition of the use of new European-style vessels, and the decree showed in itself a lack of that

kind of ship among the general public until the Meiji Era. 2) It was very important that the word "steamer" in the phrase "the European-style sailing vessel and the steamer" was clearly used for the first time. It was, however, quite questionable whether the real employment of new modern ships, either steamers or sailing vessels, could be accelerated so easily by this decree alone.

A more basic, direct and strong encouragement was made in January of 1870 in the form of a "Cabinet Notice" (Dajokan fukoku). It was the well-known "Merchant-ship Rule".

D) Merchant-Ship Rule of 1870

This encouraging policy was much more distinctively expressed and had a clearer principle as follows; "The locally-constructed ships are so easily wrecked injuring life and cargo that they are more likely to cause national losses. For that reason the government has determined to remodel the merchant fleet with large-sized European style vessels in the future. The owners of the new style ships will be able to expect strong governmental support. . . ." The first and clearest principle of the new Meiji Government to modernize quickly the Japanese merchant shipping by the basic and large-scaled introduction of European-style vessels were just decided. It is not altogether unreasonable when a shipping history book described the enactment of this decree as one of the greatest epochs in the Meiji shipping history, because it was the first time that greater emphasis was placed on the most original and economical purpose of modern shipping business rather than on national defense or military purpose.

Nevertheless, we must be discreet in estimating its emphasis upon the economical view-point; for no actual development has yet been brought forth only by such a decree. It is to be doubted whether the government and nation were truly and always aware of the necessity of such modern merchant ships. We are accordingly unable to agree with the description on the above-mentioned book as it stresses a quick and large-scaled increase of European style-vessels since that year. In spite of this decree and the other encouraging policies that have already been stated in this article, the average Japanese shipowners continued for a long while to own and operate their traditional Japanese-style sailing vessels. It must be well remembered that such Japanese-style sailing vessels, even if very old-fashioned, rather increased after this decree was issued. (see Table of p. 43)

The above-mentioned four or five proclamations were the most well-known and important encouragement-laws for introducing European-style vessels, and each had a positive intention apart from any real effect they

had. We shall end this article by pointing out another negative decree for limiting the building of large-sized Japanese-style sailing vessels. It was the order prohibiting the building of Japanese-style sailing vessels larger than 500-koku.

“Large-sized Japanese sailing vessels beyond 500-koku shall be forbidden to be built after January of the 20th year of Meiji.”

This cabinet Notice was issued in July of 1885. The many above-mentioned positive policies did not always lead the average shipowner to employ modern and better European-style vessels especially the steamer. So that, another policy, even if negative, had to be added in order to accomplish the perfect and quick modernization of our merchant fleet. Here a new historical meaning to a prohibition order was born. Of course, there were some noteworthy economic developments behind the enactment of this order; first, the actual transition from Japanese-style sailing vessels to European-style sailing vessels was promoted on a full scale after the Satsuma Rebellion (1877); second, the tonnage of steamers was also increased to a certain degree, though it depended mainly on the special development of a few privileged steamship companies. On these points the negative policy was a kind of interesting bell that was rung at the last round in the race for the modernization of Japanese ships.

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# ON INDUSTRIAL RELATIONS IN JAPAN'S SHIPPING INDUSTRY

— WITH SPECIAL CONCERN ON PERSONNEL MANAGEMENT —

Hiromasa YAMAMOTO

## I

### *Introduction*

The recent survey on human relations of Japanese seamen on board ship pointed out several interesting facts.<sup>(1)</sup> When the personalities of workers in different industries were examined in relation to their positiveness, extroversion, leadership and sociability, the personality of seamen were on the average the most inactive in comparison with other industry workers, such as the construction, chemical and mining industries. The survey also showed the low morale of Japanese seamen in general. The most characteristic findings were that there was little difference between the morale of officers and that of the unlicensed personnel, and that the morale of low grade officers was lower than that of the unlicensed personnel, in contrast to the usual findings that the morale of staffs are generally much higher than that of the workers. The findings of the survey regarding the inactive personality and the low morale of Japanese seamen may suggest the inadequacy of personnel administration in Japanese shipping companies.

On the other hand in relation to the reduction of the basic work week the collective bargaining between shipowners' association and the Japan Seamen's Union which began in November 1961 failed to reach an agreement and resulted in the ten-day strike in April and May of 1962. In the strike 600 vessels amounting to 2.1 million gross tons were stopped and the loss of freight earnings amounted to 1100 million yen which was a big shock to shipowners.<sup>(2)</sup>

Of course Japanese shipping companies have not necessarily neglected the importance of labor management. However, in the application of labor

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(1) Bureau of Seamen, Ministry of Transportation, "Research Report on Maritime Labor" No. 11., and see also, T. Nishibe, "Human Relation of Seamen on board", *Maritime Labor*, Vol. 15., No. 1., p. 39. ff.

(2) *The Japan Maritime News*, May 11, 1962.

management most Japanese shipping companies have paid more attention to industrial engineering so as to reduce the vessel operating costs by means of the adoption of newly designed vessels and to decrease man-power,<sup>(3)</sup> while they are not so much concerned, from our point of view, with the improvement of human relations among seamen or the revision of the procedures for collective bargaining.

The purpose of labor management is, as is wellknown, to attain the maximum profit through the improvement of the efficiencies of labor in the enterprise. The system of labor management is composed of industrial engineering, the personnel administration, and the labor relation administration. Industrial engineering deals with the distribution of different kinds of job workers in the production process and the determination of the standard work amount for each job. The personnel administration is concerned with human relations in the enterprise for the purpose of improving the incentives of workers, while the labor relation administration deals with collective bargaining and the enforcement of the labor agreement.

The above-mentioned three branches of labor management do not stand separately unrelated to each other. Industrial engineering is the means of improving the efficiency of labor in relation to production technics, while the personnel administration pursues the high efficiency of labor through the improvement of human relations in the enterprise. Along with the development of industrial engineering technics the role of each worker becomes gradually less in the whole production process and the content of each job becomes simpler. As a consequence the worker loses his joy in his work and shows a low morale. At this points the personnel administration becomes of greater concern to the management on how to improve human relations in the enterprise. Therefore industrial engineering and the personnel administration are in the close supplementary relationship with each other during the days of innovation. Also the personnel administration and the labor relation administration are closely interdependent, because both of them are concerned with the same workers though there is some difference in the sphere of their application; the former regards the workers as employees of the enterprise while the latter must regard the workers as laborers who stand against the management. Therefore the technics of labor management should be applied with consistency. However skillfully and deliberately some technics of labor

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(3) By the adoption of the automatic or remote control apparatus of vessel operation, the crew members of newly built Japanese cargo boats have been reduced on the average to forty men from the fifty needed on ordinary cargo boats. K. Takeuchi, "Automation of ships and the works system of Seamen", *Maritime Labor*, Vol. 15, No. 3, p. 26.

management are applied, it cannot attain the presupposed effects, if there are contradictions among the technics which are enforced against different sphere of workers. In addition, for the adequate application of labor management, it is necessary to do research and recognize the characteristics of labor and working conditions. The points we mentioned above may be well known, but we should recognize them anew. Because of the recent development of various technics in labor management and their introduction into the enterprise we may tend to overlook the necessary consistencies of labor management technics on the one hand, and the characteristics of maritime labor demanding the special attention of the personnel administration on the other band.

## II

### *Characteristics of maritime labor and the morale of seamen*

The life and working conditions of seamen are not only in many ways different from those of workers on land, but are also affected by the peculiar risks of the seas. In case of a worker on land, once he has finished his work, he has usually no further contact with his companions or employer and can spend his leisure hours at home or in other places as he likes. In contrast a seaman is almost always confined to his vessel; consequently, he has no chance to enjoy his home life and to spend his leisure hours on land so long as he engages in this work. The vessel is not only the work place of the seaman but is also where he has to lodge and spend his free hours during voyages. When a seaman has finished his voyage after several months or even after more than a year, he may at last regain contact with his home and society on land.

Further more, all seamen including both licensed officers and unlicensed personnel are organized into a quasi-military hierarchy, at the top of which stands the captain. They must obey orders promptly and are under the tight control of their superiors. The possible occurrence of unforeseeable accidents, shipwrecks and so on necessitate such a severe labor force controlling system. Moreover the seaman must be ready for emergencies even during his free time so long as he is on board.

In addition, the crew of a vessel is composed of the deck, engine and steward departments, each department including many different kinds of jobs. The work place of the departments are quite separated from each other, and each seaman is on duty at different hours of the day. Therefore seamen are almost always in close and continuous contact with only the small group of seamen in the same department, having few contacts with other members of the crew though they work and lodge in the same vessel. Under such conditions much friction between a seaman and his companions or with his superiors is apt

to occur while he may also fall quite easily into a lonely sentimental state.

Due to the above-mentioned peculiarities of the seaman's working condition it is natural that he is apt to feel restrained, isolated and monotonous. There are too many factors which discourage the morale of seamen in their working conditions.

Recently it has been reported that in several industries the morale of workers has shown a marked fall because of the adoption of automation.<sup>(4)</sup> With the introduction of the automation process, workers who could formerly recognize their role in the production process have gradually become single-capacity workers fulfilling only a minor part in the whole production. Consequently they can no longer feel the delight of making products so complain about the monotony of their work and grieve that machines have taken their place. That the necessity of research and prompt improvement of human relations in enterprises has been felt is due to such worsening influences of automation upon the morale of the workers. However, it is quite necessary for us to recognize that the low morale of Japanese seamen is not necessarily due to the introduction of automation but is due to the peculiar working conditions of seamen that are far different from those of workers on land. Of course in the Japanese shipping industry the adoption of automatic or remote control apparatus of vessel operation has also been in process. But at the present stage it may not be an important factor in lowering the morale of seamen or be a disappointment to seamen with their working conditions, because automation has been adopted only in a minor part of the whole vessel operation.

If the low morale of seamen is due to the peculiarities of their working conditions as mentioned above, for the purpose of raising the efficiency of seamen and to improve human relations it is necessary to remove the isolated, lonely and also restrained sentiments that are peculiar to them. In the application of personnel administration in the shipping industry special consideration should be given to the following points; the improvement of living space and food on board; how to spend free time on board; human relations between officers and unlicensed personnel during off duty hours; and the training of ship officers for personnel administration.<sup>(5)</sup> Welfare facilities for seamen in ports, such as hotels, rest houses where seamen can meet their families and spend time with their hobbies, and hospitals are also necessary.

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(4) S. Susuki, "Change of Labor and Labor Management" in *Labor Problems of Japan: Labor Management*, 1961. pp. 226-27.

(5) Because seamen are out of the reach of the personnel administration staff for long periods during voyages, the training of personnel administration for ship officers is more important than in those of other industries.



In newly-built Japanese vessels, especially in case of tankers, many improvements are found in the living space of seamen such as provisions for wider spaces for living, installation of room coolers and the provision for their privacy. In domestic ports the shipping companies have provided welfare facilities such as lodging houses for employees other than sailors' homes, hospitals operated by the Welfare Association for Seamen, and other local public bodies. And in the last few years sailor homes for Japanese seamen have been built in several foreign ports, New York, Calcutta and Singapore.<sup>(6)</sup> As for the welfare facilities on board we can point out only the provision of libraries on a small scale and the publication of newspapers. Therefore more effort is necessary for the improvement of welfare facilities and for the active application of personnel administration on board through which seamen can enjoy sports and other recreation drawing them away from the peculiar sentiments of seamen. Only then the improvement of human relations among seamen and their rising morale can be expected.

In the preceding paragraphs we have pointed out the importance in improving human relations among seamen so as to raise their morale. But, no matter how well human relations are improved and how thoughtfully the living space on vessels are provided, they alone are not effective to remove completely the causes for the lowering of morale in seamen — especially their disappointment in the fact that they must work away from their homes for such long periods. We should keep in mind that the wage level and wage structure have in general a close relation with the morale of workers. Making the worker conscious that his wage is a correct approximation value of his work is an essential means to raise the morale of the worker. It may be considered that the most essential factor which affects the morale of the worker is the wage rather than human relations, and it is especially true when the wage of the worker is in the lower level. Can it be said that there is any relation between the low morale of Japanese seamen and their wages? Before answering this question immediately, as a hint to consider this problem it is better to see Rapping's explanation on the historical trend of wage level of American seamen.<sup>(7)</sup>

In the United States the historical trend of seamen wages showed a considerable increase in comparison with workers in other industries during the last forty years. As the cause of this increase Rapping pointed out two factors,

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- (6) S. Ohara, "Welfare Services for Seamen in the Postwar Years," *Maritime Labor*, Vol. 15., No. 1., pp. 35-6.
- (7) L. A. Rapping, "The Subsidy and Labor Cost" in "the Economic Value of the United States Merchant Marine" 1961, p. 182. ff. esp. pp. 212-17.

that is, the impact of seamen unions upon wage and the emergence of premiums for their work as compared to other industrial workers on land. Regarding the latter he made the following hypothesis. In company with the improvement of working conditions of workers on land and also with the general improvement of levels of living during the last forty years, job-seekers would less and less prefer to go to sea because of the peculiarities of seamen's working conditions. In other words, in company with the general improvement of levels of living the disutility of working conditions for seamen have been increasing when contrasted with those of other workers on land. Therefore, unless they can gain higher wages than in other occupations which need similar degrees of vocational training and skill as seamen, job-seekers would not choose to go to sea. Consequently, seamen have gotten a favorable wage differential than other workers on land. Though Rapping's hypothesis does not necessarily have statistical proof,<sup>(8)</sup> it gives us many suggestions regarding the low morale of Japanese seamen and the cause of the scarcity in the supply of seamen.

In Japan the postwar economic recovery has made possible the raising of the general level of real wages, and workers have enjoyed improved consumption and leisure hours in and out of their homes. Under these circumstances of civil life it is certain that the seaman tends to dream of his home life, and that in contrast he will have a distaste for maritime labor because of its restraint and separation from home. The fact that in the last several years a considerable number of mercantile marine college graduates and other vocational training schools for seamen entered into services on land other than shipping, though they could easily find posts in shipping companies, may suggest that in their opinion seamen wages were not adequate when their labor and working conditions were taken into consideration.<sup>(9)</sup> According to the survey of

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(8) In estimating the emergence of wage differentials due to the peculiarities of seamen's employment, Rapping's conclusion was based on the fact that the rates of wages increase of seamen and similar occupations having the peculiar conditions of seafaring were much larger than that of manufacturing workers during the comparison period. However, the wage level is influenced strongly by several factors, such as the unions impact, productivity of labor, change of employment and oligopolistic condition of the industry, etc. But he did not take into account the influence of those factors on wages. Therefore he considered implicitly that they influenced in a similar manner all occupations in question. But his assumption is not adequate. Consequently his conclusion is not valid unless his assumption can be proved.

(9) Though the demand of shipping companies for new graduates from mercantile marine colleges and seamen training schools doubled during 1958-60, graduates of mercantile marine colleges entered other services than shipping in 1960. More important is the fact that applicants for various seamen schools, colleges and training courses decreased to half during the same period. The Bureau of Seamen, Ministry of Transportation, "Demand and Supply of Seamen" (pamphlet) Aug. 1961., pp. 4-6. Ministry of Transportation, "White Paper of Shipping, 1962" 1962. pp. 106-7.

seamen's opinion taken by the reasearch members of the mercantile marine college in 1956, the answers stating that they would continue their work for a long time amounted to only 33 per cent. of the total answers. The opinion research of workers and professionals engaged in various occupations was enforced in 1955 by the Society of Sociology, and according to the survey the percentage of those who were satisfied with their occupations was about 55 per cent. of the total. If we compare these two figures, it is quite clear that seamen were less satisfied with their occupation than other workers. And by a former survey the cause of their dissatisfaction was mainly based on the lack of home life, insecurity of old age, in addition to poor wages.<sup>(10)</sup> This also shows that seamen are not satisfied with their wages as the price of their labor though their wage level has been always higher than manufacturing workers and the wage differentials of seamen in comparison with manufacturing workers has shown a moderate increasing tendency. (refer to the table).

Seamen's wage in comparison with manufacturing workers

	unlicensed seamen (A)	manufacturing workers (B)	$\frac{A}{B}$
1952	14,755	13,393	1.10
1953	17,053	15,138	1.13
1954	17,423	16,003	1.09
1955	20,263	16,377	1.24
1956	20,336	17,660	1.15
1957	20,824	18,198	1.14
1958	24,612	17,836	1.39
1959	25,280	19,533	1.29

(remark) Seamen wages are monthly wages in addition to voyage allowances excluding fringe benefits and meals.

Source: Seamen's wage: Dept. of Transportation, wage of manufacturing workers: Dept. of Labor.

When seamen are disappointed with their wages and working conditions as we have shown, we can hardly expect an improvement in their morale however good human relations may be established among them. With regard to the relation of wages with the morale of workers attention is often paid to the wage system and the wage differentials among the different jobs in the same enterprise. Of course that is very important, and also in the case of Japanese seamen the lower morale of the low grade officers suggest that there is some room for remedy of wage differentials among different jobs of seamen. But

(10) T. Nishibe, "Japanese Seamen—their labor and lives—", 1961, p. 126.

regarding the relation between morale and seamen wages as a whole we should pay more attention to their wage level in comparison with other industrial workers. For the purpose of raising the morale of seamen a mere improvement of human relations will not attain this aim. Only the improvement of both human relations and wage level can raise the morale of seamen.

