

COMMENTARY ON PATERSON AND KATSURA

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Both stimulating papers focus on the lack of success of business enterprises when adversely affected by a range of micro- and macro-economic factors. In Professor Paterson's paper we learn of the paucity and oftentimes poor performance of direct British investments in Canada during the quarter century 1890-1914. Professor Katsura's paper enlightens us as to the circumstances surrounding the collapse of the mighty Suzuki trading and industrial enterprise in 1927, thus bringing to a close the meteoric career of Naokichi Kaneko, who had aggressively masterminded its surge to the status of "a super diversified" business empire.

It is good to see scholars of the calibre of Paterson and Katsura concern themselves with firms and entrepreneurs who were guilty of bad decisions or were victims of exogenous forces with which they were unable to cope.

Both papers illuminate issues broader in scope than the specific firms and industries involved. They confront the role of the enterprise and the decision-making entrepreneur in the context of the changing pace and performance of national economies. Of the three national economies discussed in the two papers, one was suffering a slowdown in its growth rate; two were enjoying high rates of growth. Between 1870 and 1913, the United Kingdom's average yearly growth rate in real GNP was 1.9%; Canada's was 3.8%; Japan's was 2.7%. For the years 1913-1938 (which covers a somewhat longer period than Professor Katsura's paper), Japan's growth rate rose to 4.0% on an annual basis; Canada's dropped to 1.5% and the United Kingdom's to 1.1%.

In their concern with micro decision making within the macro framework, both papers deal--although at times only implicitly--with the role of government as a major variable. I would wish that Professor Katsura made more explicit the process by which Japanese government officials--particularly in the newly acquired possession, Formosa--provided Kaneko with opportunities for rapid expansion in the scale and scope of his operations. Professor Paterson would profit by assessing more carefully the impact upon British investment decisions of Imperial Preference and the variety of financial assistance extended by Canadian municipal and provincial governments to foreign businessmen. There is evidence to suggest that the Canadian tariff of 1879 and its modification by Imperial Preference

18 years later as well as local aid made available to foreign investors on a selective basis exercised, on balance, an adverse effect upon British direct investments in Canada.

We must remind ourselves that while Professor Paterson concentrates on the developing host nation, the strategic decisions regarding investments were made in the mature mother country, experiencing a slow-down in its growth rate. In explaining the magnitude and quality of direct British investment in Canada in terms of the changing pace and performance of the British economy, Professor Paterson enters an arena already occupied by such scholars as Habakkuk, Aldcroft and McCloskey. Professor Paterson's focus upon a range of factors in Canada which limited British direct investments does enable him to make some contribution toward resolving the controversy raging over the retardation of the British economy in the decades prior to World War I.

We should not lose sight, however, of the sheer magnitude of British overseas investments in the years before 1914: double that of France and almost four times that of Germany. Almost half of British foreign investments was channeled within the Empire. Canada and Newfoundland received the lion's share, 20% of the total. In terms of Canadian dollars, the United Kingdom's portfolio investment of \$2.6 billions in 1913 amounted to 73% of the total foreign investment in Canada. The great bulk of British investments in Canada, as Professor Paterson informs us, were portfolio investments, poured principally into social overhead projects and municipal bonds. Of the \$3.8 billions of foreign capital invested in Canada on the eve of World War I, 80% consisted of portfolio investments; of all portfolio investments, 83% was accounted for by residents of the United Kingdom. In guarding against minimizing the magnitude of the British financial presence in Canada prior to 1914, we should not overlook the degree of antagonism which this presence created within an economy seeking a greater degree of economic independence. As Professor Scheinberg's article in the Summer, 1973 Business History Review indicated, the magnitude of the British economic presence in Canada was well recognized by Canadians and, in some circles, deeply resented.

In concentrating upon the degree and character of British direct investments in Canada, Professor Paterson isolates for analysis three major areas of activity: mining, real estate and related financial ventures, and manufacturing. He finds mining investments extensive but of "stark unprofitability," due to such factors as poor timing in acquiring developed mines and a "poor quality of technical advice." The timing problem is understandable, given the growing conservatism of the London market for mining capital. The point about technical advice is more dubious. The criticism of British engineers, cited by Professor Paterson to support his judgment, is contained in a British Columbia mining journal representing the interests and point of view of Canadian investors and engineers. Moreover, Professor Paterson at another point in his study quotes W. T. Jackson's The Enterprising Scot to the effect that in the United States West English investors employed the services of the best-equipped mining specialists to

conduct careful experiments. There is little reason to conclude that they would have pursued a different path in Canada.

In reviewing real estate and related financial ventures, Professor Paterson finds a high rate of profitability. The major problem here was the short time horizon of financial enterprises extending land mortgages and property loans, primarily in eastern Canada. Professor Paterson chides these firms for relying upon capital mobilized in Great Britain and for failing to seek authority from the Canadian government to accept deposits from the Canadian public. A major barrier to any extensive reliance upon the domestic capital market, however, was the low level of savings generated in the underdeveloped Canadian economy of this era. (Kuznets, Modern Economic Growth, p. 249, lists Canadian net savings as a percentage of NNP at .4% for 1890, 1900 and 1910.)

In his survey of direct investments in manufacturing, Professor Paterson is correct in his assessment of the low level of British participation. The U.S. direct investment pattern, however, was not much different. Statistics supplied by Dr. Wilkins in her study of the American multinational enterprise abroad disclose that investments in manufacturing accounted for only one-third of U.S. direct foreign investments in Canada and Newfoundland in 1914. Professor Paterson provides in his discussion of the Pilkington Bros. glass manufacturing enterprise an example of aggressive British entrepreneurship in the Canadian economy. Other illustrations of successful penetration of the Canadian market by British firms are available. Charles Wilson describes the process by which Lever built up a chain of works stretching across the breadth of the country. Indeed, by 1913, "the Canadian businesses were far and away the most profitable of Lever's overseas enterprises." (Wilson, The History of Unilever, vol. I, p. 196.)

