THE TRANSFORMATION OF THE NATIONAL ECONOMY

—A Chapter in Japan's Economic History—

HORIE YASUZŌ

I. SUBJECT-MATTER OF THE PRESENT THESIS: MODERNIZATION AND TRADITION

According to Professor Rostow,[1] Japan under the Tokugawa régime came under the category of a "traditional society" and, after completing preparations for transformation into a "modern society," with the Meiji Restoration (1868) as the turning-point, entered the stage of "take-off" some ten years later. Admitting this observation as both quite effective and suggestive, we are tempted to stop and think for a while whether the "traditional society" in Japan had been deprived of each and every bit of her "tradition" at the turn into the "modern society" or had its traditions made use of in this or that way after emerging into a "modern society."

In this respect, Professor Harbison remarks, in reference to the entrepreneurial activities in modern Japan, that: "Managerial concepts and practices, which are rapidly becoming obsolete in the Western capitalist countries, still appear to be effective. Indeed, one is tempted to conclude that the traditional Japanese culture, instead of being swept aside by industrialism, has assimilated it. Modern machinery and processes have become the instruments rather than the destroyers of a traditional social order."[2] This statement seems to stand in regard to the economic modernization processes after the Meiji Restoration. What is meant, then, by such words as "traditional Japanese culture" or "traditional social order"? In the context of economic modernization, I would like to point out three factors:

(1) That the *élite* active in the preceding or 'obsolete' society did not stop functioning as such even in the 'modern' society ushered in by the Meiji Restoration. It is well known that the *chōnin* 町人 and

1 W. W. Rostow, *The States of Economic Growth*, Cambridge, Cambridge University Press, 1960, p. 4 ff.

2 F. Harbison & C. A. Myers, *Management in the Industrial World*, New York, McGraw-Hill, 1959, p. 249.

hyakushō 百姓 (townsmen and peasants)—commoners as against *samurai* 侍,[1] particularly those who belonged to middle and upper strata—were given a chance to emerge all over the country as so many leaders or undertakers of economic modernization after the Restoration. Special mention, however, will have to be made of the *bushi* 武士 or *samurai*. The *samurai* who constituted the political ruling class in the Tokugawa era not only took over the position of administrators under the new régime both at the centre and in the provinces, but also played the role of leaders in economic, educational and various other developing fields. The leading posts were mostly held by low-ranked *samurai* who had no chance in former days. Still, it cannot be denied that they came nevertheless from the same *samurai* class. *Samurai* remained the *élite* in new Japan due to various reasons, but the following two would seem to be the most powerful reasons: (i) the fall of the '*ancien régime*' was not due to corruption among the ruling class, and (ii) the *samurai* class dealt with the commoners in the role of a 'cultured class' rather than a 'military class.'

(2) In every country, nationalism plays an important role in its economic modernization, especially in the initial stage. In Japan, nationalism was almost an integral part of the traditional traits of the people. Before the Restoration, Japan comprised as many as 250 *han* 藩,[2] each ruled by a *daimyō* 大名[3] who, in turn, was under the overall government of the Shōgun. Each *han*, irrespective of its size, was virtually a small state, compact and self-supporting. In this manner, Japan was a centralized state even before the Restoration. The feudalistic, decentralized governments of the *daimyō* were unified under the central rule of the *bakufu* 幕府.[4] This pattern of national unification under a centralized government was economically supported by the nation-wide exchange of

1 *chōnin* and *samurai*—In the Tokugawa era a strict distinction was maintained among the four classes: (1) *bushi* or *samurai* (warriors), (2) *hyakushō* (peasants), (3) *shokunin* (craftsmen), and (4) *shōnin* or *akindo* (merchants). The latter two were called *chōnin* (townsmen).

2 *han*—often translated as "clan," is an appellation for the fief or the local government of a *daimyō*.

