



## CARF Working Paper

CARF-F-005

### **Capital Accumulation and the Local Economy: Brewers and Local Notables**

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**May 2004**

✿ CARF is presently supported by Bank of Tokyo-Mitsubishi UFJ, Ltd., Dai-ichi Mutual Life Insurance Company, Meiji Yasuda Life Insurance Company, Mizuho Financial Group, Inc., Nippon Life Insurance Company, Nomura Holdings, Inc. and Sumitomo Mitsui Banking Corporation (in alphabetical order). This financial support enables us to issue CARF Working Papers.

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## Abstract

This essay focuses on the holders of accumulated capital in the brewing industry to examine the characteristics of the capital accumulation process and the connection between accumulated capital and the start of Japan's industrialisation in Meiji period. The characteristic feature of brewing as a so-called "traditional industry" was that individual entrepreneurs accumulated a relatively large amount of capital and labour. The multi-layered structure of the brewing industry, with large-sized brewers selling to urban markets and small and medium-sized producers supplying areas outside the cities, resulted in this feature and formed a necessary condition for the investment activities of brewers.

According to the examination of historical materials on particular brewery businesses [the Hamaguchi family and the Sekiguchi family], the brewers dared to invest their capital locally – in areas where they maintained close relationships. Capital accumulation in “traditional” industries was thus linked to the emergence of modern enterprises, and this linkage was supported by a regional community in which “traditional capitalists” acted as “local notables” as much as entrepreneurs. The investment activities rooted in the regional community were the hidden driving force in initiating Japan's industrial revolution and full-scale industrialisation.

## **Capital Accumulation and the Local Economy: Brewers and Local Notables\***

**TANIMOTO Masayuki**

### 1. Introduction

Brewing occupies an important place in Japanese industrial history. Market-oriented production developed in the brewing industry from the early part of the Edo era and, supported by domestic demand, continued on a broad scale after the Meiji Restoration of 1868. According to Japan's first national survey of production conducted in 1874, total output in the brewing industry was worth approximately 34,326,000 yen (Naimu-shō 1874). The main products were alcoholic beverages (sake), which accounted for 18,605,000 yen of the total, soy sauce (shōyu), which accounted for 6,338,000 yen, and soy paste (miso), which accounted for 6,137,000 yen. Production levels in the brewing industry were the highest in the non-agricultural sector and easily surpassed those of weaving (approximately 17,159,000 yen) and raw silk (approximately 6,165,000 yen). Moreover, among the brewing businesses of the late nineteenth century were some that have survived until today. Indeed, many of today's major brewing companies trace their origins as far back as the Edo era. Brewing is almost the only sector in which such continuity of management can be seen. Both its importance in industrial production in the second half of the 19<sup>th</sup> century and its continuity of management suggest that brewing can be seen as one of Japan's so-called "traditional" industries.

Within the group of traditional industries, brewing was distinguished by a high level of per-enterprise labour and capital accumulation. Even in the latter part of the Edo era, sake brewers and soy-sauce manufacturers who employed dozens of workers could be seen as influential producer prototypes. In this sense, the brewing industry differed significantly from the textile industry, which was organized primarily as a domestic system based on family labour. Many brewers had substantial amounts of accumulated capital. See, for example, Table 1, which lists the wealthiest people in Japan by occupational category at the turn of the 19<sup>th</sup> century. Persons categorized as makers of sake, soy sauce or other brewed products together comprised 4 percent of the total in 1901 and almost 6 percent in 1911. Brewers far outnumbered persons in other manufacturing industries, including silk reeling, a growing export industry of the day. Moreover, they roughly equalled the number of directors in emerging modern enterprises such as cotton spinning. Next, Table 2 shows the distribution

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\* This paper is a draft for a chapter of TANIMOTO, Masayuki with Osamu SAITŌ eds. *The Role of Tradition in Japan's Industrialization* (Oxford, forthcoming).

of tax payments by those engaged in commerce and industry in Niigata Prefecture around 1898. Compared with all persons engaged in commerce and industry, brewers were generally located among the higher strata of taxpayers; they also ranked high compared with persons occupied in the textile industry. By the time of this survey, more than 70% of brewers in Niigata Prefecture paid “income” tax, which was, in fact, primarily a tax on property (T.Hayashi1965,Ch.5). This percentage was higher than the corresponding figure for all persons engaged in commerce and industry and much higher than the figure for textile manufacturers. During this period, the most influential brewers were included in the ranks of the richest people in Japan. At the same time, their strong economic resources placed them in an advantageous position in regional community compared with manufacturers in other so-called traditional industries. In other words, brewers embodied the capital accumulation that took place in the late Edo and Meiji eras.

This essay focuses on the holders of accumulated capital in the brewing industry to examine the characteristics of the capital accumulation process and the connection between accumulated capital and the start of industrialisation. The following section provides an overview of the development of the brewing industry. It explains the emergence of a multi-layered structure in which different types of producers oriented themselves to different market sectors. This characteristic organization contributed to the overall stability of brewing businesses. Section three examines historical materials on particular brewery businesses [=the Hamaguchi family brewery of Chōshi] in an attempt to clarify the characteristic features of producers' capital accumulation and investment activities. One of the main factual findings is that brewers dared to invest their capital locally – in areas where they maintained close relationships. Capital accumulation in “traditional” industries was thus linked to the emergence of modern enterprises, and this linkage was supported by a regional community in which “traditional capitalists” acted as “local notables” as much as entrepreneurs. The role of regional community discussed in section 4 is one of the significant issues addressed in this volume.

In this essay, discussion of the brewing industry refers primarily to soy sauce production, since this is the area for which business records were available. Of course, from the point of view of consumption, soy sauce and sake are often regarded differently. Yet, because the production process for both includes fermentation, both are categorised as part of the brewing industry. Soy sauce and sake producers shared other characteristics, and the author believes that the discussion in this essay will help to clarify the common features of the various brewing businesses in Japan<sup>1</sup>.