### III

#### *Labor Relations in the Japanese Shipping Industry and Personnel Administration*

In the Japanese shipping industry the employment system of seamen is quite different from those of other countries. Japanese seamen are employed continuously by a specific shipping company and do not change employers usually. Even in case the seaman finishes his voyage he continues his employment relation with his employer. This permanent employment system of Japanese seamen is similar to that in other industries in Japan. On the other hand Japanese seamen are organized into a single industrial union, Japan Seamen's Union,<sup>(11)</sup> in contrast with the fact that all other workers engaged in different services in Japan are members of their respective enterprise unions which are organized exclusively by the employees of specific enterprises.<sup>(12)</sup> When we consider the labor relation of the Japanese shipping industry, we must pay attention to these two factors.

Generally Japanese workers seldom change their employers. For under the permanent employment system it is difficult to find a new employer, and a change in employment is disadvantageous to workers under the prevailing wage system of Japan, under which the wage of a worker increases as his service period in the enterprise increases. In these circumstances the worker is apt to be conscious that he is an employee of the specific enterprise. When the worker becomes employer-conscious, finding it disadvantageous to change his employer, it is natural for him to consider that his wage and working conditions are dependent largely upon the prosperity of the enterprise. As a consequence, he tends to work for his employer and to restrain, though unconsciously, his demand as an union member for an excessive wage increase. Combined with this employee-consciousness of the worker, the personnel

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(11) With regard to the reason that only seamen can succeed in organizing an industrial union in Japan, refer to; H. Yamamoto, "The Singularity of the Seamen's Union of Japan," Kobe Economic & Business Review, No. 7., 1960.

(12) Though the union structure of the enterprise union is similar to the company union, the functions of these two are quite different, because in the former the management can neither control union decision directly nor have effective influence upon the union activities as it wishes.

administration of Japanese enterprises strengthen the worker's employee-consciousness further by means of measures of improving human relations. Therefore the personnel administrations of Japanese enterprises may be considered as being useful in many cases in orienting the workers' activities as union members in cooperating with the management, resulting in modest demands from the union for improvement in wage and other working conditions, if we are reminded of the fact that most of the labor unions of Japan have the structure of enterprise unions which are organized exclusively by the employees of the specific enterprise.

Japanese shipping companies also have attached importance to the effect the personnel administration has upon the consciousness of the workers. It is reflected in the change of the collective bargaining system. The collective bargaining system of Japanese shipping industry which had been held between the seamen's union and shipowners' association during the postwar years, regarding wage increase turned into individual collective bargaining which was held between the union and the specific shipowners' groups in 1956.<sup>(13)</sup> This change in the collective bargaining system was of course due to the divergence of interests among shipowners because of the severe slump in coastwise shipping, and was also due to the difficulties for seamen in finding new employers because of the permanent employment system. But, from the other point of view this change in the collective bargaining system had close relation with the personnel administration of large shipping companies which aimed to raise the morale of the employees and to make them employee conscious through the larger improvement of wage and working conditions. In addition, the fact that shipping companies opposed the co-employment plan proposed by the seamen's union, insisting on the necessity of employing seamen exclusively by respective companies, may be considered as the reason that shipping companies paid much attention to the relation of the employee-consciousness of seamen and their consciousness as union members.<sup>(14)</sup>

But in the Japanese shipping industry the personnel administration does not necessarily have such an influence on labor relations as is the case of the company in the bargaining with enterprise union. Seamen who are employed by different companies are without exception members of a single industrial union. Executives of the union participate in collective bargaining, holding leadership

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(13) Regarding minute details in relation to the change in the collective bargaining system, refer to; Japan Labor Association, "Research on the Collective Bargaining of Seamen", 1961. pp. 19-34.

(14) D. Yamamoto, "Note on the Reserve System of Seamen," Kokumin Keizai Zasshi, Vol. CIII, No. 3., pp. 77-80.

in union activities, and propose improvements of wage, etc. which may be considered as the demand of greatest common measure of all the members. Accordingly the propositions of the union do not reflect the demand of special groups who are employed by the specific shipping company, but reflect the tactics of the union executives who intend to strengthen the union through the increase of common advantages for all the members. Therefore, though the ideology of the seamen's union is moderate, the antagonism between labor and management may become clearer than those of enterprise unions.

Indeed the employment of Japanese seamen is the same as in those of all other Japanese industries but if from this fact we lay stress on the similarity of the union function between the federations of the enterprise unions and the seamen's union, it may lead to an erroneous conclusion. When considering the labor-management relation of the Japanese shipping industry, we must not overlook the fact that seamen have organized an industrial union. The reason that maritime labor could form a single industrial union in the postwar years might be based mainly on their prewar experiences in union activities and also on their employment conditions in the days when their union organization was formed.<sup>(15)</sup> But, why has maritime labor been able to maintain their industrial union structure, notwithstanding the fact that their employment system was changed in 1950 from the wartime governmental control of seamen into a permanent employment system? It is due to the necessity and facility of maintaining collective bargaining uniformly by union executives on land concentrating the necessary control on them, because the seamen as union members are on board and it is impossible for them to participate in union activities on land, and is also due to the reliance of the union members on their union executives. So far as these conditions exist, the personnel administration within the enterprise cannot affect the labor relation, and there is little room for the union organization to disintegrate even though thorough measures are being carried out for seamen to increase their employee-consciousness by respective enterprises.

#### IV

#### *Perspectives of Collective Bargaining*

As we have pointed out, the labor relations of the Japanese shipping industry has been characterized by the existence of a single industrial union and the permanent employment system. From these characteristics in the collective bargaining system of the Japanese shipping industry there may

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(15) H. Yamamoto, *op. cit.*, p. 53 ff.

emerge two different possibilities which stand out in sharp contrast to each other. One is the enlargement of the subjects dealt with by individual bargaining between respective shipping companies and the union, corresponding to the application of personnel administration which intends to raise the employee-consciousness of seamen. The other is the enlargement of the subjects dealt with in the uniform collective bargaining between the union and the shipowners' association. The latter corresponds to the efforts of the union which has endeavored to decrease wage differentials among seamen employed by different companies through the program of an employment pool for seamen and the minimum wage system.<sup>(16)</sup>

We have no concern whether any of the possible collective bargaining systems is more advantageous to labor or management. We are concerned only with the conformity of the labor management of Japanese shipping companies in their industrial relations. So long as shipping companies find advantage in the permanent employment system, they may prefer the individual collective bargaining system, or they may endeavor, if possible, to conclude labor agreement with the union newly established by their employees. However, the postwar experience of unionism in the Japanese shipping industry shows little possibility of the emergence of an enterprise union among seamen. The personnel administration intending to raise the employee-consciousness of seamen has a limited effect upon the smoothing of labor-relations. Therefore the human relations administration which has been applied only within the enterprise should enlarge its objectives to the whole shipping industry in addition to its usual application, because seamen are members of the single industrial union on the one hand while being employees of some company on the other hand.

Though the individual collective bargaining system comes to deal with more subjects than ever, the rest have to be dealt with through uniform collective bargaining. (The individual collective bargaining system will not deal with all matters of collective bargaining so long as the existing organization of seamen's union is kept.) Also in uniform collective bargaining the shipping companies will have to strengthen the integration of shipowners' association and empower the association to conclude labor agreements, notwithstanding the considerable difference of interest among shipowners.

As far as shipping companies are willing to apply a systematic labor management adequate to the peculiarities of seamen labor relations, the above-mentioned measures should be adopted even if they do not prefer them.

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(16) H. Yamamoto, "On the Employment System of seamen in Japan," *Kobe Economic & Business Review*, No. 9, 1962. pp. 38-41.

Without these measures of labor management, the object of labor management being profit maximization through improvement of labor efficiency can never be attained.



# REGIONAL DISPARITIES IN THE BRAZILIAN ECONOMY: A CASE STUDY ON THE BRAZILIAN NORTHEAST

Yoshiaki NISHIMUKAI

## I

Those who are engaged in studying Brazilian affairs must keep in mind that Brazil itself constitutes a world. Its vast territory extends from the tropical to the temperate zone, therefore, it is not necessary to say much about the differences of climate and landscape. The populational distribution is regionally different and as the racial composition is also very complex, we cannot define any racial type as the Brazilian people. In the social life of the people, there survive the customs of the emigration countries from which the people or their ancestors emigrated to Brazil. In relation to the economy, there exists the extractive economy in *Amazônia* and the capitalistic economy in the South. Brazil, in this manner, consists of heterogeneous elements in all aspects including nature, society, economy, race and culture. In this sense, it can be said that Brazil is a miniature world.

But it is not sufficient to recognize Brazil as a mere unity of these highly different elements. It is interesting to remember the fact that there are many people who consider *Amazônia* not as a part of Brazil. Certainly, the remarkable backwardness of this region contrasts with the high level of economic development of the South in which are included *São Paulo* and *Rio de Janeiro*. According to this way of thinking, it could be said that *São Paulo* is not Brazil, either. It is obvious, however, that *Amazônia* and *São Paulo* are in Brazil. In these regions we can find a common language, religion, customs and national integration which is regulated by a unified legislation that has been promoted by economic policies. Through these factors are combined the heterogeneous elements which constitute Brazil and through their inter-relations they have been transformed into a more Brazilian type. So as to understand Brazil better, therefore, it is important not only to make clear the elements constituting this country, but to analyze how they are organically unified and in what relations they stand.

Founded on these ideas, this work will take up some regional problems in the Brazilian economy as one of the most characteristic aspects in the country, specially concentrating on the so-called "*Nordeste*" (the northeast)

which has become more important for economic planning.

## II

Some regional disparities always exist in an economy. It is well known that there are some remarkable differences between the north and the south even in the United States. A report of the United Nations showed that in Europe the regional inequality in income level is greater in the relatively under-developed countries than in the developed ones and this inequality tends to increase in the former.<sup>(1)</sup> Nevertheless, we are obliged to take up the Brazilian problem because of the particular situations as shown in the following.

First, the regional disparities are considerably great in Brazil. In *Amazônia*, as referred, the principal economic activities are of extractive industries relating to exports, and in the northeastern part there can be seen the firmly-rooted influences of slavery which was abolished in 1888. But the economy of the south is highly capitalistic and, on the other hand, the vast lands of the *middle-west* still remain unexploited or are being developed. It is said, therefore, that Brazilian economy is not an integrated system, but a federation not compensated by regional economies.<sup>(2)</sup> Taking up the *per capita* income as one of the indices of regional disparities, the income of the northeast is, as shown in table-1, less than one-third the level of the *middle-south*.<sup>(3)</sup> This divergence is more than that between the level of income of

Table-1 Regional distribution of income —1956

	total income		<i>per capita</i> income	
	billion cr. \$	million cr. \$	cr. \$	U. S. \$
north	25.0	440.9	6,316	111
northeast	102.2	1,802.5	5,461	96
middle-south	636.9	11,232.8	17,151	303
Brazil	764.1	13,476.2	12,718	224

(Source) Grupo de Trabalho para o Desenvolvimento do Nordeste, *Uma Política de Desenvolvimento Econômico para o Nordeste*, Rio de Janeiro, 1959, p. 13.

- (1) United Nations, *Economic Survey of Europe in 1954*, Geneva, 1955, pp. 136 ff.
- (2) "Polos de Desenvolvimento Regional," in *Desenvolvimento & Conjuntura*, outubro de 1961, p. 65.
- (3) The term '*Nordeste*' (northeast) used in this work covers the nine coastal states which extend from the state of *Maranhão* to *Bahia*, the '*north*' the states of *Amazônia*, and the '*middle-south*' contains the rest. For particulars, see V. V. Pokshishevskiy, "As principais regiões econômicas no Brasil", in *Revista da Faculdade de Ciências Econômicas da Universidade do Pará*, ano 1, No. 1, 1960. The division shown in table 2 is that used in the official statistics of the Government.

the Brazilian *middle-south* and of advanced countries. It may be said, therefore, that the problems with relation to *Nordeste* in Brazilian economy are more important than that of the latter in world economy, because, generally speaking, necessary efforts to develop an economy are relatively greater in the initial stage. Table-2 shows us that in the regions situated north of *Bahia* the

Table-2 *Per capita* income by federal units (cr. \$)

	1939	1949	1958
'north'	669	2,440	10,583
Amazônas	628	2,963	12,240
Pará	687	2,134	9,573
'northeast'	548	1,689	6,595
Maranhão	473	1,160	5,712
Piauí	451	1,078	3,991
Ceará	455	1,567	4,596
Rio Grande do Norte	587	1,903	6,098
Paraíba	518	1,652	5,995
Pernambuco	693	2,181	9,422
Alagoas	538	1,670	8,081
'east'	845	3,777	17,028
Sergipe	547	1,927	8,724
Bahia	512	1,795	7,907
Minas Gerais	681	2,743	12,787
Espírito Santo	668	2,969	12,159
Rio de Janeiro	914	3,787	17,674
Distrito Federal	2,338	12,058	52,059
'south'	1,244	5,398	24,500
São Paulo	1,381	6,729	30,571
Paraná	886	3,781	18,021
Santa Catarina	791	3,167	14,274
Rio Grande do Sul	1,242	4,102	19,318
'middle-west'	706	2,213	11,974
Mato Grosso	973	3,443	19,267
Goiás	570	1,675	9,245
Brazil	886	3,702	16,756

(Source) *Desenvolvimento & Conjuntura*, ano IV, no. 11, 1960, p. 180.

*per capita* income in 1958 did not exceed the 10 thousand *cruzeiros* level, with the exception of *Amazônas* while in the rest, only in *Goiás* was it less than that level. Comparing the two extremes, we can see that the *per capita* income in *Piauí* was less than one-eighth the level of *São Paulo*. This remarkable

discrepancy in income gives rise to the more striking difference in the standard of living, because of the concentration of income, diseases and calamities which cannot be found in the developed areas. In *Nordeste* which has nearly periodically suffered from drought, it is often difficult for the inhabitants even to maintain a subsistence level. In such a case, regional disparities appear not only as a relative but as an absolute matter.

Secondly, regional disparities have tended to increase in Brazil. In the period between 1949-1958, as shown in table-3, the share of income

Table-3 Regional distribution of income

	total income (%)		indices of <i>per capita</i> income	
	1949	1958	1949	1958
north	2.4	2.2	65.9	63.2
northeast	16.2	14.3	46.6	41.9
middle-south	81.4	83.5	—	—
Brazil	100.0	100.0	100.0	100.0

(Source) *Revista Brasileira de Economia*, ano 14, no. 1, 1960, pp. 18-9.

declined from 2.4% to 2.2 in the 'north' and from 16.2 to 14.3 in *Nordeste*. The index of the *per capita* income also decreased from 65.9 to 63.2 in the former and from 46.6 to 41.9 in the latter. On the contrary, the same index of the 'south' which covers the states of *São Paulo*, *Paraná*, *Santa Catarina* and *Rio Grande do Sul*, increased from 145.7 in 1949, triple the average level of the 'north' and the *Nordeste*, to 146.2 in 1958, that is, the 3.3 times of these latters.

Table-4 Indices of the real production

(1948=100)

	1949	1950	1951	1952	1953	1954	1955	1956
northeast	102	107	101	106	111	122	130	137
middle-south	105	112	122	129	132	142	147	151
Brazil	104	112	181	126	129	139	145	149

(Source) Grupo de Trabalho para o Desenvolvimento do Nordeste, *op. cit.*, p. 18.

The following table-4 gives indices of the real production which manifest more clearly the regional difference in the rates of growth. The annual rate of growth of the real production corresponded to 4% in *Nordeste* and to 5.3% in the 'middle-south'. The annual rate of populational growth being almost the same in these regions, the *per capita* rate of growth reached 1.5% and 2.7% respectively. The disparity in the rates of the real income growth, however,

was much more, because of the great improvement which occurred in relation to the prices of exports due mainly to the rise in coffee prices, which was in favor of the 'middle-south' of the country. According to the estimate of the Government, it is said that the *per capita* income of the 'middle-south' has increased at the rate of 3.5% while on the other hand, the increase of the *per capita* income of *Nordeste* has never surpassed 1.5%, and that, if such a tendency is maintained until the end of this decade, the *per capita* income of *Nordeste* will be, in 1970, 118 dollars (at the level of prices of 1956), while that of the 'middle-south' will reach 440 dollars<sup>(4)</sup>. These data show us that one of the principal economic problems of Brazil, in the present stage of its development, is that of the regional disparity in the rates of growth. In relation to the economy of the 'middle-south' which has already had diversification of industries including the production of capital goods, it can be admitted as certain that its development will continue and that at the end of this decade, the economy of the region will have reached a degree of autonomy in its supply of capital goods, which will overcome the serious problems of the balance of payments with which the economy is now confronted. The prospects of the economy of *Nordeste* are totally diverse; at the end of this decade, if actual tendencies are maintained, its population will top 26 million, the pressure over the land will increase, the vulnerability to drought will be more than today and no important modification will have occurred in the economic structure. Then, more than today, *Nordeste* will remain as the poorest area in Brazil.

It may be argued that the disparity in income levels will not be aggravated, in the form indicated above, because the relative cheapness of transportation will promote spontaneous migration, in the direction of regions where higher wages are paid. In this respect, we must remember the fact that the economies of *Nordeste* and of the *middle-south*, even if they are combined, do not constitute properly an economic system. In addition to the inferiority of laborers in *Nordeste*, in fact, the Brazilian experience has been in the direction of an alliance of labor organizations in advanced zones, with the object of acquiring and defending their higher wages, making it difficult to absorb new components of labor. Consequently, not a few laborers who move to advanced zones in the case of a drought return to *Nordeste*.