3 *daimyō*—feudal lord awarded by the Tokugawa Shogunate with a fief of more than ten thousand *koku* of rice, together with the rights of rule over the people of the fief. *koku*—as unit of dry measure equals 180.5 litres or 4.96 British bushels; one *koku* of rice weighs about 150 kg.

4 *bakufu*—translated as "Shogunate," is the office or rule of a Shōgun (literally: a commander-in-chief). Since 1603, the successive heads of the Tokugawa family were appointed as Shōgun (*de facto* rulers of the country) by the Emperor who held a mere ceremonial title as sovereign of the state.

commodities which had two centres, Yedo (today's Tokyo) in the east and Ōsaka in the west, both situated in the territory under the direct rule of the Shogunate, which extended to almost a quarter of the total land-space of Japan. The castle-town dignified by each *daimyō*'s fortress was a political, economic, and cultural centre of the above small state (*han*) and functioned as a joint connecting the respective province to the national centre. Through these channels were maintained the centre-province economic and cultural exchange which helped to mitigate an unfavourable gap which might develop between the centre and countryside in cultural and living standards. National consciousness, which had been nurtured along this inclination towards national unity, was ideologically strengthened by the introduction of a school of Chinese political philosophy known as Confucianism which enjoyed full currency in this country during the Tokugawa period.[1]

In the Tokugawa era, the teachings of Confucianism were the *sine qua non* in the curriculum of the Japanese people and were consolidated into an authentic ground of political ideas among the ruling class, and an ethical (not religious) norm for daily life among the commoners. The Japanese nation was thus profoundly influenced and almost remoulded by Confucianism. Indeed, it might be safely said that (i) the scholastic brain of the Japanese was cultivated by Confucianism to such a degree that it could accept the scientific knowledge and techniques of the West with comparative ease; (ii) the idea of self-obliteration in the cause of a greater purpose was made the national virtue, and (iii) the state-theory infused with the Confucian ideas was an organic theory of state—where sovereign was likened to Soul and people to Body—and the ultimate purpose of the government rested on construction of an affluent and strong moral state.

This theory, combined with (ii) above, helped consolidate a particular national consciousness which took it as granted for an individual willingly to surrender himself for the realization of the ideals of such a State.

(3) It has been a long tradition among the Japanese to weigh the "*ie*" 家 (house or house-community) far more heavily than each individual,[2] and this national trait was again solidified under the influence of Confucianism during the Tokugawa period. The "*ie*" could not be a mere assembly of family-members; it was a thing, in the minds of

1 Y. Horie, "The Confucian Concept of State in Tokugawa Japan," *Kyōto University Economic Review*, Vol. XXXII, No. 2 (1962).

2 Y. Horie, "The Life Structure of the Japanese People in Its Historical Aspects," *Kyōto University Economic Review*, Vol. XXI, No. 1 (1951).

the Japanese people, bestowed with a distinct subjectivity—a substance which needs to be extended from one's ancestors to his descendants. They knew very well that there could be no "*ie*" without parents and children, husbands and wives, and other constituents of it. But they thought that the "*ie*" stood above the individuals constituting it and, while embracing the individual constituents, ruled over them—the "*ie*" grasped in such a manner could not but claim the primary *raison d'être*. In other words, individuals were combined or synthesized into "*ie*," asked to commit to full integrity and unconditional obedience to it, and forced to sacrifice themselves, if occasion necessitates it, for the perpetuation and prosperity of the "*ie*" itself. Moreover, blood-relations alone were not the constituents of the "*ie*"; non-kinsfolk such as retainers, in the case of the *samurai* family, and employees, in the case of a commercial house, were likewise embraced in the house-community.

The material-basis for the perpetuation and prosperity of the house-community was afforded by family-business and family-assets. In the commercial houses, in particular, the prosperity of the family-business was the utmost concern of their members, and this loyalty to the house-community suffered no pain in being exalted, by dint of Confucian state-theory, into a nation-wide aspiration for national economic prosperity. In the logic of Confucianism a State was nothing else but an "*ie*" enhanced to a national scale.