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<sup>1</sup> For common features and differences between sake and soy sauce production, see

## 2. The development of the brewing industry---the example of soy sauce

The late Edo era saw the emergence of specialised brewers, such as sake makers in Nada (present-day Hyogo Prefecture) and soy sauce producers in Noda and Chōshi (present-day Chiba Prefecture). Some of those brewers, notably the soy sauce producer Kikkoman of Noda, have grown to become major commercial brewers of the present day (Fruin, 1983). At the same time, however, village records offer evidence of the widespread home production of soy paste and soy sauce as well as the custom of producing and drinking home-brewed, unrefined sake (nigori zake). Indeed, the existence of small-scale producers in rural areas has frequently been noted. In 1885, an administrative officer from the Ministry of Finance announced that 800,000 koku (1 koku is equivalent to 180 litres) of soy sauce was produced nationally (Meiji Hōseikeizaishi Kenkyūjo 1970, pp.1044). However, he also added that this figure reflected only the volume of soy sauce produced for the market, in other words, for the 3-4 million city dwellers who did not produce their own soy sauce (Japan's total population at the time was approximately 35 million.) As for sake, home brewing became subject to taxation in 1883 as part of the Meiji government's policy of tax increases on alcohol; in 1898, home-brewing itself was prohibited. Such regulation, however, suggested how deep-rooted the custom of home brewing was. Even taxation statistics of the 1890s, which are thought to reflect serious under-reporting, suggested that 1 million of a total national sake production of 4 million was home brewed (Saito and Tanimoto 1989). For farmers engaged in heavy labour, alcohol consumption offered a good way of taking in additional calories. Thus, they considered sake more as a necessity for accomplishing everyday labour than as a luxury (Shinohara 1969). Since the purchasing power of farmers was limited, they supplied themselves with sake by home brewing.

The above observations suggest that neither the producers nor the consumers of brewed products in the Edo-Meiji transition period should be understood too simply. One important feature of the brewing industry was that suppliers formed a multi-layered structure, with each layer of producers attempting to secure a specific market. What follows is a brief discussion of the structure of production and consumption in the soy sauce industry.

The commercialization of soy sauce production began in the early Edo period, with the appearance of soy sauce producers in cities such as Kyoto. From the turn of the eighteenth-century, soy sauce from surrounding areas flowed into the Kyoto market. Tatsuno, in particular, had emerged as a major brewing region by the end of the Edo era (Hasegawa 1993). Together with Yuasa, it ranked as one of western Japan's 1000-koku producing regions. In eastern Japan, Edo, a city of about one million people in the 18<sup>th</sup> and 19<sup>th</sup> centuries, originally imported soy sauce from Osaka, but by the 19<sup>th</sup> century was relying

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Tanimoto (1996a).

primarily on Kanto region suppliers (R.Hayashi 1986). This shift was due to the development of producers in the Kanto region who aimed directly at the Edo market. Chōshi and Noda were two of most important soy sauce-supplying regions for Edo. In the opening years of the Meiji era, Noda had soy sauce producers at the 1000 koku-level, while in Chōshi some brewers produced as much as 3000 koku annually.

From the 1880s, some soy sauce producers had to reduce or stop their sales activities, or were forced to withdraw from the large urban markets. Those affected included Yuasa producers, who mainly dealt in the Osaka market, and the Edo-oriented medium-sized producers of the Kanto region (Amano 1987, Suzuki 1992). From the latter part of the eighteenth-century, the development of the soy sauce industry was characterized, on the one hand, by the emergence of large-scale brewers who dealt in the urban markets and, on the other hand, by the rise and fall of particular brewers engaged in the process of competition for those urban markets. Still, in the early part of the Meiji era, such large-scale enterprises were a minority. According to the Seventh Imperial Japan Annual Statistics Book, the average annual production volume of an individual soy sauce producer in 1887 was just over 100 koku. In a group of several Ibaragi Prefecture villages, six brewers averaged production of 158 koku in the 1860s. Three of the six had businesses dating back to the beginning of the 19<sup>th</sup> century and it can be supposed that their markets lay in the surrounding farming communities (Toride-shi Kyōiku-iinkai, 1987). It may be argued that, in addition to the large brewers aiming at urban markets, the early 19<sup>th</sup> century also saw the emergence of small and medium-scale producers who sold mostly in their local markets. From the late Edo to the beginning of the Meiji era, one can thus see the development of a two-layered structure, comprising large-scale producers for the urban market and small and medium-scale producers for local markets.

How was this structure transformed during the Meiji era? Figure 1 shows that, from the mid 1880s to 1930s, commercial soy sauce production showed relatively stable growth. Within that context of overall growth, Figure 2 compares the trends for different categories of commercial brewers from 1903 through 1924. Brewers who produced less than 50 koku of soy sauce per year decreased throughout the period. Brewer numbers in all other categories increased until 1906; subsequently, producers of 50 koku and more and 100 koku and more fell. After 1919, however, brewers in the category of 100 koku or more once again showed an increasing trend, eventually outnumbering those whose annual output was just 50 koku or more. Overall, the line that separated increase from decline in brewer numbers was an annual production level of 100 koku: brewers who produced less than 100 koku declined in numbers; the number of brewers who produced 100 koku or more increased. Moreover, in addition to increasing their numbers, brewers who produced 500 koku or more were also able maintain their share of production. It can thus be concluded that the rise of large scale breweries in the opening decades of the 20<sup>th</sup> century did not drive out all smaller competitors.

Although the smallest-scale operations declined in number, medium-scale as well as large-scale breweries increased in numbers into the mid-1920s.

The above analysis suggests that a major characteristic of the marketing of brewed products in the early 20<sup>th</sup> century was the separation between urban and rural markets, each dependent on particular sets of suppliers. The process of market formation may be summarised as follows. Markets for brewed products first emerged in cities, where self-sufficiency was rare and where relatively large-scale enterprises established themselves as the main suppliers. According to Tokyo Prefecture trade statistics for the latter half of 1884, 88% (approximately 570,000 of 650,000 barrels) of soy sauce brought into Tokyo were sold within the city rather than being re-shipped out. It may be assumed that most of the sake and soy sauce brought into Edo or Tokyo were consumed in the city<sup>2</sup>. In villages, by contrast, local producer was an important source of brewed goods. By the late Edo period, people were purchasing more goods. It was the small and medium-scale brewers in villages and regional centres who stepped in as their suppliers, targeting the market outside cities. Out of these trends emerged a multi-layered structure of demand and supply.

Market and producer organization in the brewing industry was clearly different from that of cotton fabrics, for example. Marketing of cotton fabrics, a major sub-group of the textile industry, expanded into rural areas in the Edo-Meiji transition period, creating a single market characterized by competition between imported and domestic products, and between different domestic manufacturers. In this process of competitive expansion, producers entered and withdrew from the market. The example of cotton fabrics offers a sharp contrast to the brewing industry, in which even large-scale businesses did not necessarily sell in a nationwide market. Large-scale brewers had only limited access into rural markets, which depended, rather, on their own geographically specialised suppliers. This distinctive market structure was an important element in the entrepreneurial development and capital accumulation of brewers, and forms the focus of the next section.

### 3. The case of Yamasa shōyu<sup>3</sup>

Yamasa shōyu (now Yamasa shōyu Ltd.) was a soy sauce business conducted by the family of Hamaguchi Gihei in what is now Chōshi City in Chiba Prefecture 13 "Yamasa" was the brand name of the soy sauce. The Hamaguchi family was originally from Hiromura, in

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<sup>2</sup> "Daiichi tokei hokoku [The first statistic report]", investigated by Tokyo Shōkōkai (The predecessor of the Tokyo chamber of commerce), revealed that the inflow of brewery goods to Tokyo far exceeded the outflow.