Thirdly, it concerns the vastness and density of populations in the underdeveloped areas. The 'north' of Brazil is much more extensive than the area of West-European countries, and *Nordeste* is also vaster than the countries of the European Economic Community. The population of *Nordeste*, is estimated

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(4) Grupo de Trabalho para o Desenvolvimento do Nordeste, *op. cit.*, p. 19.

at 2.5 million and is greater than that of Argentine.

In Latin America, there are several countries with similar levels of *per capita* income as *Nordeste*, such as Bolivia, Paraguay, Honduras, and Haiti. But the total population of these countries is less than one half of that of *Nordeste*. It is necessary, therefore, to understand *Nordeste* not only as one of the regional economies in Brazil, but as the most extensive, densely populated and underdeveloped area on the Continent.

Finally, the regional disparities are actually taken up as one of the most important economic problems in Brazil. It comes from the necessity of integrating the regional economies through developing underdeveloped areas and decreasing these disparities. For this purpose, some governmental organizations were started early; the *Superintendência do Plano de Valorização Econômica da Amazônia* in the 'north', the *Comissão do Vale do São Francisco* in *Nordeste* and the *Superintendência do Plano de Valorização Econômica da Fronteira Sudoeste* in the 'extreme-south', which have been preparing and promoting plans for the economic development of each region. But the results were not satisfactory in that they failed to meet the expectations of the Brazilian people. Recently, the *Superintendência do Desenvolvimento Econômico do Nordeste* was created to develop in earnest the economy of this poorest region of Brazil and its first developing-plan was passed in 1961 by Congress under strained circumstances. Taking this opportunity, the interest of public opinion in Brazil has seriously tended towards regional problems. This has been stimulated by the fact that the increase of regional economic disparities are raising serious social tension and uneasiness which are indicated in the activities of the League of Agricultural Laborers—*Ligas Camponêsas*—presided by Francisco Julião, and that, on the other hand, the regional disparities are weakening the political integration of Brazil and, moreover, are creating favorable conditions for the antifederalists to raise their heads. Thus, policies for the regional development of Brazil are indispensable not only to reduce the disparities and to eliminate the economic, social and political unrest, but to accomplish economic integration and, consequently national integration.

### III

Then, what are the basic causes for regional disparities and how have these remarkable differences been formed in Brazil? It is the next task to reply to these questions and to make clear the process of the economic formation of Brazil. Our interest will tend mainly towards the relation between *Nordeste* and the 'middle-south'.

The natural conditions are fundamentally responsible for the back-

wardness of *Nordeste*. As this region covers vast areas suffering from drought, agricultural land is relatively short. The proportion of the agricultural population in 1950 was about 72% of the active total which exceeded that of the 'middle-south', which was 51%. And the quantity of land per worker is much less than that of the latter; 1.3 to 2.4 hectares (see table-5). The regional difference is more notable in the capital invested in agriculture.

Table-5 Agricultural indices by regions (1950)

	Proportion of active population (%)	Proportion of agricultural population (%)	Farm land per worker (ha.)	Capital investment per hectare (Cr. \$)	Per capita income (Cr. \$)
<i>Nordeste</i>	31.1	71.7	1.3	6,300	3,700
middle-south	33.9	51.1	2.4	27,000	10,600

(Source) Data used in table-4.

Observed in its totality, these structural differences lead us to conclude that two basic causes are responsible for the lower level of income of *Nordeste*; the relative shortage of land and a lesser accumulation of capital. However, as the accumulation of capital itself is a symptom of the stage of development, it is inferred that the real cause for the stagnation of the economy of *Nordeste*, in face of the economy of the 'middle-south,' is in the relative poverty of the land. The rapid growth of the population in this region is aggravating the problem of the land.

But the difference in the *per capita* incomes of the different regions of Brazil, resulted, primarily, from historical conditions. We remember that in the latter half of the 16th century and in the 17th century, in which the production of sugar was the greatest activity of the country, *Nordeste* appeared as a zone of great prosperity, surpassing the *per capita* income, not only of all other regions of Brazil, but of all the other regions on the Continent.<sup>(5)</sup> What are the historical factors which placed *Nordeste* in an adverse stagnant situation?

The evolution of Brazilian economy is not through the gradual expansion of the initial nucleons of economic activities as seen in the economic evolution of the United States. The production of sugar as mentioned above, of gold in the 18th century and of coffee in the 19th and this century were, as well-known, concentrated in *Nordeste*, in the state of *Minas Gerais* and in the south

(5) "Política de Desenvolvimento Regional," in *Desenvolvimento & Conjuntura*, ano IV, No. 11, 1960, p. 41.

respectively, but vast undeveloped areas remained within them. It came from the fact that, in the colonial epoch, the centers of economic activities had been localized in different points on the coast separated by themselves at great distances. From these coastal points began the penetration to the interior and great populated zones were formed. In the same manner as among different nucleons vast empty spaces were observed, the same occurred among diverse zones based at different points on the coast. As a consequence, the circulation of factors for production was scarce among these zones. Therefore, no mechanism existed or it was weak which in an integrated country, avoided the appearance of remarkable economic disparities. And each economic zone was directly combined with the international economy by means of foreign trade. It can be said, therefore, that even today there does not exist a Brazil economically speaking, but a "Portuguese America".<sup>(6)</sup>

After 1930' there appeared a new factor which can not properly be called historical. The international markets, which up to that time had absorbed Brazilian products satisfactorily both in quantity and in price, began to reveal itself incapable of giving this country a sufficient rate of economic growth. Hence, the economic development of Brazil has assumed the form of a more intimate articulation of these 'economic islands'. Such an articulation is made in connection with the market, in constant expansion, of the '*middle-south*' which found in the export of coffee its impulse for growth. Thus, for example, when the economy of sugar collapsed, with the disorganization of the world market of this product, its survival became possible due to the reserve of the market in the '*middle-south*'. A similar case occurred in the economy of rubber, which entered a total collapse with the systematic planting of this product outside Brazil. After a period of great difficulties, this economy could subsist based on the market of the '*middle-south*'.

This articulation, however, which the research workers on Brazilian economy, in the first half of this century, appreciated as a form of evolution tending to integrate the country into only one economy, brought the germ of problems with which the Brazilian people are confronted, because the articulation reproduced the same scheme of geographical division of labor which has transformed the development of world economy, with its industrialized metropolises and colonies, the producers of raw materials.<sup>(7)</sup> In the period in which the '*middle-south*' possessed a simple economy of export, of semi-colonial characteristics, equally combined with the great international centers—economy of relatively low productivity and of the same structure as

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(6) Ibid., p. 40.

(7) Celso Furtado, *A Operação Nordeste*, Rio de Janeiro, 1959, p. 12.



the rest of Brazil—even if it had formed a greater market, the action of the factors tending toward the concentration of income would have been less visible. However, in proportion with the *middle-south's* growth in industrialization, the relation of dependence of other regions became clearer and were transformed progressively into the relation of economies producing raw materials with an industrial center.

We must note the recent program of economic development. When industrialization was stimulated in 1930 it was the '*middle-south*' which had more favorable conditions in relation to the external economies. This initial advantage has tended to enlarge in the process of time and the '*middle-south*' has not only been in increasing competition with manufacturing industries which other parts of the country sought for themselves, but has attracted capital and entrepreneur-ship generated in other regions. In accordance with this tendency the plan of economic development after the War was also characterized by the creation of a single dynamic center installed in a determined area of the country. The economic operators who give doctrinal and ideological basis to the program, affirmed, then, that if this center was installed, it would transmit waves of progress to all the country, promoting a stable and balanced growth of Brazilian economy.

But, if we examine the commercial and exchange policies which have played leading parts in the economic policy for development, we shall be able to clarify the unexpected results that they brought about. From 1948 to 1956, the positive balance of trade of *Nordeste* ascended to 638 million dollars which was sufficient to cover the deficit of the balance of trade of the rest of the country. It happened, however, that *Nordeste* did not utilize in its totality the foreign currency generated by the export. About 40% of this currency was transferred to other regions of the country.<sup>(8)</sup> The cause of the transfer is clear; the rate of development in the '*middle-south*' being more intensive, the processes of industrialization have been also more rapid. So the demand of equipment and semi-elaborated products, which the industries require—in great part articles not produced in the country—increased with much more intensity in the '*middle-south*'. The effects of this intensive demand of foreign currency were aggravated by the policy of control of imports, which by reason of its selective character favored imports without national equivalent, that is, capital goods which *Nordeste* imported much less frequently. Moreover, it contributed to the state of affairs that the rate of wages of the '*middle-south*' was higher than that of *Nordeste* and so the gains generated from the import of capital goods were larger in the former. Thus, the means used

(8) Grupo de Trabalho para o Desenvolvimento do Nordeste, *op. cit.*, p. 23.

to promote the industrialization of Brazil, resulted in the direct prejudice of less-advanced regions.

Not having access to the totality of foreign currency which the exports produced, *Nordeste* was induced to spend the income corresponding with it in purchases from the 'middle-south'. But the negative balance of this trade of *Nordeste* with the rest of the country has been substantial. In other words, the 'middle-south' sells to *Nordeste* a substantially greater quantity of merchandise than it buys. As exports of the former to the latter are composed mainly of manufactured goods and in the exports of the latter the weight is on raw materials, we can conclude that the discrepancy in favor of the 'middle-south' is still greater, if the trade is measured in terms of the volume of employment created in the two regions. There do not exist, however, any necessary reason for which a triangular commerce among *Nordeste*, the 'middle-south', and the exterior causes economic disadvantages to that region. In case that there is no intervention of other factors, it can be argued that, if *Nordeste* spends in the 'middle-south' foreign currency acquired from the exterior, it is because the former derives an economic advantage from the latter. But that is not the situation of *Nordeste*, for the alternative possibility of importing from foreign countries is not existent, because the merchandises which *Nordeste* needs are, practically, excluded from the imports of Brazil because of the high tariffs, or because of other impediments of exchange. Prof. A.O. Hirschman took up this effect as one of the polarization effects.<sup>(9)</sup> In the Brazilian economy, we can say that this effect has played the most important part in expanding regional disparities.

#### IV

Resting on the basis of the analyses described above, we conclude as follows;

1) It is equivocal to present the Brazilian economy as only one system to be comparable with other underdeveloped economies of similar levels of *per capita* income. There exist some heterogeneous structures and we can see the disparity among the regional levels of development. In the theory of the economic development of underdeveloped countries, it has been fairly common to neglect or to treat superficially the problems of regional disparities and development. But one of the economic characteristics of almost all underdeveloped countries is that some regions are economically and geographically isolated from others and the degree of regional autarky is fairly high.

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(9) A. O. Hirschman, *The Strategy of Economic Development*, Yale Univ. Press, 1958, p. 188.

Consequently, it is often adequate to consider the problems of economic development as regional ones. The economic development of Brazil is one of the good examples.

2) We must refer to the problem of the distribution of capital for economic development. As above mentioned, the Brazilian economy can be considered as a complex of more or less autonomous systems, presenting diverse combinations of factors and resources and distinct potentialities. It has been thought, therefore, that to develop simultaneously these systems signifies the division of excesses in resources and the reduction of the average intensity of growth as a whole. Thus it is necessary to concentrate scarce resources in regions with more potentialities, in order to create a sufficiently powerful nucleon which serves as a basis for the development of other regions. Recognizing some truth in this view, it seems to us that the general formulation of the problem is not correct. To abandon regions of scarce resources with their rapid growth of population is to permit grave problems to be created for the future of this country. And, in fact, the policy of the economic development founded on that way of thinking brought about the expanding regional disparities. This experience indicates that in economic planning it is necessary to combine several programs for regional development and to create several growing poles. The economic plan for the development of *Nordeste* reflects adequately this necessity.

# THE BASIC CONCEPTS OF GOING-CONCERN VALUATION

Jiro ONO

## I

In my previous paper,<sup>(1)</sup> referring to several sources — especially the “Beteiligungsfinanzierung” of E. Schmalenbach and “Der Wert der Unternehmung als Ganzes” of K. Mellerowicz, I brought forward the tentative opinion that the valuation of a going-concern has two purposes, and that the basic concepts — the object of valuation, the profit and the rate for capitalization — must be determined in accordance with each purpose.

In this paper, going a step farther, I try more fundamentally to examine the significance of these two purposes of a going-concern valuation, and more concretely to consider how the process of valuation must be built from each point of view.

## II

A going-concern valuation means to appraise the value of an entire business enterprise, of which parts are harmoniously functioning in accord with the whole organization, on its side of “capital.”

The concept of “capital” is variously defined, but here I want to define “capital” as the potential capacity with which all individual goods or an organization — like a business enterprise — will be able to bring out the worth measured in money.

A business enterprise employs labourers, purchases materials, produces goods and offers services, that is, it carries out various economic activities, each of which has its respective social utility and therefore a value, though it is not always shown in the form measurable in money. I am sure that a going-concern valuation means to grasp a value which a business enterprise has on the side of the abovementioned “capital”, that is, on the side of its potential capacity to bring out the worth measured in money.

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(1) Jiro Ono; On the Purposes of a Going-Concern Valuation and its Natures, Kobe Economic & Business Review, No. 9, 1962, p. 105-106.

Hereupon, first, must it be considered that the valuation of a going-concern has two purposes and so two objects.<sup>(2)</sup>

In the cases of a merger, sales of a controlling interest, alteration of the legal organization, admission or withdrawal of partners in a partnership, reorganization, quasi-reorganization, valuation of goodwill, borrowing money on the security of an entire business, compulsory purchase of business enterprise by the government etc., it is necessary to appraise the value of the capital of the business enterprise. In the valuation of a business enterprise there are various motives.

However, I am sure that these motives can be arranged into two fundamental purposes, that is, appraisal of

1. the value of proprietorship capital for each person concerned in the transaction of an entire business or its shares, without regard to B/S, that is, having no consideration of the accounting of business.

2. the new accountability of business — the value of the total capital (or total assets) employed in the business which should be the new basis of the capital- (or assets-) value for a fresh start of business accounting, disregarding the share's value in the transaction.

To begin with the first purpose, as a matter of course, the valuation of proprietorship capital has its significance in the fact that it appraises the share's value of a business enterprise for each interested party (for example, present shareholders, future partners, creditors etc.), that it gives them a reliable basis for their investment decision (though the investment, here, doesn't mean to invest in real or physical capital, but to purchase shares of an enterprise, that is, to invest in a so-called fictitious capital) and that, eliminating the friction of capital transaction as much as possible, also from the higher viewpoint of social economy it makes the investment most effective. By many writers of corporate finance theory in Germany and the U.S.A., for example, E. Schmalenbach, A.S. Dewing etc., this aim has been considered to be the most important purpose of a going-concern valuation from many years ago, though in their books the second purpose is thought to be fulfilled at the same time that the first is complete.

Also at present the importance of the valuation from this first viewpoint must not be disregarded, especially in Japan, in regard to some of the problems as follows:

(1) The valuation is important for the development of a stable security market which is based on the public capital of the people.

In Japan the financial convention in which corporations offer their stock-

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(2) Jiro Ono; *ibid.*, p. 116.

holders the right to prior purchase of additional stock-issue at a par value have made the stock market more speculative than in its normal phase,<sup>(3)</sup> and now the kinds of securities are going to become more complex (that is, preferred stock, convertible bond etc.).

The value of a business enterprise, appraised on the basis of this acceptable theory, will clarify the nature of stock rights in each case of stock-issues and will give the public and the authorities in charge of the securities market a reliable foundation for sound investment and rational regulation, which are necessary to eliminate over-speculation or over-fluctuation of market prices, to increase public shareholders who intend to invest — not to speculate — their money in stocks, and to promote the stable expansion of the securities market.

It is said that in Japan the public capital of the people does not circulate in the securities market so much, and that the capital structures of Japanese corporations are much worse than those of the U.S.A. because of difficulty in long term securities financing.<sup>(4)</sup>

Therefore, from such a point of view it has a very important significance to promote a sound securities market on the basis of a reasonable internal value (the hypothetical value which should be acquired in a perfect free market) of stocks.

(2) The valuation plays an important part also in promoting the financing capacity of shares, which have not been dealt with, for example, by means of establishing an investment company for small businesses and expanding a second stock exchange.

If an investment company is going to purchase or the stock exchange is about to accept the shares which have not yet be dealt with in the stock market, the shares must be given a justifiable price in accordance with their internal value.

In order to promote the growth of small businesses, which have a so-called strategic position in Japan as the backbone of national economy, their shares' financing capacity must be increased.<sup>(5)</sup>

Also in this respect the valuation has a significance.

(3) The worth of shares must be appraised when, in order to improve the capacity for the international scramble for markets, a business enterprise is

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(3) Jiro Ono; On the Value of Stock Rights and Its Significance in Corporate Finance, Kobe Economic & Business Review No. 7, p. 104-106.

(4) Michihiro Kono; Zaimu Kanri (Financial Management of Corporation) II, 1960, p. 258-263.

(5) Saichiro Suminoe; Kabushiki Kokai ni okeru Kakaku no Mondai (On the Problem of the Stock Price in Its Opening Sale), Sangyo Keiri, Nov. 1962, p. 17-19.

going to combine with another business by means of purchasing its shares.

Especially when the businesses are great corporations whose stocks are dealt with in the stock exchange, the valuation must be done on a theoretically acceptable basis so that the shareholders and others concerned might not be injured by the financial transaction with which the combination is accompanied.

Because of these reasons, the valuation of a going-concern from the first point of view, that is, the valuation of proprietorship capital has even now an important significance and must be theoretically more refined.