The idea of the "house-community" among the Japanese people, therefore, had an uninterrupted lineage in the national consciousness. So much importance did the "*ie*" have in the Japanese tradition.

II. THE ROLE OF THE GOVERNMENT IN ECONOMIC MODERNIZATION

1. The Nature of the Meiji Restoration

A brief explanation on the nature of the Meiji Restoration should form an introductory part of any description of the role of the government in Japan's economic modernization.

The Meiji Restoration was not a mere shift of political power from one group to another, nor a simple bourgeois revolution—a revolution the leadership of which was taken by the bourgeoisie for their own sake—nor an absolutist revolution—a revolution for founding an absolute monarchy. It involved wide-ranging reform—political in nature at the very outset but extending far and wide in the economic as well as the

social fields—directed towards the building of a modern State standing abreast with the advanced European and American states, through a full-fledged modernization that was, in essence, Westernization.

The reform movement was animated by two slogans: "Restoration of Sovereignty into the Emperor's Hands" (*Ōsei Fukko* 王政復古) and "All-out Rejuvenation (of every system and institution including the people's outlook and philosophy)" (*Shosei Isshin* 庶政一新). They may look contradictory to each other but, in truth, they were twins, the former serving, in a way, as a tool in realizing the latter. The Emperor's status or authority was so important in this country. The Shogunate-rule which was ushered in at the end of the 12th century lasted for about 700 years until it was nullified with the expiration of the Tokugawa period and, in the meanwhile, the Emperors were substantially isolated from the seat of power. Nevertheless, the Shōguns were commissioned to sovereignty in the name of the Emperors, and the power in their hands was due to their authorization. In other words, even during those 7 centuries, the Emperors continued to assume the dignified position of the patriarchs of the big "*ie*" that was Japan, if not that of her sovereigns.

The first and the most important job to be undertaken in the course of the Meiji Restoration was to overthrow the *bakufu*, and this task was to be fulfilled only to the tune of "Restoration of Sovereignty into the Emperor's Hands." And it was expected that "All-out Rejuvenation" could succeed only in the name of Direct Imperial Rule.

As mentioned above, those who formed the nucleus of the Restoration movement and who personally administered political affairs after establishing the new government hailed, by and large, from the ex-*samurai* class, particularly from amongst its lower echelon. The leadership of the country remained in the hands of the self-same class, before and after the Restoration. Speaking in reverse, the Meiji Restoration did not stand for change of ruling class. For what reason, then, had an overall reformation extending from the politico-economic to the socio-cultural field to be called in as the order of the day? Its reasons might be sought partly in the domestic situation and partly in the external affairs of those days.

The domestic situation to begin with. As always in traditional societies, agriculture stood as a principal source of income, or the backbone of the national economy. Simultaneously, money-economy had been developing hand in hand with widening commercial activities. In spite of and ignoring such trends in the economic phase of the country, the *bakufu*

was obstinate in safeguarding the feudalistic political framework and class-system, the superstructure of the economic groundwork based on agricultural production. The financial measures adopted by the *bakufu*, for example, sought the bulk of its revenue in terms of the obsolete land-tax which had to be paid, as a rule, in kind. Stipends to the *samurai* took the form of rice, and other heads of expenditure were defrayed from the proceeds of tax-rice. *Han*-finance showed no difference from that of the *bakufu*. No wonder such measures could not but provoke a major contradiction in the face of developing money-economy and betrayed the people's urge for improved living-standards through cash transactions. More concretely speaking, the finances both of *bakufu* and *han* and the household economy of the peasants on which the former depended could no longer meet the general trends of commodity-price increase, a natural tendency accompanying the development of money-economy. *Bakufu* and *han* finances deteriorated year after year, resulting in an increasing poverty among *samurai*, and the livelihood of the peasants became relatively more difficult. The situation developed from bad to worse until it culminated in a crisis of the feudalistic organization of government. The *bakufu*, together with *han*, exhausted ways and means to overcome this crisis, but they were destined to fail as the authorities had not the least intention of meddling with the centuries-old feudalistic framework of control and administration. The basic strategy for conquering the crisis lay in an overall reformation of the existing political structure, and the torch-bearers of such a reformation spontaneously sprang up from amongst the lower echelon of *samurai* who were meted out with the worst economic amenities.