<sup>3</sup> Historical facts of Yamasa shōyu and Hamaguchi Gihei in this essay are taken from the following chapters of HAYASHI Reiko ed (1990): Ch.2 (by SHINODA Toshio), Ch.3 (by IOKU Shigehiko), Ch.4 (by SUZUKI Yuriko) and Ch.6 (by TANIMOTO Masayuki).

Kii Province, an area now part of Yuasa City in Wakayama Prefecture. Geographically there was considerable distance between Hiromura and Chōshi, but both were located close to busy fishing ports and they seem to have forged a close relationship through marine transportation. In fact, not a few Hiromura families besides that of Hamaguchi Gihei started soy sauce businesses in Chōshi. Yuasa is included as one of the places in which soy sauce originated historically, and it is thought that the basis of Chōshi's soy sauce industry lay in the combination of Yuasa production techniques with the wheat and soybean cultivation of Shimosa (now Chiba Prefecture) and neighbouring Hitachi (now Ibaragi Prefecture).

Although Yamasa shōyu was established in the late 17<sup>th</sup> century, it was only in the early 19<sup>th</sup> century that its annual production exceeded 1,000 koku. The spurt in production began in the late 18<sup>th</sup> century, when an increasing volume of Yamasa shōyu reached the Edo market. By the beginning of 19<sup>th</sup> century, it was estimated that Edo sales accounted for over 70% of its production and the Edo (Tokyo) focus continued. According to the typology explained in the previous section, Yamasa shōyu was a typical example of a large-scale brewer whose sales were directed at an urban market.

Let us consider the management of Yamasa shōyu from the aspects of both distribution and production. For the primary ingredients of wheat and soybeans, Yamasa shōyu relied on supplies from the dry-fields of Shimosa and Hitachi provinces (later Chiba and Ibaragi prefectures). Although employees sometimes bought the wheat and soybeans directly from producers, they usually made their purchases from market-town merchants who dealt with wheat and soybeans. It is worth noting that Yamasa shōyu often made payments in advance. When the soy sauce was ready for sale, it was usually sent to the Hiroya Kichiemon family, relatives of the Hamaguchi family, and to a few other soy sauce wholesalers in Edo.

Sales were handled through a kind of consignment transaction, with the wholesalers earning their income from commissions. However, the wholesalers regularly sent money to the brewer in advance. Twice a year accounts were settled by deducting the advance payments as well as other expenses, including commissions, from the sales. Sales were calculated using an invoice price. In a genuine consignment transaction, the invoice price would have been identical with the actual sales price and any unsold soy sauce would have been returned to the manufacturer. But, in reality, unsold products were not returned and the settlement was concluded on the basis of an agreed-upon invoice price. Setting the invoice price thus became the biggest concern for both parties.

Often, the brewers were unhappy with a low invoice price and attempted to negotiate with the wholesalers. Such negotiations were organized through an association of soy sauce brewers called the Chōshi Gumi. Similar associations also existed in Noda and in other areas of the Kanto region where soy sauce breweries were concentrated. In the Bunsei period (1818-30), some brewers united to form the Kanto Hakkumi Soy sauce Producers' Association and took actions such as withholding supplies. Wholesalers, for their part,



formed the Kanto Soy sauce Wholesalers' Association in the Bunka period (1804-18). It was in the opening decades of the 19<sup>th</sup> century that producer and wholesaler associations became exclusive, each barring non-members from participating in transactions and attempting to establish a monopolistic distribution system. The attempts on both sides to form an exclusive distribution system were a distinctive feature of the marketing process in the case of large-scale manufacturers who focused on cities. Among both Chōshi brewers and Edo wholesalers, those who were powerful in the early 19<sup>th</sup> century maintained or strengthened their positions as they entered the Meiji era. It is considered that, for both brewers and wholesalers, the establishment of monopolistic, relatively stable distribution systems underlay the continuity in their businesses.

Looking briefly at the production process, one finds that Yamasa shōyu's basic labour force consisted of live-in male workers employed on the basis of yearly contracts that set out their wages and terms of employment. About 20 workers were employed on this type of contract in the early 19<sup>th</sup> century, and about 40 around 1890, when the company was producing 3,000 koku of soy sauce. This kind of employment structure contrasted with that of the textile industry, which depended on by-employment in farm households. Overseeing the soy sauce production process was the *toji* (head producer), together with another highly skilled worker known as the *kashira* (chief). Both *toji* and *kashira* wielded considerable power: they took charge of recruiting the yearly contracted employees as well as day labourers, and they established strict control over the workplace. Leaving the workplace under their management, brewery owners could expect a smooth production process.

#### 4. Capital accumulation and investment activities of soy sauce producers

The previous section has shown that brewers occupied powerful positions in the distribution and production processes of the soy sauce industry. They controlled the production process, relying especially on a full-time contract-base male labour force. In the distribution process, too, the brewers often supplied credit, and bore the risk in sales. This structure of distribution and production differed from that of the textile industry, which was formed by a combination of small-scale producers and multiple layers of distributors.

Differences in production and distribution were due primarily to the technical characteristics of brewing. Because the production process involved fermentation, it required land and buildings of a certain scale, as well as equipment such as the huge fermentation tanks. Brewing probably required the largest amount of fixed capital of all traditional industries. In the case of soy sauce, in particular, the fact that maturation took around one year meant that large amounts of floating capital were also required. Business owners in the brewing industry had to deal with structurally huge capital demands. It can be imagined that those owners capable of responding to such demands would exert a certain influence over the

distribution process as well.

In other words, those entering the brewing business faced a financial barrier. But the barrier, once cleared, offered business owners a kind of stability. Probably one reason for the appearance of small and medium-scale brewers focused on local markets was that landlords and other property owners living in rural areas saw, and were attracted by, the relatively stable market conditions in the brewing industry. If brewers who sold to urban markets were also trying to expand their business in rural areas, the appearance of small and medium-scale brewers in country areas would have meant the appearance of rival competitors. But if the urban market was relatively stable, then there would be little necessity for large-scale brewers to initiate a competition over the rural soy sauce market.

Such were the circumstances in which the structure of multi-layered (city and village) markets and suppliers was formed. It was a structure that produced wealthy brewers who ran a stable business as their family trade (or as part of it). As noted in the introduction, Japanese brewers around 1900 were often prominent property owners, both nationally and locally. But some questions remain: What kind of additional activities did brewers engage in? And how were those activities linked to the principal family trade of brewing? To answer those questions, let us consider the following individual cases of soy sauce brewers, using family archives.