In this case, the worth of a going concern, needless to say, is decided by its so-called earning-power value, though this concept must be modified a little, as I shall mention in the next chapter.

In the next place, the second purpose of the valuation has its significance in the point that it establishes a new basis for capital (or assets-) value—new accountability—in accordance with the whole value-structure of national economy for the business accounting to make a fresh start, and that it makes a future profit-and loss statement more reasonable.

That is, as stated above, in the cases of fusion, reorganization, quasi-reorganization etc., the total capital (or assets) employed in the business must be revalued or the capital (or assets) value as the accountability must be reestablished, to prepare a justifiable profit-and loss statement thereupon.

Some writers, for example, F. Schmidt, insist that each individual tangible (or material) asset should be revalued with replacement cost for this purpose.

According to this opinion, however, the greater part of intangible assets cannot be included in the revalued capital (or asset), though the revaluation of each tangible asset can be settled.

Therefore, first the earning-power value of the enterprise as the whole capital (or assets) employed must be appraised, and next in the framework of the earning-power value each tangible asset has to be revalued with a replacement cost.

The difference between the earning-power value and the sum of the replacement cost of tangible assets is grasped as the positive or negative intangible asset.

In other words, in this case also the whole capital (or assets) must be valued on the basis of the earning-power value, and thus the value of the total capital or total assets employed in business is so established that the business in each of future periods acquires a normal profit-ratio in the national economy.

This value must be regarded as the new accountability or the new basis

for future business accounting in that it gives the business management a most justifiable responsibility for future activity or decision.

That is, the profit-ratio has no significance to management efficiency when the pre-valuation-worth of the capital (or assets) is kept unrevalued, as the basis of business accounting, in spite of variations in the capital (or assets) value. No one can understand whether the acquired profit is higher or less.

On the contrary, in the business revalued, if the profit ratio is less (higher) than the normal, the efficiency of management will be evaluated to be inferior (superior), because the total capital (or assets) is valued to bring forth a normal profit.

Also the business enterprise itself, through the valuation the business accounting comes to have more the character of a collection-and maintenance-calculation. By means of revaluating each tangible asset with a replacement cost, the accounting can approach closer the maintenance-calculation of tangible assets. By means of, moreover, reflecting the positive or negative intangible assets on future profit- and loss statements, though negative intangible assets in a reasonable manner must be subtracted from the replacement cost of tangible assets which seem to be main cause of the lower earning-power, the business which has a higher (lower) earning-power than normal can keep its scale enlarged (reduced) from the view-point of capital-maintenance-calculation or capital-collection-calculation.

Therefore, from the standpoint of the whole national economy, it can be said that a valuation makes it possible for a business enterprise to calculate the maintenance of capital whether it was built in the form of tangible assets or of intangible assets, that the valuation earlier recognizes the decreased capital, that is, the negative intangible assets, and that each business enterprise can adjust its activity — its scale — in accordance with the demand of the whole national economy which appears in its earning-power.

Thus, each of the interested parties with which a business enterprise is surrounded is given a reliable understanding of the financial position and operating performance of a business.

The present business accounting founded on the cost basis has a very great significance in that it can present the so-called "objective verifiable evidence", and in that it can grasp purely the performance of a business activity during a period if the value-variation of production goods can be disregarded.

However it has only a limited capacity for the capital-maintenance-calculation or capital-collection-calculation and for representation of the accountability in the whole value-structure in national economy. Especially during changeful times where remarkable innovations and continuous decreases in money value are taking place, accounting founded on the cost-basis is con-



sidered to bring forth great difficulties in business activity.

In such circumstances, if the cost-basis should still be carried through, we must take every opportunity — fusion, reorganization, quasi-reorganization etc. — to appraise the value of the entire business enterprise or to adjust the accountability, and we must renew the business accounting founded on the cost-basis.

That is, future profit-and loss statement must be made so real that it will be in accord with the whole value-structure in the national economy.

Though, the valuation of a going-concern, of course, cannot thoroughly solve this difficult problem because many business enterprises will only irregularly or very slightly experience fusion, reorganization, quasi-reorganization etc., the valuation can at least direct business accounting in that direction. And we must clearly recognize that a going-concern valuation has such a duty.

The importance of this side of going-concern valuation has already been insisted on by F. Schmidt<sup>(6)</sup> as early as the 1920s'. But as stated above, generally this purpose has been apt to be confused with the first purpose.

Though our opinion is different from that of Schmidt's in that we grasp the earning-power value as the ground of capital value, and therefore we consider the intangible assets of a business as the important factor in the total capital (or assets) employed, the significance of a going-concern valuation on this side must be distinctly recognized.

### III

Second we must consider how a going-concern value or earning-power value must be understood and grasped.

Generally it is said that the earning-power value is decided by the sum of the present value of profit anticipated in each of the future periods, and I also hold this ground of the so-called dynamic going-concern-valuation theory. However I am sure that the capital value of a business enterprise is more widely decided by the future flow of worth which consists of capital, revenue and expense, and that the value of a going-concern must be appraised by means of adding the present value of inflow and subtracting the present value of outflow, because, as stated above, capital is the potential capacity with which a business will be able to bring out the worth measured in money.

In this case "this flow of worth" means not only the flow of money, but includes the value of goods. That is, the revenue recognized by the realiza-

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(6) F. Schmidt; Die Organische Tageswertbilanz.

tion-basis and the drawn capital are value-inflow, and the expense recognized by the accrual-basis and the invested capital are value-outflow. ("capital" is here the originally invested value or the drawn value from the business, that is, it is understood as the potential capacity before transforming to the shape of a business enterprise or the worth measured in money after the business activity)

It is often said that the most substantial factor of value is only the money-flow anticipated in regard to the goods or the business. However I am sure that the value of a going-concern must be understood within the structure of today's business accounting so far as it is a social system of business calculation, and therefore that also the flow of value must be grasped on the ground of the principles adopted by the present business accounting.

For example, in Co. *X*, the expected profits in future  $n$  periods are supposed to be  $E_1, E_2, E_3, \dots, E_n$ , the interest rate for capitalization is  $i$  (supposing that  $i_1 = i_2 = i_3 \dots i_n = i$ , to simplify the formula), then  $q = (1+i)$ , and the liquidation-value after  $n$  years is  $L$ .

So, the worth of *X* Co. is represented by the following formula.

$$W = \frac{E_1}{q} + \frac{E_2}{q^2} + \frac{E_3}{q^3} + \dots + \frac{E_n}{q^n} + \frac{L}{q^n}$$

Now if the company anticipates issuing additional stocks  $K$  after 2 years and to retain  $R$  from the 3rd years' profit  $E_3$ , and after 10 years to pay the retained income as dividends, the liquidation value will increase by  $K'$ ,

$$W = \frac{E_1}{q} + \frac{E_2}{q^2} - \frac{K}{q^2} + \frac{E_3}{q^3} - \frac{R}{q^3} + \dots \\ + \frac{R}{q^{10}} \dots + \frac{E_n}{q^n} + \frac{L}{q^n} + \frac{K'}{q^n}$$

In regard to this procedure, some writers give unacceptable reasons. For example, according to the opinion of E.Schmalenbach,<sup>(7)</sup> the retained income (or invested capital) is considered to have to be subtracted because the part of profit (or invested capital) will be doubly included also in the liquidation value.

But in this explanation there are some questions. The first question is whether the same value as the invested capital (or retained income) can be anticipated to be included in the liquidation value or not. The second question is which the pprofit or dividend is the object for capitalization, and therefore the third question is why dividends paid from the retained income

(7) E. Schmalenbach; *Beteiligungsfinanzierung*, 1954, S. 55.

can be considered as the profit for capitalization.

In spite of the importance of these questions, no clear answer is given because he looks only at profit as the object for capitalization and disregards the flow of capital (including retained income, dividend from it and drawn capital).

I am sure that these questions can be settled by means of introducing the concept of the "flow of value which consists of revenue, expense and capital".

That is, as shown in the next figure,<sup>(8)</sup> the future outflow of value (expressed by  $\rightarrow$ ) is supposed to be the value which will go from the business to the outside and the value that shareholders will have to offer to it, and these outflows are subtracted.

$$\left\{ \begin{array}{l} \text{shareholder} \rightleftharpoons \text{business enterprise} \rightleftharpoons \text{outside} \\ \text{management} \rightleftharpoons \text{business enterprise} \rightleftharpoons \text{outside} \end{array} \right.$$

Therefore the future expense and the investment of proprietorship capital in the business are the outflow of value, that is, must be subtracted.

On the other hand, the future inflow of value (expressed by  $\leftarrow$ ) is supposed to be the value which will come into the business from outside and the value that shareholders will receive from the business, and these inflows are added.

Therefore the future revenue, the dividend (whether it will be paid from the retained income or from the current profit) and the liquidation value are the inflow of value, that is, must be added.

The retained income is first considered as a part of current profit and added altogether, and next considered as the newly invested capital from shareholders and only the part is subtracted.

Now, as shown in the above figure, there are two standpoints, in accordance with the two purposes of a going concern valuation, and in regard to understanding these value-flows.

That is, the standpoint of proprietorship capital which has been mentioned above, and the standpoint of total capital employed in the business which figure is shown by placing "management" instead of "shareholders". I want to show the standpoint of total capital by "management". In connection with the difference between these two standpoints we will examine the characters of value-flows in the next chapter.

At any rate in the valuation of a going-concern, the future flow of capital must also be considered. In regard to the business which is to be appraised, not only profit (that is, revenue and expense) but also investment of capital, retaining of profit, drawing of capital, liquidation etc., must be considered to

(8) E. Schneider; Wirtschaftlichkeitsrechnung, 1957, S. 5.

need attention.

Especially in such an advanced time when longrange-plans or forecasts can be made with fair reliability, these value-flows of capital must not be disregarded, because (as I will mention in the next chapter) from the standpoint of proprietorship capital the valuation will take every probable future activities of business into consideration and therefore the flow of capital for them must also be regarded.

As stated above, I am sure that the value-flows which consist of revenue, expense and capital decide the worth of a business enterprise, and therefore that it must be appraised by means of subtracting the present value of outflow and adding the present value of inflow. By such a wider understanding, in appraisal of the so-called earning-power-value the factors of capital can be taken into consideration without any conflict with the existing valuation-theory.

#### IV

Thirdly it must be pointed out that in accordance with each of the two fundamental purposes of a going-concern valuation the contents of capital, revenue, expense and rate for capitalization are respectively grasped separately from one another.

In the case of the valuation of proprietor's capital for the interested party in the transaction of an entire business itself or its shares, without regard to the business accounting, the profit for capitalization is one which purely belongs to proprietors' capital, that is, the net profit from which interest expenses and income tax are subtracted. The influence which the capital structure of the business and the institution of tax have on the future net profit must be taken into consideration.

The net profit which purely belongs to the proprietors' capital varies in accordance with alteration of income tax rate and therefore of the institution of tax. Needless to say, for each of the parties interested in the transaction of an entire business — for example, present or future shareholders — only the net profit after subtracting this influence of tax is most significant.

Besides, the capital structure has influence on the net profit. When the rate of interest expense is lower (higher) than the rate of earnings on total capital, the more the borrowed capital is, the more (the less) the profit of proprietors' capital is and so the larger (the smaller) the value of proprietors' capital is, if the rate for capitalization is supposed to be same.

Of course, the value doesn't always become larger (smaller) in accordance with the quantity of borrowed capital because, as stated above, the rate for

capitalization generally includes an increasing additional rate in company with the unsoundness of the capital structure. However it can not be assured that increase of net profit is perfectly balanced by the additional rate for capitalization. That is, it cannot be said that the value of proprietors' capital is the same whether the capital structure is sound or not.

Therefore, though it is often insisted that the proprietors' capital must be calculated by subtracting the borrowed capital from the value of the total capital employed in a business regardless of the influence which the capital structure has on the net profit, and though this opinion is considered to be acceptable to establish the book value of proprietors' capital, that is, to prepare the B/S, for the reasons stated above, I am sure that the net profit, excluding the interest expense, and the rate for capitalization must be respectively determined, to appraise the economic value of proprietors' capital for each of the parties in the transaction of a business.

Thus the proprietors' capital is the very capital which has potential capacity to bring forth the profit which purely belongs to proprietors subtracting interest expense and also income tax.

And also the rate for capitalization must be determined on the basis of the average ratio of net profit to proprietors' capital, for example, the average rate of returns on capital stock after tax, adding the proper supplementary rate taking account of the legal organization of company, the shares' ability to circulate in the stock market, the scale and capital structure of business, the future market-share of business, the future development of the same business field etc.

In capitalization the rate for capitalization has two functions. One is the function of comparison or appraisal. The other is the function of taking account of uncertain factors or risks. Properly speaking, the rate for capitalization has only to compare the potential capacity for the business to bring forth the worth with that of general capital in the same national economy, if the future value-flow is perfectly anticipated or if the factors of risk or uncertainty are taken into account in some way, for example, by means of introducing the replacement-cost of tangible assets as a supplementary-value<sup>(9)</sup> (as to introducing the replacement cost, there are many kinds of methods). But the future value-flow (revenue, expense and capital) cannot be always exactly — or with the same degree of correctness — anticipated, and the

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(9) Paton & Paton; *Asset Accounting*, 1952, p. 512-515.

E. Schmalenbach; *Die Beteiligungsfinanzierung*, 1954, p. 66, p. 77.

H. Jacob; *Die Methoden zur Ermittlung des Gesamtwertes einer Unternehmung*, Z.f.B., 1960, p. 131 and p. 209.

method dependent on the replacement cost is, of course, much more unacceptable than one dependent on the additional rate.

So, at least to a certain degree, this uncertainty factor, in relation to the legal organization, the capital structure, the future development of business etc., must be taken into consideration as additional rate.

Therefore, though the most fundamental rate, that is, the average rate of returns on capital stock after tax can be certainly given, the additional rate must be respectively determined in accordance with each condition of the business as stated above, because it is quite different in each case to what extent the future-flow can be exactly anticipated, or whether the replacement-cost of tangible assets can be used as the supplementary value or not. No formula, in regard to the determination of the additional rate, can be shown.

And according to each proprietors' standpoint, a fairly great alteration of business condition, that is, increase of plants, modification of organization, increase of dividend etc., can be intended, and therefore for those purposes an increase (or decrease) of capital must be anticipated because for each person concerned the economic value of a going-concern is determined by taking account of every further possibility in regard to itself and others .

So, in this case, as stated in the preceding chapter, the value-flow of future proprietors' capital, that is, an additional stock-issue, retaining of profit, drawing of capital etc., has a very great significance.

Here the value-flow of capital should be grasped as such in the going-concern valuation.

On the other hand, in the case of the valuation of the total capital (or assets) employed in the business for the purpose of a fresh start of business accounting, that is, establishment of a new accountability of business, the capital includes also the borrowed capital, and therefore the profit for capitalization must be the sum of all surpluses which total capital or total assets of the business bring forth over the value which is necessary for the so-called simple-reproduction-process of business activity, that is, it must include interest expenses, income tax and bonuses to managements.

The purpose of the valuation, in this case, is to revalue the total capital and total assets and to make the future profit-and loss statements more reasonable in accordance with the whole value-structure of economy.

So income tax or interest expenses must not be subtracted because the existing institution or the present capital structure must not influence the future profit-and loss statements. The value of the capital of an entire business for new accountability is one of potential capacity with which the whole of assets, including intangible assets, will bring forth profit (here the flow of capital, as stated under, need not be taken into consideration) which should

belong to the entire business itself.

Also in this case it is often said that the interest expenses must be subtracted from the profit for capitalization, and that the value of whole assets can be appraised by means of adding the borrowed capital to the proprietors' capital revalued separately.

However, in regard to the former, we can point out that at least in the present economically the income tax is still considered to be a surplus, not an expense, and that no rate for capitalization, in the case in which the whole of assets, whether it is financed by proprietors' capital or by the borrowed capital, is appraised, can be one after tax, because the interest rate of borrowed capital has no relation to income tax though generally the average rate of return on proprietors' capital is grasped as the rate after tax. And therefore the rate for capitalization cannot but be determined, without subtracting income tax, on the basis of the interest rate of national or public debts and first class bonds, that is, on the basis of the rate which is considered to be the average rate of return on the total capital of business in the national economy. And also the profit for capitalization must include income tax in accordance with the rate for capitalization.

On the latter question, as stated above, we must regard the influence of the present capital structure of business and the existing institution of tax on the value of capital or assets, and therefore on the future profit-and loss statements. These influences, needless to say, must be eliminated.

Then, in this case, the future flows of capital — they are the borrowing of money and the return of borrowed capital in addition to the additional investment of proprietors' capital, the drawing of proprietors' capital, the retaining of profit, etc. — must not be taken into account, because the object of valuation is the present assets or capital of business and so the future change of this substance must not be anticipated. If the future capital-flow is taken into consideration, the present revalued capital or assets will include the earning-power-value of assets which the management intends to purchase in the far future and so the profit-and loss statements of the next period will be influenced by the assets which will not have yet been purchased. Such a result must be avoided.

# A STUDY ON THE CURRENT COST THEORY OF FRITZ SCHMIDT

Isao NAKANO

## I

How should business accounting cope with the problem of the fall in monetary value today? On this theme we can find much literature, but no final conclusion has been reached as to what is the proper valuation basis of costs. As a starting point for a study of this crucial problem, we are going to look into the logic underlying the current cost theory of Fritz Schmidt.