The Meiji Restoration was, thus, almost a logical sequence of the historical development in this country but, as always, it had to have a timely stimulant and be given an opportunity to explode. Frequent arrivals of men-of-war and merchantmen flying the flags of Western powers since the turn of the 19th century offered such a chance. The request by Commodore Perry in 1853 for opening Japan to international trade and navigation added fuel to the smouldering fire of the reformation movement at home. Contacts with the Western powers through the unwelcome visits of their vessels served as an eye-opener for the Reformation movement which might have otherwise been groping in darkness. It was the realization by the Japanese people of the might and resourcefulness of the Western powers and, even more significant, of their reasons and origins. From this realization came the objectives of the Meiji Restoration as discussed at the beginning of this chapter.

Additional reference needs to be made here to another slogan of the Reformation movement: "Expel the Barbarians" (*Jōi* 攘夷). Having been confined behind a closed door for over two centuries and firmly indoctrinated as to the divinity of their own country, the Japanese people used to look upon the Westerners as "red-haired barbarians." To an overwhelming number of the then Japanese, including intellectuals, association with "barbarians" meant something akin to "pollution." Commodore Perry's high-handed request to Japan for opening her door to the world provoked anti-'barbarian' fever in the country involving not a few unhappy accidents. The cry of "Expel the Barbarians," however, soon lost its verbal meaning and it came to be utilized as a pretext for overthrowing the *bakufu.* It proved to be a ferocious weapon in the hands of the Reformation leaders in persecuting the *bakufu* for meanly opening the country under Perry's threat and also in securing the emotional backing of the mass to the Reformation movement.

No sooner had the reform-leaders established a new government than they positively acceded to the *bakufu*'s policy of opening Japan to the world and, instead of the pre-Reformation slogan: "Expel the Barbarians," introduced a new catchword: "Civilization and Enlightenment" (*Bunmei Kaika* 文明開化), meaning that Japanese cultural standards and technical levels should be raised to those of the Western powers. Contradictory though it may sound to "Expel the Barbarians," they were, in fact, two sides of the same coin or, in my mind, the former was a meaningful metamorphosis of the latter. That is to say, the attainment of the capacity of dealing with the Western powers on an equal footing was sought as a proper answer to the expulsion of the barbarians. Great was the new government's appetite for modern institutions, knowledge and learning of the Western countries, and shrewd was its selective adoption from each and every country on the basis of sheer merit.[1] Japanese nationalism was sound and indefatigable in this respect also.

2. *Liberalization Policy*

Through the Meiji Restoration the Shōgun was first degraded to the rank of an ordinary *daimyō* and, later, was ousted once and for ever together with the other *daimyō*—both big and small—in 1871. This meant a total abolition of *han*—small states by themselves—and the establishment of unified rule by a central government. Virtually no blood was shed in the process of this nation-wide dismemberment and

1 Edwin O. Reischauer, *Japan, Past and Present,* New York, Knopf, 1952.

unification. The new government continued to pay stipends to the *samurai* and *daimyō* up to 1876, but, prior to its suspension, the *samurai* were given, in 1871, the freedom to select any profession and, in 1874, those who were positively entering into agriculture, industry and commerce for gainful employment, rather than depending on stipends payable for an indefinite period, were provided with capitalized pension bonds (*chitsuroku kōsai* 秩祿公債) plus cash grants for the initiation of business (on the condition that they would give up their rights to their stipends). All the *samurai*—including the ex-*daimyō*—were given hereditary pension bonds (*kinroku kōsai* 金祿公債) in 1876, according to a basic scale of stipends and fiefs. The stipend system was suspended once for all at this time.