As noted earlier, Yamasa shōyu was the family business of Hamaguchi Gihei, who came originally to Chōshi from Hiro-mura(village) in Ki'i Province. However, while continuing to run the soy sauce business from Chōshi, the main Hamaguchi family remained registered in Hiro-mura until the beginning of the 20<sup>th</sup> century. The family head travelled between Hiro-mura and Chōshi or Edo, leaving routine management of the soy sauce production to a manager stationed in Chōshi. In its budget management, the Hamaguchi family kept an *oku* or “inner account” that dealt with total assets separately from household expenditures. Yamasa shōyu received its capital investment from this *oku* account. Management of the soy sauce operation was seen as only a part, though an important part, of the Hamaguchi family's asset operation. During the Edo-Meiji transition period, due partly to the stagnant demand for soy sauce in Edo (Tokyo), Yamasa shōyu production fluctuated around the 3,000 koku level. The relatively stable profits obtained from the soy sauce business were put first into the *oku* account and then used for other businesses such as house rental in Edo, land purchases in Ki'i Province and neighboring Izumi Province, and money lending in Edo and Chōshi. From the 1880s, the family also started to buy bonds and stocks. It can be said that, in the latter part of the 19<sup>th</sup> century, Hamaguchi family assets expanded into areas other than soy sauce production.

From the 1890s, however, the economic activities of the Hamaguchi family turned in a new direction, when the tenth Hamaguchi Gihei became head of the family and advocated “positive policies.” In 1893, soon after succeeding as head, the tenth Hamaguchi

Gihei acquired a soy sauce factory located nearby, in Chōshi; he then embarked on a series of facility expansion projects, including factory extensions and the construction of a new warehouse. By the turn of the century, Yamasa shōyu was so large in scale that it was almost beyond comparison with other soy sauce producers in Chōshi. However, this discussion here will focus on the fact that Hamaguchi's "positive policies" were also clearly evident in areas outside soy sauce production. Table 3 shows that, despite the expansion of its Yamasa shōyu production, the proportion of soy sauce to total family assets was only around 50% in the late 1890s. In 1894 and 1895, the family's investment pattern was similar to what it had been in the early Meiji era. But from 1897 money lending activities decreased gradually; family-owned public bonds decreased rapidly. By contrast, money was newly invested in items listed in Table 3 as "Kisaka-Hikifunegumi" and "Shiten (Hakodate)," which together attracted more funds than lending and public bonds combined in 1896. It is thought that Kisaka-Hikifunegumi reflected an attempt to establish a shipping trade between Ki'i and Osaka. Between 1896 and 1901, a total of 40,000 yen was handed over as capital investment to Dō Gen'eemon, an entrepreneur in Wakayama prefecture (=Ki'i Province) who had contacts with the Hamaguchi family. But the book balance of this investment remained unchanged from 1901, and in 1904 it was paid off as a loss. The word "Shiten (branch)" referred to Yamasa shōyu's Hakodate branch, which was initially set up to handle soy sauce sales but later extended its activities to include dealing in marine products. The Hakodate branch was managed by Nakatani Seiji, a businessman from Wakayama prefecture.

The above discussion has shown that the Hamaguchi family started new businesses in the 1890s. Note that the family invested in local businesses such as Kisaka-Hikifunegumi, with which it had connections based on geographical contiguity. A similar tendency was evident in the family's stock investments. Table 3 shows that the balance of Hamaguchi stock investments fell sharply in 1895. But it can be seen from Table 4 that the decline was due to the sale of shares in Nihon Yūsen, Japan's biggest marine transportation company, and Kanegafuchi bōseki, a prominent modern cotton spinning company. The expansion of soy sauce production and the new investment activities, both carried out in the 1890s, were financed by the sale of stocks and public bonds, and the sale of land in Izumi Province that was not listed in the family's accounts. From 1896, stock investments grew again. Characteristic of this new round of investment was the fact that stocks were acquired in businesses that were connected with Wakayama or Chiba prefecture, the home bases of the Hamaguchi family. Out of the 70,000 yen stock investment balance in 1900, close to 50% was invested in local enterprises such as Arita Kigyō Bank (at the time Hiro-mura was part of Arita district), Chōshi Kisen (a steamship transportation firm), Chōshi Bank, and Busō Bank. It goes without question that subsequent sales of Nihon Railways shares and additional investment in Busō Bank and Kishū Railways brought a significant increase in the weight of Wakayama and Chiba companies in the Hamaguchi stockholdings. At one time the family

was the largest shareholder of Arita Kigyō Bank, and around 20,000 yen was invested in Busō Bank every year. From 1901 the tenth Hamaguchi Gihei was president of Busō Bank. In such ways, the Hamaguchi family strengthened its connections with local business companies.

The Hamaguchi family's commercial activities were supported by wealth accumulated since the Edo era. As part of the "positive policies" of the 1890s, land, public bonds and shares of central corporations were sold off and the proceeds were directed to the new investments. Further financial support came from the high rate of profit gained from soy sauce production during this period. Boosted by its expanded scale and technical advances such as the mechanisation of compression, Yamasa shōyu recorded an estimated return on equity (ROE) of more than 20% annually from the late 1890s<sup>4</sup>. During this time, profits from soy sauce production accounted for more than 85% of Hamaguchi family income. With such a financial foundation, the Hamaguchi family began to commit itself to business activities outside of soy sauce production, investing in local businesses that had some kind of family connection. Given that the family was selling public bonds and the shares in national corporations such as Nihon Yūsen and Nihon Railways (probably the top-rated shares of the day), one can be sure that the new investments were not simply a means of using idle funds. It is also important to note that the new investments, including the Wakayama businesses and Busō Bank, were not connected with soy sauce production. During this period, Yamasa shōyu could fully support itself with its own equity capital. One can see from these examples that the accumulated wealth of the Hamaguchi family was linked with the broad development of business corporations in regional community.

Another example of active business involvement by brewers in the 1890s is offered by the house of Sekiguchi Hachibei<sup>5</sup>. From the early Edo period the Sekiguchi family was based in Hatozaki village, Hitachi Province. (Hatozaki is now part of Edosaki town in Ibaragi prefecture). The family started making soy sauce in the middle of the Edo era and became wealthy by selling it in the Edo market. By the beginning of the Meiji era, production had reached an annual level of 2,000 koku. Although it did not approach the Yamasa shōyu level of 3,000-4,000 koku, the Sekiguchi family was one of major soy sauce producers of the time. In terms of its assets, moreover, the family was counted as one of Ibaragi prefecture's wealthiest ten families in the opening years of Meiji. From the late 1880s to the 1890s, the family went on to develop active business commitments.

With regard to the basic family business, it can be noted that Sekiguchi's soy sauce was exported abroad and was often presented at exhibitions inside and outside Japan

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<sup>4</sup> Full-scale mechanisation and the introduction of motor power, however, took place only in the 1910s.