The accounting theory of Schmidt is built on the foundation of his so-called "organic view of business" (*organische Betriebsauffassung*). This is a way of considering an enterprise, asserted with a view to overcoming the error of looking at it exclusively in its interior sphere.<sup>(1)</sup> And according to this view, "in an organism of the whole economy an enterprise as well as a household constitutes a cell. All individual economies are connected with the whole organization of the national economy through the market."<sup>(2)</sup> In holding such a view of an enterprise Schmidt seems to aim at studies of its conditions for existence.<sup>(3)</sup> For this purpose it is necessary to adopt the organic view-point, because an individual enterprise and the whole economy interact on each other.<sup>(4)</sup> Thus, the organic view of business means considering an enterprise not as an individual existence but as a cell of the whole economy, with intent to study its conditions for existence, assuming interaction between the individual enterprise and the whole economy.

It seems that the chief content of the interaction between both lies in the mutual relationship between the individual will of an enterprise in search of profit and the necessity of continuous production of the whole economy to satisfy wants of human beings. On this point Schmidt says, "the natural and harmonious laws of a free economy, regulated by competition and the point of maximum profit, have a tendency to adjust individual enterprises so as to

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(1) Fritz Schmidt, "Die organische Tageswertbilanz," the 3rd edition, Wiesbaden 1951, p. 1.

(2) *Ibid.*, p. 47.

(3) *Ibid.*, p. 48.

(4) *Ibid.*, p. 395.



assure the group of consumers of the highest satisfaction of their wants.”<sup>(5)</sup> So an inquiry into the conditions for existence of an enterprise on the premise of interaction between the whole economy and an individual enterprise leads to the problem of how an enterprise should adapt itself to the economic laws regulating it with market prices. Such a point of view also clarifies the meaning of Schmidt’s remark that an enterprise held as a cell in the organic theory is properly regarded not as a unit of a fixed immovable size but as floating in the stream of values in the whole economy, dependent on the skill of management.<sup>(6)</sup>

What are the conditions for existence of an enterprise, considered as a problem of adaptation to the economic laws of a business floating in the stream of values in the whole economy? “An enterprise engaged in production can exist continuously, only when the consumers’ demand for a specified product brings such a high valuation of it that a market price lying above the values of costs expired for its production arises from that.”<sup>(7)</sup> To achieve this condition, an entrepreneur (Unternehmer) must take the following two steps: (1) he must invest the capital at his disposal into such values that have a tendency to remain the same (Werterhaltung) or—when it is possible—to rise (Wertsteigerung), and (2) he must try to attain the highest profit (Erfolg) by using them productively. The former offers the basis for the latter, and it also contributes to the benefit of the whole economy to achieve these steps properly.

Now that the conditions for the existence of an enterprise have become clear, how are they related to business accounting? “Schmidt derives the principles of appropriate valuation and income accounting from the essence of a business and its organic relationship with the market”.<sup>(8)</sup> Then, why has he to derive his accounting theory from the organic view of business? We presume that the reason lies in his view-point that business accounting should help an entrepreneur take proper measures first of all. The propriety of this interpretation shall be proved later, but here we hasten to cite the following words of Prof. Karl Hax, “Schmidt reviews various methods of business accounting (betrieblichen Rechnungsmethoden) on the basis of suitability to give the entrepreneur guiding principles for business dispositions which concur with the natural laws of the economy (natürlichen Gesetzen

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(5) Ibid., p. 395.

(6) Ibid., p. 87.

(7) F. Schmidt, “Der Wiederbeschaffungspreis der Umsatztages in Kalkulation und Volkswirtschaft”, Berlin 1923, p. 30.

(8) Karl Hax, “Der Gewinn begriff in der Betriebswirtschaftslehre”, p. 54.

der Wirtschaft)".<sup>(9)</sup> Thus, while the organic view of business requires an enterprise to adapt itself to the economic laws, it is the entrepreneur that takes the steps, and on the other hand the accounting must be useful to him, so business accounting must be based on the organic view of business. Thus, business accounting based on the organic view of business, through its contribution to proper dispositions of an entrepreneur, takes account of the benefit of the whole economy as well as that of an individual business.

By accounting useful for the entrepreneur is meant the accounting which corresponds to his activities in his business and which tells him the results of his efforts clearly and separately. From his first activity of investing his capital into goods that are expected to remain the same or to rise in value comes "property accounting" (Vermögensrechnung) for the purpose of showing the "property value change" (Vermögenserfolg) as increases or decreases of values on investments and the total amounts of reproduction values of assets including these changes of values; while his second activity of the productive use of his property gives rise to "income accounting", which computes income on sales. Property accounting is considered to perform the static function of showing the asset values on the one hand and at the same time the dynamic function of delivering cost values to income accounting on the other hand.

Next, we shall examine the relation between accounting based on the organic view of business and the stockholders as owners of the business. As is immediately seen from the standpoint of Schmidt's theory aiming at an accounting which contributes to an entrepreneur's dispositions, his concept of capital (=property) means "what the enterprise possesses in a real sense",<sup>(10)</sup> "the items on the debit side of the balance sheet",<sup>(11)</sup> while the credit side is regarded as nothing but a reflexion (Spiegelbild) of the debit side. Therefore "the owners of a business can demand no more than the values on the debit side. He has no claim (Anspruch) for the maintenance of the average purchasing power of the capital paid in the business perhaps many years ago. Like owners of any goods, he has made fast his fortune to what has been chosen under a certain view-point and must submit to the change of value as it is".<sup>(12)</sup> Thus, the owners of a business are treated as a passive existence submitting to the change of values, in relation to the enterprise as a cell floating in the stream of values of the whole economy under the control and management of the entrepreneur.

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(9) Ibid., p. 55.

(10) Schmidt, "Die organische.....", p. 244.

(11) Ibid., p. 244.

(12) Ibid., p. 113-114.

To sum up, the organic view of business underlying Schmidt's theory means a view of the business taken for the purpose of inquiring into the conditions for existence of an individual enterprise which is connected, and interacts, with the whole economy through the economic laws of the market. And according to this view, an enterprise is considered as an existence floating in the stream of values in the whole economy, under the guidance of an entrepreneur trying to adapt the business to the economic laws of the market. And from the standpoint that accounting should contribute to proper dispositions of an entrepreneur first of all, this organic view of business and the structure of his accounting theory comes to have connections, and it is expected by Schmidt that the accounting thus connected with the organic view of business will contribute to the benefit of the whole economy as well as that of an individual enterprise. And the stockholders are regarded as a passive existence submitting to economic laws and value changes.

## II

One of the unsolved problems in the replacement cost theory in general is, whether the asset values on the balance sheet should also be valued on their current costs or not. It will be interesting to review Schmidt's accounting theory fixing our eyes upon his viewpoint on this problem.

Schmidt regards capital in the same light with property (Vermögen), which according to him means what an enterprise possesses in a real sense, namely the items on the debit side of the balance sheet.<sup>(13)</sup> And to take an example of a plant acquired by a business, by the "property" is meant not the amount of money paid for it in the past but the existing plant itself.<sup>(14)</sup> Then why does he consider the property not as the invested money in the past but the plant itself? "The whole way of thinking of the executives (die ganze Denkweise der Betriebsleiter) would be adjusted wrong, if they would act as if there were still the money, not the plant."<sup>(15)</sup> Thus the direct reason for adopting the above concept of property seems to be that what the executives treat, what provides the basis of their actions, is not the invested money of the past but the existing values.

Next, on what valuation basis should a property be valued which is regarded as being on the debit side of the balance sheet in conformity to the executives' view-point? "Property accounting (Vermögensrechnung) is

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(13) Schmidt, "Die organische.....", p. 244.

(14) Ibid., p. 228.

(15) Ibid., p. 228.

embodied in the balance sheet and makes a report of cost values. It goes without saying that such a view of the balance sheet requires the reporting of the replacement cost as of the current closing date. In the spirit of the entrepreneur (*Geiste des Unternehmers*) it must develop from current cost to current cost."<sup>(16)</sup>

When the current cost valuation is required in order to conform to the spirit of the entrepreneur, what does it mean in the concrete? Here we must remember that Schmidt has derived both spheres of property accounting and income accounting from the activities of the entrepreneur. In relation to property accounting he has pointed out the work of the relative maintenance or increase of property values of an enterprise measured on the basis of market prices of the assets (which means composing the property from such goods as will show a higher rise and a lower fall in value than the average).<sup>(17)</sup> It becomes the work of property accounting on current costs conforming to the spirit of the entrepreneur to make it clear to what degree the above disposition of the entrepreneur has succeeded and as a result what steps he must take now.

Value changes on assets are recorded on the property value change account (*Vermögenswertänderungskonto*), which shows differences between current costs and original costs of all the assets existing in the business as of the closing date. So it discloses "to what extent the property staying in the business moved in value, therefore to what degree the investment policy (*Anlagepolitik*) of the entrepreneur has been accompanied with success (*Erfolg*)."<sup>(18)</sup> This account shows how far the property of the business has adapted itself to the fall in monetary value in its value changes, and so long as as any or all of the parts of the property lack in adaptability, the account allows the entrepreneur to make a conversion when it can still be made favorably for the individual business as well as for the whole economy.<sup>(19)</sup>

Thus Schmidt considers it as one meaning of the current cost valuation to judge the result of the investment activities of the enterprise and to contribute to the dispositions of the entrepreneur, but he has given a more important significance to (the total amount of) the current acquisition values (*Wiederbeschaffungswert*) of all parts of the property of the enterprise including the above-mentioned value changes, as of the closing date. On this point Schmidt explains as follows; the total amount of the reproduction

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(16) Schmidt, "Der Wiederbeschaffungspreis", p. 32.

(17) Schmidt, "Die organische.....", p. 131.

(18) K. Hax, op. cit., p. 56.

(19) "Der Wiederbeschaffungspreis", p. 75.

values provides a most important foundation of income accounting, namely (1) it is the basis on which the values of expired costs are determined, and (2) the total reproduction values multiplied by the normal interest rate (Normalzins) makes the normal profit (Normalertrag) of the enterprise, which shows the size of the profit which the entrepreneur must attain in order to keep his business continuously. Comparison of it with the actual profit tells whether the normal profit has been earned or not and to what degree an enterprise has been able to attain a profit in excess of it by means of a special performance (Leistung) or monopoly. And further through capitalization of this difference, the additional earnings capitalized value (zusätzliche Ertragswert) of the enterprise can be determined.<sup>(20)</sup>

As to the disposition of the entrepreneur relating to the total reproduction values Schmidt says, "If the selling price is smaller than the current acquisition prices plus the interest during the turn-over period (Umsatzdauer) the conclusion must be drawn that a further trade of the same kind is to be discontinued."<sup>(21)</sup> And from the standpoint of Schmidt reviewed above, it is inferred that the "interest" is determined on the basis of the total reproduction values.

To recapitulate, we understand that in Schmidt's theory the ground for valuing the assets on the balance sheet on the basis of their current costs lies in its possibility to conform to the spirit of the entrepreneur and to contribute to his proper dispositions, and this assertion is consistent with his standpoint aiming at accounting based on the organic view of business.

### III

What is the proper profit in income accounting? On this important problem Schmidt states as follows; "...The enterprise does not indicate anything wholly independent but it can be completely understood only as a constituent of the whole economy (Glieder der Gesamtwirtschaft). It can live only in this framework, as the cells of our bodies in it and with it.

From the standpoint of the enterprise as a part of the national economy we must seek the concept of profit, under the application of which the enterprise can take proper steps in all economic situations. ... And whether we have chosen the proper concept of profit we shall be able to recognize only by means of reviewing whether it is possible for all enterprises to take adequate

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(20) "Die organische.....", p. 91.

(21) Ibid., p. 72.

measures without being led in the wrong direction.”<sup>(22)</sup> And the corporate profit must be in full harmony with the fundamental economic laws of the market so that it may be useful for proper dispositions of the enterprise. Thus it becomes clear that in the income accounting theory Schmidt emphasizes it as requisite for proper income to make appropriate measures of the enterprise possible.

As revenues are based on the current price level, we find no problem concerning them. So the fundamental problem lies in the valuation basis of costs which will give rise to proper profit in the sense that it makes adequate measures of the enterprise (entrepreneur) possible.

To begin with, what are the appropriate measures of an enterprise which proper profit should make possible? The replacement cost theory of Schmidt has been said to aim at the maintenance of physical capital (materielle Kapitalerhaltung). Of course his theory is not unrelated to it, but the writer believes that the connection between his income accounting theory and the maintenance of physical capital is rather delicate and complicated.

Schmidt's income accounting theory takes the form of charging to revenue current acquisition prices as of the date of sale, of the cost volumes required to reproduce the same quantity of products on the productivity as of the same date (which shall simply be called the current cost accounting hereafter). If this calculation aimed at the (perfect) maintenance of physical capital for its object, it would immediately be confronted with the following extremely difficult problems; (1) The total of costs valued on the current acquisition prices on each date of sale will not necessarily equal the final replacement cost. (2) How should the conversion of capital investment be dealt with? (e.g. when the costs recovered from the sale of article A has been reinvested into article B, some fixed asset, bank deposits, cash on hand or accounts receivable). (3) What is the relation of the progress of science with the maintenance of real capital? The capacity of capital consists not simply in its physical substance but in its earning power. Maintenance of its original form may not assure its original capacity or its original earning power. (4) What should be done if a part of the capital is supplied with borrowed capital? Suppliers of the borrowed capital require collection of monetary amounts fixed in the contract but do not desire maintenance of capital substance as of the date of the contract. In case of a rise in prices capitalists can retain more than is sufficient to keep the owners' equity substantially, while a fall in prices will not only make it impossible to keep it but also in an extreme case it may lead to a

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(22) Schmidt, "Die organische.....", p. 85.

situation that even the existing total assets cannot cover the retirement of the money capital.<sup>(23)</sup>

In studying the income accounting theory of Schmidt it is to be questioned at first whether he aims at the perfect maintenance of physical capital (which provides for an actual replacement). As will be explained later, it seems proper to interpret that there does not exist such an intention in his theory.

The late Professor Iwata, interpreting that Schmidt's income accounting is exclusively based on the standpoint of the whole economy, explained its meaning as follows; "When the entrepreneur consumed production goods and produced and sold the products, the transaction brought a bad effect from the view-point of the whole economy, so long as demand for the production goods grew so that—no matter how small their actual buying prices may have been—their current acquisition prices as of the date of sale exceeded the market prices of the products. This means a loss from the standpoint of the whole economy and this transaction had better not have been carried out, because the production goods would have received a higher valuation from the consumers if they had been left as they were or consumed in another production, or in the case of commerce it would have been better for the consumers, if the goods were left on the buying market instead of being moved to the selling market. Only in case the selling prices remain considerably higher than the current acquisition prices on the date of sale, can it be said that the transaction has been worth-while from the view-point of the whole economy.

...To be brief, the organic theory of income accounting has the duty of computing the results of transactions from the view-point of the whole economy and of judging whether the enterprise should and can be continued or not, through comparison of the reacquisition prices as of the date of the transaction with selling prices. Where the result of this calculation has shown that it is necessary for the sake of the whole economy to continue the business, its physical capital must be maintained absolutely and the same transactions carried on."<sup>(24)</sup>

According to this explanation, the meaning of income accounting on replacement costs lies in its functions of judging whether an enterprise can and should be continued or not from the standpoint of the whole economy and, where its continuance has been justified, of maintaining the physical capital absolutely. This interpretation appears right, but the whole theory

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(23) Tetsuzo Ota, "A Criticism on the Capital Maintenance Theories," "Accounting" (Kaikai) Vol. 27 No. 2, August 1930, pp. 166-167.

(24) Iwao Iwata, "Principles of Income Accounting" (Rijunkeisangenri) 1956, pp. 342-344.

of Schmidt is established on the basic idea that the rational activities of the entrepreneur led by his own will of searching after profit harmonize with the economic laws of the market, and there is no intention of forcing the entrepreneur to take any action for the benefit of the whole economy against his will. So the meaning of his current cost theory must be analyzed from the standpoint of the entrepreneur in the first place.

According to Schmidt, the disposition courses of the entrepreneur concerning the maintenance of the business is as follows (1) the entrepreneur must consider whether the recovered costs should be reinvested in the same thing or in another, and (2) to carry out investment in another field (which means a transformation of the production or trade process) after careful consideration, or (3) continue the same production or trade as before.<sup>(25)</sup>

Since Schmidt regards the disposition courses of the entrepreneur as flexible to some degree, it will be a matter of course that he does not require an income calculation which would accomplish the perfect maintenance of physical capital (in the same quantity as before) blindly and automatically, of the accounting which according to him should contribute to proper dispositions of the entrepreneur. With regard to "the current acquisition prices as of the date of sale" (Der Tagesbeschaffungswert des Umsatztages) which provides for the basis of his income accounting, he states as follows:

"This current acquisition price of the date of sale shows the entrepreneur at what price he can purchase the part of costs (Kostenteile) included in the goods sold (Verkaufsgut) as of the date of sale. If the selling price is lower, he will not have to bring the goods which can also be resold on the buying market to the selling market where they are valued lower. So long as this resale is not possible, from a selling price which is lower than the current acquisition prices plus the interest during the turn-over period (Umsatzdauer), at least the conclusion must be drawn that a further sale of the same kind must be discontinued. In case of continuing production the business must put aside (absondern) an amount equal to the reacquisition prices on the date of sale (Wiederbeschaffungspreis am Umsatztage) so that it can continue production. Therefore only what exceeds the current price of costs is the profit on the completed sale (das Gewinn am vollzogenen Umsatz). The original cost values mean nothing for determining the profit from sales, for considering the turn-over period of some length it is very unlikely that the costs included in the product can be purchased again at their original prices. Thus it follows that the current acquisition price of the date of sale must be the fundamental value for income accounting (Erfolgsrechnung). Only this can tell the

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(25) Schmidt, "Der Wiederbeschaffungspreis", pp. 92-93.



manager of the business (Leiter des Betriebes) if his production or his trade is still profitable at a given moment; whether on account of a large profit an expansion of the business is possible (eine Betriebserweiterung) or because of its reduction a restriction (eine Einschränkung) is necessary."<sup>(26)</sup>

Thus the significance of income accounting on current prices as of the date of sale lies in giving to the entrepreneur a guide to judge whether his business should be maintained in its original content, contracted, expanded or converted, by considering whether the selling price can cover the current acquisition prices of the parts of costs which have expired under the existing conditions as of the date of sale, namely whether the maintenance of the original content of the business is possible as of the date of sale.