In the meanwhile, the peasants who had not been allowed, as a rule, to engage in any other profession excepting farming under the Tokugawa régime were made free, since 1872, to enter into any kind of job, and, in that connexion, restrictions on the kinds of crops they produced were taken away and they could make free disposal of their own lands. Far more significant, however, was the revision of the land-tax law which was promulgated in 1873, and fully effected after 6–7 years of heavy government expenditure. It meant a radical change of the obsolete, piecemeal land-tax law into a modern, universal one under which urban real properties were also made taxable objects on a nation-wide scale. Speaking of the farmland, the harvest-tax paid in kind was amended to a revenue-tax, payable in cash. In this way, while farm-management was made to cope with money economy, farmers' relationships with their lands, which had been left in ambiguity for centuries, came to be established in accordance with the right of private ownership.

At the same time, the *kabu-nakama* 株仲間—organizations endowed with various monopolistic privileges, having much in common with guilds in mediaeval Europe—which had been organized profession-wise among the tradesmen and craftsmen in the cities and had prospered under the patronage of the *bakufu* and *han*, were deprived of their chartered rights soon after the Restoration.

The above measures were adopted with the sole purpose of emancipating the Japanese people from the shackles of the feudalistic class-system and, thereby, of instigating them for unrestrained economic activities according to their natural gifts. The abolition of the stipend-system, in particular, was unmistakably aimed at the transformation of *samurai* from a 'leisure class' (Veblen) to a 'productive class'; in this

respect, the granting of the capitalized pension bonds and hereditary pension bonds to the *samurai* had the justifiable aim of providing them with capital required for their initiation in new jobs. Though there was no specific mention of the abolition of the class-system among the "Overall Rejuvenation" advocated by the new Meiji government, the former proved to be the most effective lever for Japan's economic modernization in the government's economic liberalization policies. The government looked forward to commercial and industrial development in the country through the liberalization of economic activities among the people. The industrialism of the Meiji era as against the agriculturism of the Tokugawa era, or the shift of the economic basis of the country from agriculture to industry, was a deliberately planned policy of the new government.

Why, then, had the economic liberation policy to be adopted? It was the natural outcome of the Meiji leaders' argument that the resourcefulness of Western countries was due to their prosperity in commerce and industry, which again depended on the *laissez-faire* economies there. Yet the success of the economic liberalization policy in Japan was guaranteed by the fact that the commerce and industry of this country had attained such a stage of development as to catch up with the government liberalization policies. What needs to be emphasized here is that economic liberalization was not the ultimate goal by itself. What the government intended to adopt was neither a *laissez-faire* economy on the footing of modern individualism nor so-called 'capitalism.' Japanese people had in those days no idea at all about the economic system now termed by economists as "capitalistic" nor even the word "capitalism." Their attention was entirely absorbed by the phase of economic prosperity in the advanced countries based on free economic enterprise. The economic liberalization policy was taken up, therefore, as a tool for the maintenance of the politico-economic independence of the country for the realization of quick capital-accumulation and completion of national defence, in order to stand equally among the advanced countries in the West. It was the traditional nationalism that urged the government to adopt the liberalization policy. This will be shown more clearly in the protectionist measures resorted to by the new government.

3. *Protectionist Measures*

To meet the urgent purpose of national economic modernization, the government took positive measures in every possible direction. They might be studied under a few conventional headings as under.

1. Encouragement of Joint-Stock Companies

Japanese merchants were encouraged to incorporate joint-stock companies to strengthen their capital position, after the example of the West. The government printed readable pamphlets explaining the legal steps called for in the establishment of joint-stock companies and freely distributed them among the merchants. Big trading families reputated for able management were persuaded by the authorities to incorporate joint-stock companies in trade, exchange and banking, marine and land transportation, etc. The government's eagerness to see successful operation of these companies was demonstrated by its participation in their capital-formation and its provision of certain licences and privileges with them. The government decision was influenced by its judgment as to the importance of the enterprises above-mentioned to be raised and the intention to brush them up as so many models of the company form of enterprise for others to follow.