<sup>5</sup> Historical facts concerning the Sekiguchi family are taken from Tanimoto(1996b). For the Sekiguchi family's beer business, see Tochigi (1992).

(including Japan's National industrial exposition and the Paris international exposition). However, the present discussion will focus on the fact that the family started various new business activities, especially beer brewing. Through a foreign merchant's office in Yokohama the family imported hops and a German-style brewing machine. With instructions from O. Kellner, a teacher at the National Komaba agricultural college, and H. Heckert, a technician at Kirin Beer (which was founded by a European merchant), the family was able to put its product on sale in 1888 as Jōbishi Beer. By 1889, it had exhibited the beer at the Paris exposition, receiving a bronze prize. In 1890, the brewery was enlarged and beer production seems to have reached an annual level of between 1,000 and 2,000 koku. In that year 89 large-scale sales outlets sold at least 100 boxes, each containing four dozen bottles of Jōbishi beer. The outlets were located in all of the prefectures in Kantō, the area surrounding Tokyo, as well as Osaka, Aichi, Niigata, Okayama, and Hokkaido. Jōbishi beer was also exhibited at the Chicago international exposition in 1893. This was, however, the last exposition for Jōbishi, and the Sekiguchi family's beer business ended within a relatively short period. Still, around 1890 the business was not at all small.

In addition to beer brewing, Sekiguchi Hachibei was involved in various commercial activities. Because no account books or other documents are left to show the family's assets in general, it is not possible to cover all of those activities. But we can list some of those that appear in fragmentary sources:

\* In 1886 the family planned to develop Worcestershire sauce production with a soy sauce base. By 1889 it had succeeded in producing sauce that rivalled the standards of imported counterparts. In addition to nationwide sales, it attempted exporting to Germany through F. Retz & Co, a foreign agency located in Yokohama, and it conducted sales in the United States. Sekiguchi's Worcestershire sauce was exhibited at the Paris international exposition.

\* Brick manufacturing began in 1889. Samples were sent to the National industrial exposition in 1890.

\* In 1888, the family was a joint investor in a new water transportation company, established to conduct a billing and shipping business on Kasumigaura Lake. Sekiguchi Hachibei became president of the company.

In addition, the Sekiguchi family ran a tea processing business, planned to start cattle breeding and some kind of stone mining business, and organized activities to spread sericulture. It was involved in at least two other companies either as a shareholder or as an investor. Although the specific content differed, it is clear that in the 1890s Sekiguchi Hachibei's family, like that of Hamaguchi Gihei, developed new business activities within its own geographic area. (All of the Sekiguchi activities were organised in the area of Edosaki.)

Another common characteristic of the new business activities was that they did not necessarily obtain good results. Both the Sekiguchi and Hamaguchi families, in 1896 and 1906 respectively, adopted a corporate structure for their soy sauce businesses. For each, the

move was not a response to positive business developments. Rather, it was a decision to hand over the family soy sauce business to a joint-stock or unlimited partnership company established by relatives or customers. One reason for this turn of events was family investment in other business activities. Both families had continued those other investments despite the lack of steady profits, reducing their assets, expanding their debts and making it more difficult to raise funds. Such consequences indicated that the new business activities of both families involved considerable risk. In other words, both the Hamaguchi and Sekiguchi families chose to invest in local businesses with which they had some connection even though that choice carried risk. Their actions reflected an investment pattern common to many local property owners in the 1890s<sup>6</sup>. The question remains: why did such a pattern exist in Japan at that time?

In answering this question, one additional point that deserves attention is that the Sekiguchi family was involved not only in business but also in social and political activities. In fact, a number of documents written at the time present described Sekiguchi Hachibei as a person who was making an immense contribution to the regional community<sup>7</sup>. As far as one can learn from other contemporary records, in 1881 Sekiguchi Hachibei became the representative of village; he was also a member of the committee for educational affairs. In 1883, he donated over one tan (approximately 0.1 hectare) of land and 500 yen for the construction of the Hatozaki primary school. Moreover, Hachibei joined the Rikken Kaishintō (Constitutional Reform Party), one of the major parties of people's rights movement, and financially supported a Kaishintō-affiliated magazine called *Jōsō Zasshi* (Jōsō Magazine) that was published in the Edosaki area. He himself wrote two short essays on social systems and customs in this magazine. Finally, Sekiguchi Hachibei was a candidate in the first House of Representative election of 1890 and was elected as the only representative from the sixth constituency of Ibaragi Prefecture.

Hamaguchi Gihei's family engaged in similar political and social activities. When a tsunami hit Hiromura in Kii Province in 1856, the seventh Hamaguchi Gihei organised construction work to build an embankment; he also supplied a total of 1,500 ryō over a period of three years. During this time, the soy sauce business in Chōshi was completely entrusted to a manager, who, it was said, had to restrain Gihei's demands for money. In addition, Gihei was involved in government reforms of the Ki'i domain, was appointed a financial magistrate (*kanjō bugyō*) in 1868, and in 1869 given a position of responsibility in domain education. He also joined the people's rights movement in the early years of the

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<sup>6</sup> Tanimoto and Abe (1995) have analysed investment activities by regional property owners in the late-1880s to the 1890s, the period in which modern firms emerged. The authors conclude that this kind of investment activity constituted a typical pattern.

<sup>7</sup> Obviously some exaggeration can be assumed from the purposes of publishing such documents.

Meiji era and was installed as the first chairman of the Wakayama prefectural assembly in 1880.

It is quite normal for those involved in politics to be property owners. Likewise, it is hardly unusual for successful entrepreneurs to enter the political sphere. The case of the Hamaguchi family was one in which a family who had been active politically and socially since the late Edo era newly turned to promoting business activities on the basis of local connections. In the case of the Sekiguchi family, both business and political activities took off at the same time. Both examples suggest that two apparently different spheres of activities, business on the one hand and social or political activities on the other, were not considered strictly separate by wealthy property holders in the early Meiji era. If this is true, then one cannot discuss the reasons for their business activities simply in terms of economic interest. Rather, it is necessary to find the common grounds that extend across their activities in both spheres.

In this essay, I would like to suggest the concept of "regional community (chiiki shakai)" in explaining the motivation for activities that were related both to the economic and to the political or social spheres. As already mentioned, both the Hamaguchi and Sekiguchi families based their economic activities in the regions where they maintained connections. Despite enormous risk, they conducted business activities during this period because their relationship with regional community required that they do so. That is how the relationship between the families' investments and regional community may be understood. But a generalised notion of "region" is not sufficient to explain a historical phenomenon that was specific to the 1880s. Regional community must be understood as a historical construction with specific content.