Now, the courses of disposition of the entrepreneur is, as stated before, either (1) to judge and then maintain the same contents as before, or (2) to judge and then take some other step than maintenance of the same state (e.g. expansion, contraction, conversion etc.). In both cases it is nothing but the possibility of the maintenance of the same sorts and amounts of property as before as of the date of sale that the current cost accounting of Schmidt furnishes. It is left to the activities of financial management to bring the possibility of the maintenance thus offered to the actual maintenance of the business, or to get the additional amounts necessary for expansion, contraction or conversion.

In this case it is asserted by Schmidt that the possibility of proper judgment and maintenance offered by current cost accounting has the important meaning of "parallel production and consumption" (der Gleichlauf von Produktion und Konsumtion) from the view-point of the whole economy. The parallel exists, "only when a consumer receives at every moment the same amount of goods that can be produced on the basis of the productivity existing at that moment in the whole economy, in exchange for his income from production delivered at that moment."<sup>(27)</sup> It is clear that only current cost accounting agrees with this principle. And concurrence with this principle brings the effect of stabilizing economy, by excluding (1) the intensification of a boom that the accounting on the original cost basis gives rise through the process of excessive (paper) profit due to a price rise → excessive investment of the entrepreneur on account of his wrong judgment and distribution of the paper profit caused by his failure to maintain the property → a further rise in prices, and (2) the aggravation of a depression through the process of a paper loss in case of falling prices → too small investment and too

(26) "Die organische.....", pp. 72-73.

(27) Ibid., p. 147.

small distribution of profit → underconsumption.<sup>(28)</sup>

When there exists a change of productivity (eine Verschiebung der Produktivität), namely when a different quantity of products is manufactured with the same amount of real cost values or a different quantity of transactions is carried out, owing to a technical, legal, psychological or organizational change in the production or trade process, the current cost accounting—since it accomplishes the parallel of production and consumption—results in costs which decrease in case of a rise in productivity and increase in case of its fall. On the other hand, an adequate quantity of assets to be held by the enterprise is required to increase in the former case and decrease in the latter case, with the result that a rise in productivity gives rise to an increase in demands for an addition to the stocks and therefore to a rise in their market prices and a fall leads to an increase in supplies due to the reduction of stock and consequently to a fall in their market prices. Thus, in times of a rise in productivity the joint effect of the increase in the market prices=revenues and the decrease in costs is an enlargement of profit, inducing an expansion in the business. On the other hand, in case of a fall in productivity the decrease in the market prices=revenues and the increase in costs lead to a reduction in the profit and moreover a deficit. This deficit “will be a specially valuable indication (ein Fingerzeig von besonderem Werte) to the entrepreneur and immediately when the transition of productivity has occurred his calculation will tell him that he is manufacturing products which lie under reproduction values and that consequently as a careful manager (aufmerksamer Wirtschaftler) he must readily come to the conclusion not to produce such products any more.”<sup>(29)</sup> So, when the general transition of productivity has occurred, the current cost accounting makes it possible for the enterprise occupying an average position in the whole economy to take some other step than to maintain the same content of the property as before.

When a transition of desire for the products of the enterprise has taken place on the part of consumers, the entrepreneur must judge and take some other measures than the maintenance of the same property as before. But Schmidt does not consider this problem for the reason that this transition of desire will exert influence on the field of demands and not on the field of costs.<sup>(30)</sup> This remark of Schmidt is consistent with his fundamental standpoint that income accounting should show the entrepreneur the disposition to be taken on the basis of the possibility of the maintenance of the existing

(28) “Der Wiederbeschaffungspreis”, pp. 53–57.

(29) “Die organische.....”, p. 157.

(30) Ibid., p. 152–153.

production capacity, for a profit computed on any other basis than the current replacement cost of the existing production capacity itself could not tell the entrepreneur to what degree the existing physical capital is profitable.

In order to prevent the property of the enterprise—which constitutes the foundation of the entrepreneur's activities and as a principle should be maintained as before by means of adding adequate financial policies to the recovered costs from the current cost accounting—from being worn out by the nominally fixed borrowed capital, Schmidt proposes the principle of equilibrium of the values on the balance sheet (*die Wertgleichheit in der Bilanz*). This principle requires that all the real assets (*Realgüter*) of the debit side of the balance sheet—which moves in value with the change of monetary values—should be financed with the owners' capital and all monetary assets with borrowed capital.<sup>(31)</sup>

According to Schmidt, it agrees also with the benefit of the whole economy for the individual business to accomplish a balance of the property accounting in accordance with this principle. The monetary assets of the enterprise are mainly composed of (1) the cost funds (*Kostenfonds*) providing for the purchase of labor etc. in the following period and (2) the accounts receivable due to sales on credit, of which the cost funds are most properly financed by the income funds (*Einkommenfonds*) which the consumers do not require for consumption in the near future, because this way of financing brings the favorable effect of offering a demand for that temporary surplus money of consumers and interest on it and also of cutting down the total requisite amount of money in the whole economy—and so minimizing the loss of monetary values in case of a fall in the monetary value—in comparison with the case of financing the total cost funds with the new capital of the owners of the business. On the other hand, the disposition of balancing the accounts receivable and the borrowed capital results in properly absorbing the excessive buying power caused by the sales on credit and minimizing the total amount of money in the whole economy by converting the excessive credit existing in a business to the owners' equity of another business which has had too money debts.<sup>(32)</sup>

Now, we shall summarize the above analysis of the income accounting theory of Schmidt. His accounting theory based on the organic view of the business requires that the accounting should contribute to the proper dispositions of the entrepreneur who manages the business, from the standpoint of the enterprise as a cell floating in the stream of values in the whole

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(31) *Ibid.*, pp. 132–133.

(32) “*Der Wiederbeschaffungspreis*”, pp. 58–70.

economy. And the entrepreneur does not try to maintain the same property as before in all economic situations, but in the first place he judges whether the business should maintain the same kinds and amounts of property as before and then he tries to perform the actual maintenance if his judgment justifies it. The current cost accounting acts as a guide for this judgment on the basis of the possibility of maintaining the same kinds and amounts of productive capacity as before. It belongs to the activities of financial management to bring the possibility of the maintenance as of the date of sale to the actual maintenance of the business when the judgment has justified it. On the other hand, in order to prevent the property of the business constituting the foundation to be maintained, expanded, contracted or converted in accordance with the judgment of the entrepreneur from being worn out against his will especially in case of a rise in monetary value by the nominally fixed borrowed capital, the principle of equilibrium of values in the balance sheet is proposed.

#### IV

In closing this survey of Schmidt's current cost theory, we shall bring forward a problem which seems to this writer to have been left unsolved by him. To be sure, so long as we approve his fundamental idea asserting that accounting should contribute to the proper dispositions of the entrepreneur from the standpoint of the business floating in the stream of values of the whole economy, the structure of his accounting theory forms a complete system. But in this system the greatest problem lies in his treatment of the stockholders. According to Schmidt, the stockholders as owners of the business are regarded as a passive existence submitting to changes in values on the property of the business. Of course, the proper dispositions made possible by accounting based on the viewpoint of the entrepreneur may indirectly contribute to the protection of the stockholders, but when—for example—the business has fallen in substance or value below the average as a result of the wrong disposition of the entrepreneur in spite of the proper indications given by the current cost accounting, the theory of Schmidt does not hold the idea that the loss must first be recovered before the profit appears, but there immediately comes out a profit so long as the revenues exceed the costs on current acquisition values as of the date of sale.

Once the late Prof. Sugimoto criticized this point as follows; "The idea of Schmidt is based on goods, which is so inappropriate in the present economy grounded upon money capital. . . In the first place, to take an extreme example, suppose that an article was purchased at 1,000 yen and though no

change has occurred in the monetary value, its current acquisition price as of the date of its sale has come down to 10 yen. In this case, if the revenue from its sale is 15 yen, he considers 5 yen as the profit, which he says can be distributed without impairing the financial condition of the business. Do you think such an idea is proper? An enterprise is characterized as a means of maintaining and increasing the monetary capital of capitalists rather than as a means of satisfying the desires of consumers. How is it possible to speak of a profit when the money capital of capitalists is being dissipated?"<sup>(33)</sup>

With regard to the above example, if the entrepreneur had succeeded in perceiving this fall in value on the property value change account quickly and in converting the direction (content) of his production or trade to evade the fall in value, such a situation could not have taken place. But once the fall occurred, the income accounting of Schmidt's theory can do nothing but continue the current cost accounting on the new lower basis of values, and we cannot find any mechanism that can protect stockholders submitting to the fall in value of the property of the business from the loss due to a failure of the entrepreneur in investing the capital in goods which tend to remain the same or to rise in value. How can this problem be solved—this seems to be the greatest problem in the current cost theory of Fritz Schmidt.

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(33) Akio Sugimoto, "A Review on the Dualistic View-Point of the Balance-Sheet", "Accounting" (Kaikai), Vol. 31 No. 5, November 1932.

# DIE KOSTENBEGRIFFE FÜR DIE BETRIEBLICHE PLANUNG

Tetsuo KOBAYASHI

## I

### *Vorwort*

Die Hauptzwecke der Kostenrechnung sind im Verlauf des Zeitalters verschoben. In und vor dem zweiten Weltkrieg, herrschten in Japan die Verfeinerung der Gewinn- und Verlustrechnung (Abschlußrechnung) und die Preisbestimmung des Produktes, als die Hauptzwecke der Kostenrechnung. Aber nach dem Krieg ist die Hilfsfunktion der Kostenrechnung für die betriebliche Kontrolle und die betriebliche Planung, für die letztere vor allem in den letzten Jahren, betont worden. Und man beachtet auch die Brauchbarkeit der Kostenrechnung für die Lösung der dispositiven Probleme der Unternehmensleitung.

Die Aufgabenentwicklung der Kostenrechnung in Japan ist zum Teil von den ausländischen Literaturen, die in Japan vorgestellt sind, beeinflußt worden. Insofern mag der japanische, entwicklungsmäßige Zustand der Kostenrechnung, von denen der Länder etwa verschieden sein, wo die Kostenrechnung direkt von den praktischen Anforderungen entwickelt worden ist. Aber, die große Dienlichkeit der Kostenrechnung zur betrieblichen Planung wird neulich auch in Japan in der Praxis weit erkannt. Allerdings können auch in diesem Falle die Einflüsse der ausländischen Literaturen gefunden werden. Aber die ausländischen Meinungen sollen hier nicht ohne weiteres übernommen werden. Vielmehr muß man unter Berücksichtigung der japanischen Verhältnissen sie korrigieren.

In Japan sind schon viele ausländische Literaturen, welche die Probleme der Kostenrechnung in dem System der betrieblichen Planung behandeln, vorgestellt worden. Aber wir nehmen hier aus solchen Literaturen einen Bericht von Committee on Cost Concepts and Standards of American Accounting Association: „Tentative Statement of Cost Concepts Underlying Reports for Management“ (April, 1956 Accounting Review) auf, um den Zusammenhang der Kostenrechnung mit der betrieblichen Planung systematisch zu betrachten. Und wir betrachten, wie dieser Bericht in Japan, vor allem für die Systematisierung der betrieblichen Planung im Zusammenhang

mit der Kostenrechnung übernommen ist, od. werden soll.

Dieses Komitee veröffentlichte früher zwei Berichte über die Kostenrechnung (Accounting Review April 1948 und April 1952). Im zweiten Bericht von 1952 ist dieses Komitee auf drei Hauptzwecke der Kosterechnung hingewiesen:

1. die Zusammenrechnung der Kosten für die Finanzbuchhaltung,
  2. das Angebot der Kostendaten zu den verschiedenen betrieblichen Leiter od. Instanzen für ihre Kostenkontrolle, und
  3. die Sammlung der Kosteninformationen, die für die betrieblichen Entscheidungen und damit für die betrieblichen Politiken notwendig sind.
- Die Kostenrechnungen, die für den dritten Zweck ausgeführt sind, wurden als die speziellen Kostenuntersuchungen charakterisiert, denn sie werden am meisten außer dem laufenden Kostenrechnungssystem gelegentlich ausgeführt. Doch, unserer Meinung nach, kann auch das laufende Kostenrechnungssystem, das mit der Finanzbuchhaltungssystem verbunden ist, die Kosteninformationen für die betriebliche Planung bieten. In diesem Sinne wurde der Zusammenhang der Kostenrechnung mit der betrieblichen Planung nur unvollkommen systematisch behandelt.

Im dritten Bericht von 1956 ist dagegen der Geltungsbereich der Kostenrechnung zur betrieblichen Planung als ein selbstständiger Teil systematisiert und die eigentlichen Kostenbegriffe für die betriebliche Planung noch umfassender dargestellt. Dieser Bericht soll als eine der wenigen Versuche, die den Zusammenhang der Kostenrechnung mit der betrieblichen Planung systematisch in Ordnung gebracht haben, bemerkenswert sein.

## II

### *„project planning“ und „period planning“*

In diesem Bericht werden zwei Typen der betrieblichen Planung dargestellt, ehe die Kostenbegriffe für die betriebliche Planung behandelt werden. Sie sind „project planning“ und „period planning“. „Project planning“ sei der Vorgang, in welchem die Leitung, um sich über den Kurs der zukünftigen Tätigkeiten im Zusammenhang mit einem spezifischen Problem zu entscheiden, die verschiedenen Alternativen abschätzt. Dagegen sei „period planning“ der Vorgang, in welchem die Leitung, für eine wirtschaftliche Periode (am meisten ein Jahr), eine annehmbare Folge von Planungen der gesamten Zukunftstätigkeiten in der Unternehmung od. in einigen ihrer funktionalen Unterabteilungen bekommt.

Der Vorgang der „project planning“ wird ferner, wie folgt, aufgeteilt (a.a.O.S. 184 Fußnote).

- 1) Anerkennung mehrerer möglichen Kurse der Zukunftstätigkeit,
- 2) Abschätzung jeder Alternative in den wertmäßigen und unwertmäßigen Beziehungen, und
- 3) Äußerung einer Entscheidung, die eine der Alternativen über den Kurs der Zukunftstätigkeit einschlägt.

Häufig kommen diese zwei Typen von der betrieblichen Planung gleichzeitig vor. Während mehrere Teile von Problemen von „project planning“ öfters sporadisch vorkommen und die Alternativen von den langen, verschiedenen Zeitdauern nach sich zieht, folgt ein Teil von solchen Problemen dem festen Zeitmodell der „period planning“, denn der Disponent kann die Zeitdauer der zu entscheidenden Alternativen beliebig kontrollieren, um den Zyklus der „period planning“ als auch die Zeitdauer der „project planning“ zu wählen. Somit beschreibt dieses Komitee, daß einige Tätigkeiten, die dem Vorgang der „period planning“ aufgebürdet werden, tatsächlich zur „project planning“ gehören (a.a.O., S. 84).

Es ist auch an anderer Stelle hingewiesen, daß „project planning“ häufig als ein Teil der „period planning“ ausgeführt wird. Sonst würden alle Bereiche des Betriebes, in kurzen Zwischenräumen, nicht leicht der Nachprüfung und Wiederplanung der vorher angenommenen Pläne unterzogen, oder würde es schwerlich sein, daß der Disponent allen Punkten „project planning“ unterzieht. Die Sachen, welche die noch sofortigere Entscheidung erfordern, gehen dann direkt in den Planungsvorgang von „period planning“ ein (a.a.O. S. 188).

Aber dieser Punkt ist uns noch fragwürdig. Vielmehr sollen wir zunächst den Sinn der Einleitung der betrieblichen Planung in „project planning“ und „period planning“ noch eingehender prüfen, ehe ihre Gleichzeitigkeit in Frage gestellt wird.

In dem zweiten Bericht von 1952 wurden die folgenden Probleme, für den die speziellen Kostenuntersuchungen ausgeführt werden, aufgezählt: (1) die Bestimmung der Beschäftigungsvolumen, (2) die Auswahl der Warensortimente, (3) die Veränderung der Produktionsverfahren, (4) die Erweiterung bzw. Erneuerung der Anlagen usw. Sie wurden meistens als die Probleme von „project planning“ betrachtet. Aber diese Probleme erfordern auch die Prüfung vom anderen Standpunkt, d.h. von „period planning“, und außerdem erstrecken sich diese Probleme nicht nur auf die speziellen Kostenuntersuchungen, sondern auch auf die laufend durchführende Kostenrechnung. Von diesem Standpunkt soll man auch denken, daß der Begriff „period planning“, einen Mittelpunkt des dritten Berichtes von 1956 bilden.