2. Introduction of New Knowledge and Techniques from Abroad

The modern techniques of the West were not totally unknown in Japan even before the Restoration as the *bakufu* and the *han* were keen to import them for their limited purposes and to their immediate advantages. Scientific knowledge was also acquired by a small group of people in those days. Under the new government, scientific knowledge and modern techniques began to be imported, under the slogan of "Civilization and Enlightenment," in more aggressive and systematic ways. Invitation of foreign experts and teachers to Japan, sending of students and trainees abroad, building of schools and colleges, etc., were the principal means for acquiring advanced foreign knowledge. As for the modern industrial techniques, the government established many model-plants equipped with advanced foreign machinery and operated on the foreign pattern.[1] They were very valuable, indeed, for the purpose of demonstrating modern production techniques to the general public, on the one hand, and for training local technicians and workmen on the other. The government's model-plants were established not only in the sector of the manufacturing industries but also in the mining and the agriculture-livestock industries. In contrast to the brilliant success achieved towards these ends in the manufacturing industries, agriculture and

1 Thomas C. Smith, *Political Change and Industrial Development in Japan: Government Enterprise 1868–1880*, Stanford, Calif., Stanford University Press, 1955. Y. Horie, "Government Industries in the Early Years of the Meiji Era," *Kyōto University Economic Review*, Vol. XIV, No. 1 (1939).

animal-husbandry experiments were not rewarding enough.

3. Government Investment and Financial Measures

In fostering private enterprises venturing into modern industries, the government spared no backing through the provision of subsidies, financing machinery imports, profit-guarantee, etc. In such fields, where the initial risks were too great, or where the private capital investments could not soon be looked for, the government did not hesitate to enter by itself. Railways, posts and telegraphs, highways and port facilities belonged to these kinds. Besides these "social overhead investments," the government was very eager in educational investment. All over the country, a good number of primary schools were built to prepare the younger generation for higher education in middle schools, colleges and universities, and normal schools were opened to turn out a corresponding force of teachers. This was effected under a rather ambitious plan to raise the national level of education within the shortest possible span of time.[1]

It is often remarked that "Japanese capitalism was bred and brought up by the government." These are apt remarks particularly in the context of the Meiji government's elaborate protectionist measures and, in fact, they were as effective. This is not to deny that a few "privileged merchants" were given a chance to exert their influence under the cover of government protection. Be that as it may, a few words must be added here about the relationships between these protectionist measures and the aforementioned economic liberalization policy. At a glance, these two do not seem to go hand in hand; and yet they did. For the national economic development, liberalization was the order of the day and protectionist measures were indispensable to allow the nascent industries at home to acquire enough competitive power against foreign enterprises. Tariff-barriers might have been raised against the invading foreign products if Japan had had tariff autonomy. Even if she had had it, Japanese trade and industry in those days were too backward to be fully protected behind a tariff-wall alone. Thus, all the direct protectionist measures taken by the government were to serve for the economic liberalization.

1 Kōichi Emi, *Government Fiscal Activity and Economic Growth in Japan 1868–1960*, Tokyo, Kinokuniya Bookstore, 1963, pp. 124–131.

III. ENTREPRENEURSHIP

In response to these government policies, many entrepreneurs came forward in various fields. J. Schumpeter says[1] that entrepreneurs belong to a category different from that of ordinary capitalists or business-managers, for their profiteering activities mean less for raising their personal living-standards and more for building up their own kingdoms. He also distinguishes 'creative response to change' as a characteristic feature of entrepreneurship. There might be countless changes, such as inventions of new techniques and environmental changes; to "respond" to them "creatively" would mean to get hold of these changes as golden opportunities for wise investment. Entrepreneurship, then, ought to depend upon each individual's personal quality and his sense *as an individual*, and has no direct relationships with social class to which he belonged. Emergence of entrepreneurship has a serious bearing on the economic advancement—the industrial revolution which took place in England, for instance, can be taken as an epoch-making phenomenon due to a wholesale emergence of 'entrepreneurs' in her economy as a whole.