Recent research on the regional history of the late Edo era shows the formation of regional units that extended beyond the boundaries of individual villages (Yabuta 1992, Kurushima 1991, Hirakawa 1996). It is becoming clear that an autonomous public space, which extended beyond villages, emerged in the first half of the nineteenth century. In other words, regional communities, separate from the villages of the Tokugawa system, were formed as a historical product of this period. Attention has been focused, moreover, on the "local notables" who carried through the process of forming the regional communities. It has been suggested, for example, that there were at least two types of property owners in rural areas at the end of the Edo era: those who pursued the economic interests of their own businesses, and those who tried to help the poor and maintain order in their villages. The latter type is considered to be the archetype of the "local notables" whose presence became more apparent in the Meiji period. Research monographs have attempted to re-examine the activities of such "local notables" and their significance within regional communities (Watanabe 1998).

Taking those research findings into account, one can interpret as follows the

relationship between property owners' various activities and regional community as follows (Tanimoto 1998). The appearance of regional community towards the end of the Edo era provided the Hamaguchi family, for example, with a place for their social activities in Ki'i Province and also encouraged the social activities of the Sekiguchi family in Edosaki region. The concentration of power in the Meiji central government made each "regional community" a more uniform entity that could easily be compared with others. In this process, the particular interests of each society became more apparent and competition between regions intensified. With the appearance of new business opportunities and economic fluctuations in the years following the Meiji Restoration, "regional economy" became an important factor in the competition between regional societies and in the formation of regional interests. As "regional economy" became an important element of regional community, involvement in the regional economy became more than simply pursuing private economic advantage or helping the village poor. It became also a sphere in which reputations were enhanced. Such circumstances prompted a number of property owners to engage in activities that extended beyond short-term economic interests and led to the creation of a unique pattern of regional investment.

## 5. Conclusion

Let us now summarize the foregoing discussion. The characteristic feature of brewing as a so-called "traditional industry" was that individual entrepreneurs accumulated a relatively large amount of capital and labour. If the industrial revolution or full-scale industrialization required the investment of fixed assets and the accumulation of labour force, it could be said that brewing in the Edo-Meiji transition was the traditional industry that was most typically equipped to meet such conditions. Still, brewers did not necessarily go on to carry out an industrial revolution or full-scale industrialisation. The main reason was that the accumulation of capital and labour in brewing developed out of the distinctive relationship between market and its production.

On the one hand, during the Meiji-Edo transition period, the demand for brewed products was still largely satisfied by home production. In this respect, brewing differed from the textile industry, in which the supply source had already shifted from home production to market purchases. On the other hand, a relatively large amount of fixed assets and working capital were needed to produce commodities by brewing. The first condition limited the scale of the market, whereas the second condition constituted a barrier that restricted entry among would-be producers. The multi-layered structure of the brewing industry, with large-sized brewers selling to urban markets and small and medium-sized producers supplying areas outside the cities, resulted from a combination of the relatively limited market and the limited number of producers. In these circumstances, the relationship between market and producers



was relatively stable. Moreover, unlike the textile industry and some other industries, brewing experienced only a slight impact from the external changes that followed the opening of ports at the end of the Edo era. And, finally, continuity of management was evident. Compared thus with the textile industry, brewing at this time could be characterised as fairly static. Although showing an industrial form that was closest to the model required by an industrial revolution or by full-scale industrialisation, brewing lacked the dynamism to be the driving force of the transition. This was a significant characteristic of brewing in the Edo-Meiji transition period.

Still, in terms of investment activities, "static" management played an important role in promoting an industrial revolution or full-scale industrialisation. The 1880s was the decade in which proper modern firms made their appearance in Japan. Many of the leading firms of the modern era were established during these years. However, what needs to be emphasised here is the broadening of the base in business formation. In 1896 there were more than 4,500 companies, 80% of which had capital of less than 100,000 yen. Moreover, 50% of the total capital belonged to companies with capital of 500,000 to 600,000 yen, or less. To take the example of cotton, companies at the 500,000-600,000 yen level were not Osaka Spinning or other main companies but medium-sized regional spinning companies such as Okayama Spinning or Kurashiki Spinning. The emergence of modern firms in Japan was not the result of attempts focused on a few large cities; it was a widespread phenomenon that could be seen around the country (Tanimoto and Abe 1995). Brewing can therefore be considered as a major force in the rise of modern firms in Japan.

As explained above, the brewing industry produced entrepreneurs who had a vast amount of accumulated capital. This accumulation was a necessary condition for their investment activities. However, starting a new business carries risk, especially in the case of a new industry or new form of business. Moreover, capital as an element of production was the least restricted by geographical limitations, and the development of a market economy after the Meiji Restoration prompted capital to flow out of some regions. Therefore, the mere presence of persons with accumulated capital in a specific region was not enough to produce the rise of modern businesses. Some special reason was needed for an investor to take a high level of risk by investing in a new local business. Local notables in regional societies had such a reason. In order to obtain good reputations and then enhance them, local elites needed to respond to the demands of their communities. In the 1880s and 1890s, following the institutional changes brought about by the Meiji Restoration, investment in new businesses was one of those demands. In other words, an essential condition for establishing businesses in various regions was the presence of property owners who also had the characteristics of "local notables". Such property owners had an affinity with the brewing industry in the Edo-Meiji transition period. When an owner of capital, based on a stable though not necessarily expanding industry, had a close link with the regional community, there appeared

a property owner with the characteristics of a "local notable". Brewing was a major "traditional industry" that produced such property owners. As can be seen in the cases of the Hamaguchi and Sekiguchi families, their business activities were not necessarily successful. To identify the driving force of Japan's industrial revolution or full-scale industrialisation, one needs an analysis from a different viewpoint. It was significant that, in the most difficult, early period of industrial transformation, there was a widespread movement for setting up new businesses and firms<sup>8</sup>. This movement was crucial for the later take-off of new businesses and firms. The investment activities of those economic groups or entrepreneurs rooted in the regional community were the hidden driving force in initiating Japan's industrial revolution and full-scale industrialisation.

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<sup>8</sup> Investment in railway companies and other infrastructure can be included in these new categories.