In diesem Bericht von 1956 werden der Charakter der „period planning“ ferner, wie folgt, erklärt. „Der Hauptzweck der „period planning“ besteht



darin, daß man die verschiedenen Serien der Planungen entwickelt, und daß man sie in eine Gesamtplanung so umstellt, auf daß jede einzelne Aktivität geleitet und koordiniert, und zwar die Gültigkeit ihrer Sammlung als Ganzes versichert werden kann. Gewöhnlich wird ein Jahr als die Periode gewählt. Der angenommene Plan ist die Basis für die Mitteilung, und er enthält die Kostendaten, die für die Kontrolle der zukünftigen Tätigkeiten dienlich sind“. „Period planning führt meistens zur gesamten Budgetierung.“ (a.a. O. S. 187)

Bei der „project planning“ kann man ein Problem, gewissermaßen isoliert von den anderen Problemen behandeln. Dagegen, bei der „period planning“ handelt es sich gerade um die Koordination aller Teilpläne für die gesamte Planung bzw. Budgetierung der betreffenden Periode. „Period planning“ erfordert also anderes Prüfungsprinzip als „project planning“.

Es ist notwendig für die Systematisierung der betrieblichen Planung und die Charakterisierung der Kostenbegriffe für die betriebliche Planung, mehrere Planungsrechnungen nach jeder eigenen Problemstellung zu unterscheiden. In diesem Sinne sind diese Planungskategorien von den japanischen Autoren stark beachtet worden, und von solchem Standpunkt sind die Auffassungen von American Accounting Association in einigen Punkten auch kritisch betrachtet. Z.B. gegen die Auffassung, daß es sich um project planning handelt, überall wo irgend eine Auswahl notwendig ist,“ ist es betont worden, daß nicht nur „project planning“, sondern auch „period planning“ den Auswahlvorgang enthält. Auch unserer Meinung nach enthält „period planning“ ihren eigentlichen Auswahlvorgang, d.h kann auch sie nicht ohne Auswahlvorgang sein. Vielmehr soll dieses Problem hier so aufgefasst werden, daß es sich um den Inhalt der Auswahl handelt. Z.B gehört die Bestimmung der Arten der Erzeugnisse und ihrer herzustellenden Stückzahlen in einer wirtschaftlichen Periode, nach unserer Auffassung, zum Probleme der period planning. Sie erfordert zwar eine Auswahl. Aber die Auswahl wird im Unternehmungsziel der betreffenden, wirtschaftlichen Periode und im Abstimmungsprozess mit den anderen betrieblichen bzw. finanziellen Pläne der Periode orientiert. Sonst würde der eigentlichen Sinn des Begriffes „period planning“ als ein Planungsbegriff verlieren, nämlich würde sie nur die bloße Anhäufung der „project planning“ sein.

Wir möchten diese zwei Typen von der Betriebsplanung als die verschiedenen Planungskategorien in gleichem Rang stellen, um die eigentlichen spezifischen Prüfungsprinzipien beider betrieblichen Planungskategorien zu entwickeln. Infolgedessen hat die Gleichzeitigkeit beider Planung für uns nur den sekundären Sinn. Für uns ist die Erkenntnis der eigentlichen Denkweise in beider Planungskategorien am wichtigsten.

Hier, diesen Planungsbegriffen sollen die Begriffe „Grundplanung“ und „Ausführungsplanung“ noch gegenübergestellt werden.

„Grundplanung“ ist die Planung über den Grundaufbau des Betriebes, bzw. über seine Grundbedingungen. Dazu gehören, z.B. die Planung über die Entwicklung der neuen Erzeugnisse, die Entscheidung der Investitionspolitiken, die Auswahl des Betriebsstandortes usw.

Dagegen ist „Ausführungsplanung“ die Planung über die laufenden Tätigkeiten des Betriebes. Während die Grundplanung sich auf eine lange Zeit erstreckt, ist die Ausführungsplanung, von Natur, die kurzfristige Planung, d.h. die Planung der Tätigkeiten in einer wirtschaftlichen Periode (meistens ein Jahr).

Weil die Grundplanung die langfristige Planung ist, gehört sie zur „project planning“. Aber nach der Auffassung des Komitees von AAA, zur „project planning“ gehört auch ein Teil von Ausführungsplanung, während alle „period planning“ zur Ausführungsplanung gehören. Nämlich besteht die Ausführungsplanung aus „period planning“ und einem Teil von „project planning“, während die Grundplanung nur aus „project planning“ besteht.

In dem Bericht dieses Komitees ist die Bestimmung des Erzeugnispreises als ein Beispiel der Ausführungsplanung, die zur „project planning“ gehört, aufgezählt. Die Preispolitiken sollen zwar manchmal, unter der Berücksichtigung des gesamten Periodenerfolges in einer betreffenden, wirtschaftlichen Periode von „period planning“, entschieden werden. Aber freilich kann ein Teil dieser Entscheidungen vorläufig ohne Berücksichtigung der anderen Periodenpläne gemacht werden. Z.B. bei der Preisdifferenzierung kann nur der Sachgegenstand vorläufig in Frage gestellt werden. Er wird nämlich, fürs erste, aus den anderen laufenden Tätigkeiten in der Periode einigermaßen isoliert. Allerdings muß man den ermittelten Preis danach in die „period planning“ einführen.

Im Vergleich zu den Begriffen, Grundplanung und Ausführungsplanung, sind die Begriffe „project planning“ und „period planning“ geeignet, um die sachmäßige Isolierung und ihre Synthese in der betrieblichen Planung zu charakterisieren, obgleich mit letzteren Begriffen der Unterschied der Planungsdenkweise, im Zusammenhang mit dem langfristigen und kurzfristigen Gesichtspunkt, nicht ohne weiteres klar gemacht werden. Aber man kann je nach der betreffenden Problemstellung eine von beiden Einteilungsweise der betrieblichen Planung wählen. Hier handelt es sich um die Brauchbarkeit der Einteilungsweise von AAA Komitee für die Charakterisierung der Zusammenhang der Kostenrechnung mit der betrieblichen Planung. Und in diesem Falle sind die Begriffe für die Charakterisierung der Denkweise über die sachmäßige Isolierung und ihre Synthese im betrieblichen Planungs-

vorgang noch wichtiger.

### III

#### *Die Kostenbegriffe für „project planning“*

In dem Bericht von 1952, wurden mehrere Kostenbegriffe für die speziellen Kostenuntersuchungen zur betrieblichen Planung aufgezählt d.h.: replacement costs, opportunity costs, imputed cost, sunk costs, discretionary costs, postponable costs, out of pocket costs, differential costs, usw. Dagegen ist in dem Bericht von 1956 nur auf einen Begriff für „project planning“ hingewiesen, d.h. „differential costs“.

Jedoch ist dieser Begriff „differential costs“ in sehr weitem Sinne zu verstehen. Er enthält zwar auch den Begriff: Differenzkosten von zwei verschiedenen Beschäftigungsgraden (Wenn man, in dem Bericht 1952, von „differential costs“ spricht, handelt es sich gerade um diesen, engen Sinn). Aber „differential costs“ in dem letzteren Bericht bedeutet vielmehr im weiten die Differenzkosten von irgendeinen Alternativen in allen Seiten der betrieblichen Tätigkeiten. Hierbei sind die Differenzkosten von zwei verschiedenen Beschäftigungsgraden nur eine Form. „Differential costs“ in dem Bericht von 1956 ist ein Umfangsbegriff der Kostenformen in „project planning“. Das ist in dem Bericht von 1956, wie folgt beschrieben:

„Die Kosten für „project planning“ sind die veranschlagten, in Zukunft herabzuwerfenden Werte, die von jedem alternativen Kurs der Zukunftstätigkeit der Gesellschaft verursacht werden. Solche Kosten . . . man als „differentialen costs“ bezeichnen kann, denn der Würdigungsprozeß (von, project planning — Verf.) ist ein Vergleichsablauf, welcher die Berechnung, wie die Gesamtkosten (und Erlöse) sich unter den verschiedenen Zukunftsbedingungen wahrscheinlich verändern werden, in Anspruch nimmt.“ (a.a. O.S.184-5).

Unter diesem Begriffe „differential costs“ soll man die Kostenbegriffe, die in dem Bericht von 1952 für die speziellen Kostenuntersuchungen aufgezählt wurden, verstehen.

Die Bezeichnung „differentialen costs“ mag zwar insofern kritisiert werden, als sie leicht mit dem engeren Begriff d.h. Differenzkosten von zwei Beschäftigungsgraden vermengt wird. Aber mit diesem weiteren Begriff lassen sich die Kosten in „project planning“ gegen die Kosten in „period planning“ klar gegenüberstellen. Bei der „period planning“ werden alle Kosten angesammelt. In diesem Punkt gilt die Einteilung der betrieblichen Planung in „project planning“ und „period planning“ zur Charakterisierung verschiedener Kostenbegriffe im Zusammenhang mit der verschiedenen Denkweise im

betrieblichen Planungsvorgang.

Danach ist in dem Bericht von 1956 das Rechnungsverfahren der „differential costs“ beschrieben.

Wenn man die zukünftigen Differenzkosten von den gegebenen Alternativen ermitteln möchte, sei es notwendig, eine Alternative als die Bezugsalternative zu bestimmen. Als diese Bezugsalternative wird häufig solche Alternative gewählt, welche die unveränderte Fortsetzung des schon angefangenen Planes in Erwägung zieht. Das bedeutet an, daß, „project planning“ tatsächlich häufig die nochmalige Prüfung des vorherigen Planes ist.

Solches Verfahren in „project planning“ enthält noch weitere Probleme. Aber in dem Berichte vom Komitee AAA wird die eingehende Untersuchung dafür nicht geführt. Der größere Teil des Berichtes ist für die Probleme der Kostenbewertung verwendet.

Bei der Kostenbewertung sollte ein folgender Unterschied von den differentialen Leistungen, die jede Alternative mehr od. weniger als die Bezugsalternative erfordert, gemacht werden, um ihre differentialen Kosten in der Zukunft zu ermitteln; zwischen den differentialen Leistungen, die am Anfang der (project) Planungsperiode schon auf Lager sind, bzw., an denen die Unternehmung dann unwiderrufflich gebunden ist, und denen, die in dieser Periode neu zu beschaffen sind; zwischen den differentialen Leistungen, die in dieser Periode voll verbraucht werden, und denen, die am Ende der Periode zum Teil übrig bleiben werden, und; zwischen den differentialen Leistungen, deren Ersatz zu vornehmen ist, und denen, deren Ersatz nicht vorgenommen wird.

Für die differentialen Leistungen, die in der (project) periode beschafft und voll verbraucht werden, sollen die in Zukunft zu erwartenden Ausgaben, od. ihre Geldäquivalente als die Bewertungsbasis benutzt werden.

Aber weil die Barbezahlung an den verschiedenen Zeitpunkten gemacht werden kann, handelt es sich noch um eine Diskontorechnung.

Wenn man prognostiziert, daß die Barbezahlung und die Erwerbung der Leistung zusammenfallen, und zwar daß sie, auf einige Dauer verteilt, eintreten, sei der anpassende Maßstab für die Kostenermittlung die Summe der diskontierten Beträge von (a) Anfangsbezahlung, (b) Ergänzungsbezahlung für die Verwirklichung der Anfangsbezahlung und (c) weiteren Bezahlung, die, um den Erwerb zur Verfügung zu stellen, gemacht wird.

Wenn die Bezahlungen in der Form der Versprechung für Barbezahlung nach dem Erwerb der Leistung gemacht werden, soll der herabzuwerfende Wert am erwarteten Erwerbstage gemessen werden, indem man den veranschlagten Betrag zum Tage der Leistungserwerbung diskontiert. Bei der Diskontorechnung kann man mit dem Zinsfluß der Schuld arbeiten.

Bisweilen werden die Bezahlungen in der Form der Leistungen außer den Geldern gemacht. In diesem Falle, wenn ihrer Ersatz zu vornehmen ist, soll der Geldäquivalentswert gemessen, indem man den veranschlagten Preis in der erwarteten Ersatzzeit, zum Erwerbstage diskontiert. Wenn nicht so, soll der Geldäquivalentswert zu dem veranschlagten Nettobetrag gemessen werden, den man mit dem Verkauf bekommen können wird.

Für den differentialen Leistungen, die in der (project) Planungsperiode neu beschafft, aber nicht voll verbraucht werden, sei die Bewertungsbasis ihrer zukünftigen Kosten die Differenz von (a) dem zu bezahlenden Betrag od. dem Geldäquivalentswert und (b) dem veranschlagten Geldäquivalentswert der Leistungen, die am Ende der Periode übrig bleiben werden. Der zu bezahlende Barbetrag od. der Geldäquivalentswert wird auf derselber Weise, wie bei den differentialen Leistungen, die in der Planungsperiode von „project planning“ beschafft und voll verbraucht werden, gemessen.

Wenn der Ersatz der übrig bleibenden Leistungen zu vornehmen ist, kann man sie mit ihrem veranschlagten Ersatzpreis in der erwarteten Ersatzzeit bewerten, der zum Ende der Periode diskontiert wird. Wenn nicht so, soll sie mit dem Netto-Verkaufswert am Ende der Periode bewertet werden.

Die differentialen Leistungen, die am Anfang der Planungsperiode schon auf Lager sind, bzw. an denen die Unternehmung dann unwiderruflich gebunden ist, sollen mit ihrem Geldäquivalentswert in ihrem Benutzungszeitpunkt bewertet werden. Wenn solche Leistungen zu ersetzen sind, sollen sie mit dem jeweils veranschlagten Ersatzpreis am Benutzungszeitpunkt (bei der Bewertung der Leistungen, die in der Planungsperiode voll verbraucht werden), od. mit dem zur Benutzungszeit diskontierten Ersatzpreis am erwarteten Ersatzzeitpunkt (bei der Bewertung der Leistungen, die in der Periode nicht voll verbraucht werden) bewertet werden.

Diese Kostenwertungsprinzipien bilden ein wichtigen Punkt des Berichtes vom Komitee AAA 1956. Sie wurden in den bisherigen Berichten dieses Komitees nur wenig berührt. Und auch die amerikanischen Autoren haben meistens dieses Problem nicht so eingehend behandelt. Vielmehr ist das laufende Kostenrechnungssystem, das mit der auf dem Anschaffungskostenprinzip aufgebauten Geschäftsbuchhaltung eng verbunden ist, in den Vordergrund gestellt. Doch soll die betriebliche Planung in der Zukunft orientiert werden. Die Planung, die sich nur auf den Vergangenheitszahlen aufbaut, führt selbstverständlich zu den fehrhaften Ergebnissen. Als die amerikanische, öffentliche Schrift, die sich ernsthaft mit den Problemen der Kostenbewertung in der betrieblichen Planung befasst hat, ist in diesem Sinne dieser Bericht vom Komitee AAA bemerkenswert. Die oben wiedergegebenen Kostenbewertungsprinzipien in der betrieblichen Planung sind in

der Forderung des Betriebes orientiert, der seinen Gewinn, unter den gegebenen, od. prognostierten Bedingungen, zu einem Maximum zu machen und damit seine Substanz zu erhalten strebt. Allerdings auf anderer Seite fragt es sich dann, inwieweit man die Kosten, die an solchen Bewertungsprinzipien bewertet werden, aus dem laufenden Kostensystem herausnehmen kann. Aber das laufende Kostensystem kann sich U.u. selbst ändern.

Übrigens, nachdem dieses Komitee die Kostenbewertungsprinzipien ins klar gemacht hat, berührt er kurz die Behandlungsweise der Faktoren von Zeit, Risiko und Unsicherheit in „project planning“.

Um die Risikos, die jede in Aussicht stehende Alternative nach sich zieht, in der betrieblichen Planung zu berücksichtigen, empfiehlt dieses Komitee, die zukünftigen differentialen Kosten von den betreffenden Alternativen mit den unterschiedlichen Sätzen einzustellen. Diese Sätze sollen die Prognose vom Disponent über die Risikos der betreffenden Alternativen wiedergeben.

Wenn die Zeitdauer von zwei od. mehreren Alternativen stark unterschiedlich ist, soll man in Vergleichungsvorgang solchem Unterschied entsprechend berücksichtigen. Als die Methode dafür empfiehlt dieses Komitee, entweder die Rentabilität (profit/invested capital) von betreffenden Alternativen zu vergleichen, oder eine gemeine Periode, am besten die kürzeste Periode von betreffenden Alternativen als Bezugsperiode zu wählen. Im letzteren Falle müssen alle längeren Alternativen in die kürzeste eingefügt werden, indem man den Geldäquivalentswert der am Ende der gemeinen Zeitdauer übrigbleibenden Leistungen entsprechend berücksichtigt.

Um die Unsicherheit, die mit der Schätzung der differentialen Kosten von den betreffenden Alternativen verbunden ist, in der Planung zu berücksichtigen, empfiehlt dieses Komitee, die zukünftigen, differentialen Kosten von den betreffenden Alternativen wieder mit den entsprechend unterschiedlichen Sätzen einzustellen, oder die Sicherheitsspannen jeder Schätzung auseinander zu setzen.

Diese Ausführungen im Bericht von Komitee AAA sind aber sehr ungenügend. Um bei der betrieblichen Planung diese Faktoren in Erwägung zu ziehen, müssen diese Probleme noch umfassender (einschließlich der Unsicherheit der Prognose über mehrere Zukunftsdatenkonstellationen), und zwar noch gegenständlich behandelt werden.