To be sure, these micro studies do not provide sufficient answers to Professor Paterson's query concerning the range of reasons underlying the limited aggregate level of British direct investments in Canadian manufacturing enterprises. Better answers will emerge with additional micro and macro studies of both the British and Canadian economies. One suggestive hypothesis that bears testing is the role of Imperial Preference and the extent to which mature British-based industries relied upon it to retain their position within the Canadian economy. That this reliance was to some extent misplaced is reflected in the request made by the British iron and steel makers' association (BITA) in 1906 that the Canadian government either increase the preferential rate or abolish the high tariff and bounties to Canadian steelmakers. Despite protection, BITA contended, Canadian producers supplied less than one-third of the nation's consumption requirements; the preference granted to British producers was insufficient to overcome the advantages possessed by giant U.S. firms in dumping its surplus steel output throughout the Canadian market. (J. C. Carr and W. Taplin, History of the British Steel Industry, p. 254.) Imperial Preference had the further effect of providing U.S. firms in Canada with access to the entire British empire.

Professor Katsura's paper provides a detailed and well-documented assessment of the rapid rise and subsequent collapse of the Suzuki enterprise during the years between the acquisition of Formosa in 1895 and the mid-1920's. His account suggests interesting parallels during the same period with U.S. holding company empires erected by such businessmen as Samuel Insull and with the widely diversified Konzern forged by German industrialist Hugo Stinnes. The business empires of Insull and Stinnes both collapsed during the 1920's decade.

Professor Katsura's paper raises several questions relative to the interaction of the principal businessmen and firms within the Japanese economy. What, for example, was the precise nature of the relationship between Kaneko and the Suzuki family? Professor Katsura informs us that the widow Yone in 1894 delegated the total business management of the enterprise to Kaneko and to Fujimatsu Yanagida, son of the initiator of the business. Kaneko and Yanagida, we are told, "were like brothers in their business relationships." Professor Katsura clearly implies a continuing and harmonious relationship. As his story unfolds, however, Yanagida is seldom mentioned. Professor Katsura does indicate, in a fascinating footnote, that Kaneko urged his prime associate overseas--Takahata, in London--to marry the eldest daughter of the Suzuki family. It is tempting to speculate on Kaneko's motives in offering this advice; were they as "pure" as Professor Katsura assures us Kaneko's motives, in business at least, invariably were?

In the range of factors explaining the degree of success enjoyed by Kaneko, his ability to select able subordinates seems highly significant. Takahata is an excellent case in point; his alertness to opportunity leading to the acquisition of the French patent on ammonium sulfate is a clear indication of his competence. Conversely, the alacrity of Kaneko's favorable response to the information supplied by Takahata illustrates the vision and drive of a first-rate chief executive. Overall, however, Professor Katsura provides us with little information regarding the respective roles of Kaneko and his associates. All we are told of his "righthand man" Nishikawa is that he "came to have such great influence that Kaneko named his son Bunzo after him." We learn nothing of Nishikawa's function within the enterprise. Did his death in 1920 eliminate a restraining influence on Kaneko's overweening ambitions?

We would also like to know more regarding the relations of the Suzuki enterprise with other leading Japanese firms. Professor Katsura tells us of specific instances of both cooperation and of bitter conflict; it would be helpful to have a summary assessment. It would be helpful in understanding Suzuki's relative position within the Japanese economy to know more of the circumstances surrounding Kaneko's missive to his associates stating that the leading Zaibatsu, Mitsui and Mitsubishi, should either be destroyed or made to share their dominant status with Suzuki.

A major element in Kaneko's weak position in dealing with the powerful Zaibatsu was his almost exclusive reliance upon the Bank of Formosa for financial support. Was this reliance one of necessity or choice? Professor Katsura's paper implies that it was necessity: the Zaibatsu domination of the banking community in Japan precluded Kaneko from gaining access to the much larger and more secure source of capital funds. The growth of the savings fund in Japan proper was so great during the 1914-1929 era, however, that the question must be raised whether Kaneko's failure to tap alternative sources of capital was not a major entrepreneurial mistake. (The savings fund in Japan grew from 1.75 billion yen in 1913 to 8.49 billion yen in 1922 and 14.74 billion yen in 1928. H. Moulton, Japan, p. 477.)

In the final analysis, however, success in gaining access to domestic sources of capital funds might not have saved Suzuki from ultimate failure. The composition of the Suzuki business enterprise--consisting largely of newly-created, low-profit units--gives credence to Professor Katsura's judgment that Kaneko was a pioneering entrepreneur and provides additional documentation to the generalization that pioneering often does not pay. Particularly, pioneering in consumer goods industries did not pay in early 20th century Japan, with its high rate of savings and its low levels of aggregate consumption. (Japan's per capita income in 1928 was one-third that of Germany, one-fourth that of the United Kingdom, and one-eighth that of the United States.)

A caveat could also be raised relative to Professor Katsura's judgment that Suzuki most likely would have been saved by a timely structural adjustment. The aggressive entrepreneurial type, exemplified by Kaneko, would attempt to wield decision-making power regardless of the specific form of organization. In 1926, Kaneko was 60 years old and in excellent health. It appears unlikely that he would have been eased out of the Suzuki organization without a major collapse of its earning power. More basic is the question whether formal structure is a good indicator of the locus of authority within the large Japanese enterprise of this period. Eleanor Hadley, in her 1949 Radcliff thesis, "Concentrated Business Power in Japan," demonstrates that the nominal head of highly centralized, family-owned, Japanese firms did not necessarily exercise operating control.