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Table 1  
Occupational distribution of property owners  
with the assets of more than 500,000 yen

	1901		1911	
Agriculture	73	15.0	122	11.5
Forestry	12	2.5	18	1.7
Fishery	0	0.0	8	0.8
Mining	15	3.1	23	2.2
Manufacturing	39	8.0	94	8.9
(Of which)				
Sake	17	3.5	39	3.7
Soy sauce	3	0.6	21	2.0
Silk reeling	3	0.6	5	0.5
Others	16	3.3	29	2.8
Commerce	213	43.8	435	41.3
Banking executive	31	6.4	63	6.0
Company executive	6	1.2	81	7.7
Landowner, houseowner	9	1.9	40	3.8
Salaried and professionals	1	0.2	10	0.9
The nobility	67	13.8	124	11.8
Unspecified	17	3.5	32	3.0
Others	3	0.6	4	0.4
Total	486	100.0	1054	100.0

source) Shibuya et al. (1983)

Table 2 Brewers in the commerce and industry sector (Niigata prefecture 1898)

Taxation classes (Income tax and trade tax) (yen)	Number of traders				Ratio	
	Total		Brewers	Textiles	Brewers	Textiles
	A	(%)	B	C	B/A(%)	C/A(%)
500-	1	0.1				
250-300	2	0.1	1		<b>50.0</b>	
200-250	3	0.2	1		<b>33.3</b>	
150-200	7	0.4	1	1	<b>14.3</b>	14.3
100-150	27	1.5	4	6	<b>14.8</b>	22.2
90-100	6	0.3		3		<b>50.0</b>
80-90	15	0.8		6		<b>40.0</b>
70-80	15	0.8	3	8	<b>20.0</b>	<b>53.3</b>
60-70	23	1.3	6	7	<b>26.1</b>	30.4
50-60	47	2.6	4	17	<b>8.5</b>	<b>36.2</b>
40-50	49	2.7	8	15	<b>16.3</b>	30.6
30-40	118	6.6	14	36	<b>11.9</b>	30.5
20-30	226	12.6	35	66	<b>15.5</b>	29.2
10-20	625	34.7	36	208	5.8	<b>33.3</b>
-10	586	32.6	16	167	2.7	28.5
Unrecorded	50	2.8	1	20	2.0	<b>40.0</b>
<b>Total</b>	<b>1800</b>	<b>100.0</b>	<b>130</b>	<b>560</b>	<b>7.2</b>	<b>31.1</b>
Number of traders with records of income tax	951		100	277		
Percentage of traders with records of income tax	52.8		76.9	49.5		

Source) *Nihonzenkokusyōkōjinmeiroku* [National Directory of Traders ], 1898

(1000 koku)

Figure 1 Market oriented production of sake and soy sauce

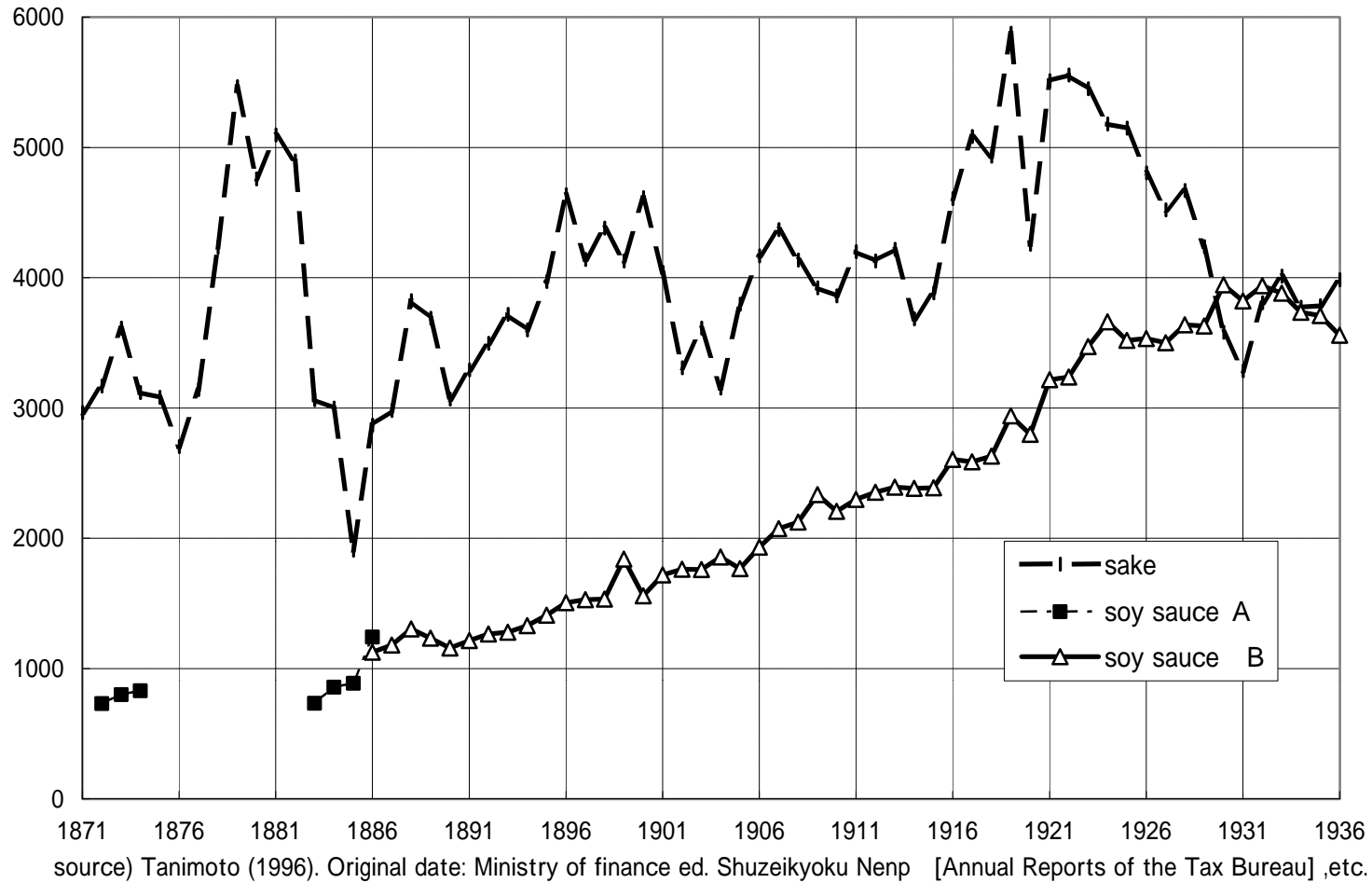
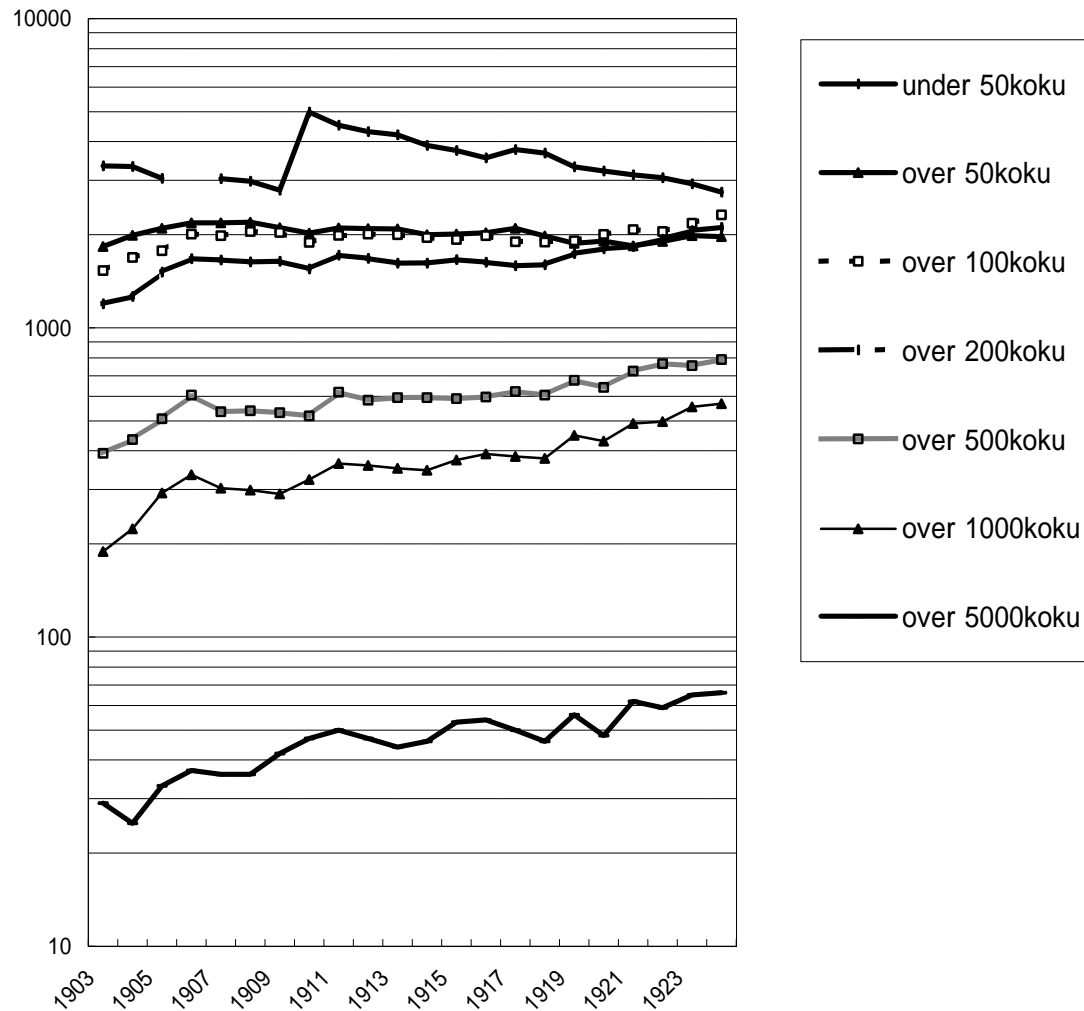