#### IV

#### *Die Kostenbegriffe für „period planning“*

Wie schon erwähnt, besteht der Hauptzweck der „period planning“

darin, daß man eine Serie von den Plänen entwickelt, und sie in einen Gesamtplan so umstellt, auf daß jede einzelne Aktivität geleitet und koordiniert, und zwar die Gültigkeit ihrer periodischen Sammlung als Ganzes versichert werden kann. „Period planning“ führt meistens zur gesamten Budgetierung.

Bei der „period planning“ handelt es sich nicht um den Vergleich von den zwei od. drei Alternativen, die denselben Zweck verfolgen, sondern um die periodische Zusammensetzung der Teilpläne über verschiedene Tätigkeiten in einer wirtschaftlichen Periode. Hierbei sollen die periodischen, gesamten Kosten daran geprüft werden, ob sie als ein Bestandteil vom periodischen, gesamten Erfolgsziel gelten oder nicht. Die obersten Geschäftsleiter machen bei der „period planning“ die zusammenfassende Abschätzung des Hauptplanes, der unter Berücksichtigung von den Grundplänen und vorher auferlegten Beschränkungen gesetzt wird.

Bei der „period planning“ muß man also die gesamten Kosten in einer wirtschaftlichen Periode ansammeln. Während bei der „project planning“ die differentialen Kosten meistens von zwei od. drei Alternativen behandelt werden, charakterisieren sich die Kosten in „period planning“ dadurch, daß sie im Bruttobetrag dargestellt werden. Das ergibt sich auch daraus, daß der angenommene Plan in „period planning“ die Basis für die Kontrolle der in der betreffenden Periode auszuführenden Tätigkeiten bildet. Die als Norm der Tätigkeiten zu den verschiedenen Gebieten des Betriebes vorzugegebenden Kosten umfassen alle Kosten, die, unter dem angenommenen Plan verursacht werden sollen. Der Vorgang der „period planning“ enthält auch den Aufbau der veranschlagten Kosten je nach dem Gebiet, wo jeder Teil der Hauptpolitiken und vorher angenommenen Pläne erfüllt werden soll. (a.a.O. 188).

Aber wir haben größeres Interesse darin, daß die Teilpläne, bei der „period planning“ unter dem periodischen Gesamterfolgsziel geprüft und koordiniert werden. Hierbei finden wir, wie schon erwähnt, den eigentlichen Auswahlvorgang in „period planning“, gleichwohl er etwa anderen Inhalt als bei „project planning“ hat. Bei der „period planning“ werden die verschiedenen Kombinationen der in „project planning“ angenommenen Teilaktivitäten entwickelt, um die dem periodischen Gesamtbetriebsziel am besten passende zu finden. Wenn die sachmäßig isolierten Teilpläne zu einem Gesamtplan in einer wirtschaftlichen Periode zusammengesetzt werden, sollen sie vom umfassenden Standpunkt und zwar unter Berücksichtigung von den erwarteten Datenkonstellationen in der betreffenden, wirtschaftlichen Periode weiter geprüft werden. Dafür gilt das eigentliche Auswahlprinzip von „period planning“. Wir denken daß die Bestimmung der Arten der Erzeugnisse und damit ihrer herzustellenden Stückzahlen in einer wirtschaftlichen Periode, wegen des dafür geltenden Auswahlprinzips, zur „period planning“ gehört.

Sie sollen vom umfassenden Standpunkt in die anderen betrieblichen od. finanziellen Planungen eingestellt und im Zusammenhang mit dem wirklichen Gesamtziel in der betreffenden, wirtschaftlichen Periode entschieden werden. In diesem Sinne ist es wichtig, daß die solchem Auswahlvorgang geltenden Kostenbegriffe für „period planning“ noch weiter entwickelt werden. Hierbei handelt es sich nicht nur darum, daß die Kosten, bei der „period planning“ im Bruttobetrag dargestellt werden. Ferner ist es auch notwendig, daß die Kosten, in die verschiedenen Typen je nach der Problematik von „period planning“ wieder eingeteilt werden (z.B. in die gesamten variablen Kosten und die gesamten fixen Kosten, od. in die Kosten, die kurzfristig zu Ausgaben werden, und die aufschiebbaren Kosten). Aber wir können leider nicht solche weitere Entwicklung der Kostenbegriffe von „period planning“ in dem Bericht vom Komitee AAA finden.

Übrigens, beschreibt dieses Komitee, daß „period planning“ ein potentiales Zusammenstoßgebiet von Planung und Erfolgsrechnung darstellt. (a.a.O. S. 187) Das kann zwar daraus erklärt werden, daß die veranschlagten Kosten in „period planning“ am periodischen Erfolgsziel gebunden werden sollen. Denn bei der „period planning“ handelt es sich nicht nur um die Kosten, sondern vielmehr um den periodischen Erfolg, der von den Tätigkeiten in einer wirtschaftlichen Periode erzielt wird. Aber es ist dann fragwürdig, wenn es, wie folgt, beschrieben wird: „Bei solchen Aktivitäten, für den die Leistungen am Anfang od. Ende von der Planungsperiode schon extrisieren od. übrig bleiben, . . . verwendet „period planning“ ihren Buchwert (d.h.—Anschaffungskosten—Verf.), anders als „project planning“ (a.a.O. S. 187—188). Denn bei der Planung ist es nicht notwendig, das Kostenbewertungsprinzip in der Abschlußrechnung zu befolgen, wengleich die Ergebnisse der „period planning“ gewöhnlich in derselber Rechnungsform zusammengefasst werden.

## V

### *Schlußbemerkung*

In Japan hat dieser Bericht vom Komitee, American Accounting Association zwar große Aufmerksamkeit erregnet. Aber das größere Interesse der japanischen Autoren ist auf die Gegenüberstellung von „project planning“ und „period planning“ gelenkt worden. Das kann daraus erklärt werden, daß die japanischen Autoren, im Zusammenhang mit dem verschiedenen Charakter der Kostenbegriffe für die betriebliche Planung, einen Grundprinzip für solche Systematisierung gesucht haben. Die verschiedenen Kostenbegriffe an sich sind auch in Japan schon gewissermaßen bekannt,



und in dem Bericht von 1956, gibt es nicht besondere, aufmerksame Entwicklung der Kostenbegriffe.

Aber auch die Charakterisierung dieser Planungskategorien von diesem Komitee enthält noch einige Undeutlichkeiten. Vor allem, ist der Sinn des Planungsbegriffes „period planning“ nicht genug klar gemacht worden. Die Ausführungen von diesem Komitee sind dafür zu formal. Dagegen denken wir, unter „period planning“, einen positiven Sinn als Planungs begriff. Wie oben erwähnt, hat „period planning“ ihren eigentlichen Planungs-od. Auswahlvorgang, welchem dem zusammenfassende Standpunkt des Betriebes unterliegt. Und tatsächlich kann die Kostenrechnung, die solchem eigentlichen Planungsvorgang von „period planning“ geeignet ist, gefunden werden (z.B. Grenzkostenrechnung bzw. direct costing. Sie ist besonders geeignet zu der Bestimmung der Arten der Erzeugnisse und damit ihrer herzustellenden Stückzahlen, die vom periodischen, zusammenfassenden Standpunkt des Betriebes, d.h von der eigentlichen Planungsdenkweise der „period planning“ gemacht werden).

## INTRODUCING PROF. SHINJO'S "HISTORY OF THE YEN"

Zentaro MATSUMURA

History of the Yen—100 Years of Japanese Money-Economy

*By Hiroshi Shinjo. The Research Institute for Economics & Business Administration,  
Kobe University, March 1962. 205 pages in English.*

It is a matter of great congratulation that a new light has been shed on the history of the yen by Dr. Hiroshi Shinjo, professor of Kobe University who has been widely known in Japan to stand for the metalistic conception of monetary theory in its most elaborate and modernized form. The book begins with the exposition that judging from the price index in Japan, the value of the yen has declined to less than 1/1,400 since its initial attempt at standardization in 1873 and accordingly, the price of gold has been marked up 600 times in terms of the yen in less than a century. Hence no wonder some of our contemporaries deal with the yen as if it were simply a unit of account instead of recognizing it as the general measure of value or the general measure of exchange, to say nothing of the intrinsic monetary value or gold itself. The misconception can be witnessed by the jacket of the book which simply shows one big letter ¥. This is all the more interesting when we compare it with *100 Jahre Schweizerisches Münzwesen* published recently by Swiss Münzen, which jealously reproduces a facsimile of two big gold coins in bold relief on the cover of the book.

Be that as it may, the book gives us a number of new methods of approach to Japanese monetary history. It has been one of the wonders of the world that Japan succeeded in breaking through her 'take-off' period without much importation of foreign capital. Although the Meiji Government had to float foreign loans in London in 1871 amounting to one million pounds (4.8 million yen) to raise the funds required to construct railways between Tokyo and Yokohama and again 3.4 million pounds (about 11 million yen) in 1873 to pay for the capitalized pension fund, the Government thenceforth for some time abstained from introduction of foreign capital, public or private. Not only had Japan abstained from foreign borrowing, but even foreign bonds.—England, France and Russia—were sold to Japan from November 1871 to January 1874 (Meiji 4-7) at the time when Japan must have needed more

money capital and an increase in gold and silver holdings. The contradiction underlying these situations is borne out by Prof. Shinjo in the light of the different ratios existing between gold and silver, that the foreign bond issue was utilized as the means of speculative capital movement mainly to take gold out of Japan. (p. 37)

As Japan entered her take-off period from around 1880's, we should imagine that she needed more foreign capital than her export earnings provided her with, as is the case with contemporary underdeveloped countries. It is remarkable, however, that although foreign markets for Japanese goods were limited and Japan had to arm herself economically in preparation for the impending Chinese War, she could keep her balance of international payments in surplus throughout the period from 1882 to 1893 (Meiji 15-26), as a result of which she could carry out her anti-foreign capital principle. Some of our scholars attribute this anti-foreign capital principle simply to the wisdom of our earlier statesmen who were very cautious about foreign capital invasion into our infant industries. But this way of approach, one should say, is somewhat out of the realm of economic science. To this problem, Prof. Shinjo is not devoid of tools of scientific analysis and tells us that "prior to the introduction of the gold standard, due to the falling tendency of the silver price in the world market, prices of commodities measured by silver, were relatively cheap in the gold standard countries. Besides, due to the continued deflationary policies making possible the adoption of the gold standard, the situation for exports was favorable to Japan, and it seemed, as though this had been prompted, so to speak, by the unconsciously enforced continuous devaluation of standard money." (p. 94) As is wellknown, M. Matsukata, one of the most highly reputed financiers in the Meiji Era made life and death combat with monetary disorder after the Satsuma Rebellion, which brought Japan severe inflation comparable to the American greenback inflation after the Civil War.

We should not only appreciate the drastic policy of deflation carried on by Matsukata, whose merit the author pays due regard at some length in Chapter 3, but also the perseverance of Japanese trade and industry still in their infant stage, while, on the other hand, we must not forget that the burden of deflation to bring international balance into equilibrium was lessened by the constant depreciation of the yen which had actually been on the silver standard, in terms of the currencies of gold standard countries. In this context we wonder if Japanese deflation in the early Meiji Era would be a recommendable measure to be followed by other underdeveloped countries which are fighting against inflation inevitable to their take-off stage, without incidental exchange depreciation which favored Japan and gave her a breath-

ing spell amidst deflationary hardship.

As to the restoration of the gold standard in 1930, Prof. Shinjo shares the rather hackneyed opinion that it ended up in complete failure. We know it was an inevitable consequence of the Genoa Conference in 1922 and the anti-inflationary mood prevailing among domestic pressure groups after World War I. And we can imagine the ruling monetary orthodoxy had it, that should we return to gold, it must be on the standard with prewar mint parity, in spite of Keynes' denunciation in *A Tract on Monetary Reform 1924* which had been translated into Japanese and prompted some of our columnists to an anti-gold position.

Taking these circumstances into account, yet we wonder why Japan had to follow the British pattern, instead of appealing to the standard devalued and newly defined after the pattern of France, the Netherlands, Belgium, Italy, Germany and Russia. It would be too much to say that Japan wanted to embody her subconsciousness of being one of the Three Big Powers into her monetary policy and followed the example of the U.S.A. and Great Britain without regard to that of other countries. Notwithstanding the bitter experiences of repeated financial crisis, especially in 1927, the ruling Minseito Government seemed to conclude that the gold standard with prewar parity would be the only way to resuscitate the depressed Japanese economy. Is it right that reportedly they were simply motivated by their partisan interest? Assuming that Japan had returned to gold a little earlier after the War when she had enough gold and foreign exchanges to go around, or otherwise as late as in 1930 with new parity, would it not have done away with the ban on gold export so soon in 1931? And if Japan had not resuspended the gold standard, to which path would she have been destined to follow—to peace or to war? The author, we hope, should have expatiated a little further upon these points.

In two chapters contributed to the conditions after World War II (Chapt. 9, 10) Professor Shinjo rightly estimates SCAP policy and says that the occupation policy to reconstruct Japan, such as dissolution of the monopolistic Zaibatsu, reformation of agricultural land property, bringing up of trade unions, modernization of women's position and so on, were doubtlessly remarkable social reforms in themselves and should have brought about economic development in the long run, but they might have possibly conflicted with the quick re-establishment and reconstruction of the Japanese economy and above all, stimulated postwar inflation. As a matter of fact, it was in 1947 when the occupation policy changed in the face of the sharpened opposition between the U.S.A. and Soviet Russia, that Japanese inflation began to taper off. Around this time G.H.Q. decided to make Japan economically independent and turn Japan as well as Germany into factories for Asia and Europe

respectively. So they began to place not so much emphasis on reformation as on stabilization, which culminated in the Dodge Plan in 1949.

The Dodge Plan, aiming at stabilization in one stroke, consisted in essence of having a surplus budget and setting up of single rate exchange system, \$ 1=¥ 360. Up to that time Japan had been on a sort of multiple exchange rate practice that made foreign exchange dear for exports and cheap for imports, and so the new exchange system meant drastic rationalization for Japanese trade and industry to force the prices of export goods to fall and the prices of import competitive goods to lower. The blow to business, however, was intensified as international economic conditions were growing worse and the Pound Sterling and other major European currencies were depreciated in September of the same year. In connection with these circumstances we cannot but desire that the author should have given us his own comment and estimation on the controversial problems as to whether the newly defined yen was overvalued or undervalued against the U.S. dollar and after the Pound devaluation, against the Pound and other European currencies, although to do so might be too rash in the light of restrictions on trade and exchange still brooding over the whole world. In retrospect, however, the value of the yen established by Dodge does not seem to be far from equilibrium, because overvalued or undervalued at the outset, it has brought prosperity and growth to the Japanese economy throughout ups and downs in business cycles. Japan came out of the Korean War newly clad with the stabilized yen, just as she came out of the 1st World War armed with a lot of foreign exchange holdings. When we look back upon the history of the yen and come across such coincidences, we cannot but sometimes fancy ourselves to a midsummer night's dream that, should Japan have restored the gold standard a little earlier after World War I when she had enough specie reserves to stand on her feet and dispensed with the later embargo on gold payment, we might have walked on the way to peace and prosperity without being involved in World War II.

At any rate the book gives us an interesting method of approach to the history of money and stirs up our imagination to the course the yen should take in the future. The author always stands on the assumption that under an open economy the depreciation of a currency is expressed primarily by the higher price of gold and the lower exchange rates with foreign currencies (p. i). In a nutshell, he grasps the history of money in most countries as the history of depreciation, of which the yen is no exception. He rejects the outmoded quantity theory of money and recommends the analysis of the flow of funds as an indispensable tool of monetary analysis. The quantity theory of money, he insists, cannot be true, because "the same increase in the

quantity of money (bank notes and deposit money) would have different effect on the economy. They may be expended for consumption, i.e. to buy consumers' goods or services without producing anything, or to buy goods in order to resell them, or again to employ laborers to produce goods and pay a sum of money as wages or salaries, the latter get income or the income of the country increases. That is to say, in one case consumptive income increases, in other cases only money capital increases without influencing national income, or again in another case both income and capital increases" (p. 142) In his opinion, unsophisticated quantity theorists assume neither change in production, nor change in circulation of commodities, except the purchasing power available for direct consumption, so that they cannot discriminate a rise in prices caused by prosperity from that caused by inflation. Nor can they discriminate rising prices caused by increase of value on the side of commodities while the value of money remains unchanged from those caused by the decrease of value on the side of money while the value of commodities remains unchanged. (p. 157-8)

With these peculiar tools of monetary analysis at his command, Professor Shinjo places impartially the whole question of 100 years' Japanese monetary economy in its broad historical and international perspective. The book is easily accessible to the layman and well documented for the monetary expert.

July 10, 1962

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### HISTORICAL SKETCH

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With the founding of Kobe University of Commerce, successor of Kobe Higher commercial School, in 1929, the Institute extended its research activities by adding several divisions. One was the famous Latin-American Library, which soon became the center of research in this field in Japan. A room for statistics equipped with various computing machines was established and began publication of "Juyo Keizai Tokei" monthly and "Sekai Boeki Tokei" annually. A filing room was prepared to deposit press clipping files systematically arranged by topics and dates. Another room was designed to become the center of all possible original records and data having to do with the beginning and progress of Japanese business.

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In 1944, Kobe University of Commerce changed its name to Kobe University of Economics. After the war, however, the University was consolidated with three other colleges in Hyogo Prefecture to become Kobe University. With this development, the two Institutes were also amalgamated into the Research Institute for Economics and Business Administration, Kobe University. At present, the Institute, with its eighteen full-time professional staff members, carries on studies and investigations in international economy, business administration, and business mechanization in Japan.

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- (3) International Management
- (4) Labor Problems

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