Figure 2 Number of factories and workshops of brewery  
 (Size-specific : volume of production per year)



Source) Same as figure 1

Note) Discontinuity between 1909 and 1910 in the production size of under 50 koku results from the change of survey criteria.

Table 3

The balance items of "Inner account" of Hamaguchi family

( Yen )

Assets	1894(1)	1894(2)	1895	1896	1897	1898	1899	1900	1901	1902	1903
Land		4,286	4,347	4,347	4,447	4,447	8,466	21,286	25,334	26,335	26,664
Buildings	880	9,119	9,820	9,820	11,076	11,086	17,244	35,323	46,756	56,852	72,419
Factories	38,791	51,199	51,980	51,980	53,017	53,017	56,330	65,531	81,989	87,572	102,440
Business account	68,468	88,103	108,960	125,646	134,836	152,561	153,412	161,538	176,546	175,121	199,375
Public bonds	48,907	33,437	39,487	40,350	15,600	5,500	5,990	5,990	5,990	5,990	6,937
Shares	37,075	40,211	18,927	14,238	24,828	31,674	42,610	71,723	38,135	61,625	124,483
Loan	32,452	30,127	26,283	30,595	27,287	23,879	21,576	21,495	24,661	24,341	26,683
Kisaka-Hikifunegumi				33,276	41,441	46,192	27,772	32,784	44,494	44,494	44,494
Shiten (Hakodate)				50,000	50,000	59,744	59,971	55,151	63,444	59,744	59,744
Cash	5,154	870	2,168	1,895	165	939	1,490	455	48	274	254
Bus Bank									10,000		
Others	8,354	1,086	3,196	802	2,711	1,526	18,068	14,470	8,684	4,994	3,934
Capital and liabilities											
Capital	238,361	241,945	249,759	297,991	324,599	349,202	380,839	413,858	430,763	435,182	457,353
Reserve				4,396	11,185	18,359	28,980	39,059	45,341	49,626	58,718
Deposit	1,224	1,724	2,224	2,724	3,732	4,449	5,576	6,093	6,783	6,256	6,979
Bus Bank										7,500	
Tokyo branch											80,729
Others		2,364		44,653	11,669	4,331					
Total		207,243	213,192	310,973	312,391	337,550	376,604	420,219	444,096	459,774	564,990
Ratio of investment for sh yu manufacturing (%)		56.6	63.9	50.8	53.5	54.6	50.5	49.5	53.5	52.7	50.0

Source)Archives of Yamasa Sh yu

Note)Settlement days are end of the year except 1894(1) (=The first of 1894).



Table 4 Share investments in "Inner account" of Hamaguchi family

(balance)

	1894 (piece)	1896 (yen)	1897 (yen)	1900 (yen)
Nihon railways	108	10,983	13,433	34,734
Nihon y sen	300			
Kanegafuchi b seki	250			
Fuji b seki		625	1,625	2,500
Shanghai b seki		1,000	1,500	
Nihon kangy bank			500	500
Others				1,005
Subtotal		12,608 (88.6%)	17,058 (68.7%)	38,739 (54.2%)
(Corporations in Wakayama prefecture)				
Kish railways		80	180	
Arita kigy bank			6,000	16,000
Wakayama n k bank				80
Subtotal		80 (0.1%)	6,180 (24.9%)	17,260 (24.1%)
(Corporations related to Chiba prefecture)				
Ch shi kisen(shipping)		1,300	1,300	1,300
Ch shi bank				2,630
Bus bank				10,000
Others		250	290	1,600
Subtotal		1,550 (10.9%)	1,590 (6.4%)	15,530 (21.7%)
Total		14,238 (100.1%)	24,828 (100.0%)	71,529 (100.0%)

(increase or decrease)

	1901 (yen)	1902 (yen)	1903 (yen)	1904 (yen)	1905 (yen)
Nihon railways	-18,743	+162		+420	+630
Kish railways		+1,250	+250		+2075
Arita kigy bank	-16,000				
Ch shi kisen	-1,730				
Bus bank	+2,357	+19,882	+23,038	+26,252	+23,985

Source) Same as previous table.