The early years of Meiji were full of such "changes": Japan's entry into international trade, accompanied by a torrential inflow of modern industrial techniques which needed to be organized under a foreign pattern of business management; the demolition of the feudalistic class-system immediately followed by professional freedom or economic liberalization; the shift of the basis of the national economy from agriculturism to industrialism and a corresponding change of the value-system from social status-bound to economic power-oriented. The old concept of *chōnin* was replaced by the bright vision of *jitsugyōka* 實業家 (literally, gentlemen of business) as the social climate changed from that of tolerating "townsmen" at the bottom of the social scale to that enlivened by "businessmen." Atmospheric change in this direction levelled the path for the emergence of entrepreneurs in good numbers in this country.[2]

Entrepreneurs hailed from varied origins. Merchants assumed, at

1 J. Schumpeter, "The Creative Response in Economic History," in J. T. Lambie & R. V. Clemence eds., *Economic Change in America*, Harrisburg, Pa., Stackpole Company, 1954, pp. 9–17.

2 J. Hirschmeier, *The Origins of Entrepreneurship in Meiji Japan*, Cambridge, Harvard University Press, 1964. Y. Horie, "Modern Entrepreneurship in Meiji Japan," in W. W. Lockwood eds., *The State and Economic Enterprise in Modern Japan*, Princeton, Princeton University Press, 1965, pp. 183–203.

the beginning, a conservative attitude and were generally shy to the things new, but were gradually induced to invest in modern industries with their capital—many years' accumulation of their commercial profits. An increasing number of middle- and upper-class farmers—landlords in particular—came to be interested in modern silk-spinning and related industries. In this connexion, the fate of the rich merchants and wealthy farmers in the local castle-towns attracts our attention. Under the Tokugawa régime, their existence as so many financiers to *daimyō* was really significant and, in co-operation to the local industrial development plan sponsored by many *daimyō* for the maintenance of their *han*-finance, they acted simultaneously as advisers in drafting the programme, financiers for its execution, and licensed-brokers of the products as the fruits of such programmes. After the removal of the *han* and the disappearance of the *daimyō*, they found themselves in a position to promote local industries on their own initiative.

While tracing the origin of Meiji entrepreneurs, ex-*samurai*, who represented some 6 per cent of the total population in those days, deserve a special mention. By and large, *samurai* under the Tokugawa régime were in poverty. Poverty engendered inertia among many of them. A portion of them, however, was full of spirit. Forming the nucleus of the Reformation movement, they started on brilliant careers as so many leaders in political, educational, and other fields under the new régime. The business world also accommodated many of them as entrepreneurs, each with excellent leadership. As a critical reason for the emergence of many leaders in every walk of life from amongst the *samurai* who constituted the ex-ruling class, the author wishes to point out the fact that, in them, "Wealth and Honour" had not coexisted. This stood in a sharp contrast to the conditions of the mandarins (Chinese officialdom) of those days. It is well known that the open competitive examination system (*K'o chü* 科擧) had long been installed in China to recruit able persons, irrespective of their social standing, to the official establishment. Successful examinees could establish themselves as mandarins and were given landed property which was to be enhanced on promotion. They were also given many chances of receiving bribes. With them, wealth was wedded to honour. Conservatism, rather than progressivism, and an easy-going manner rather than self-discipline, was what they were tempted to fall into. The *samurai*—the type of officialdom which existed in Japan under the Tokugawa régime—lived on stipends whose scale had been predestined by family rank and, though not completely free from bribery, were generally clean and honest. Economically the *samurai*

was always inferior to the *chōnin*. Thus, there was no happy combination between the wealth and honour. The *samurai*, especially of the lower ranks, therefore, had least reason to hesitate in breaking the existing social framework. Deeply imbued with *élite*-consciousness in spite of their economic discomforts, it was no wonder that these *samurai* and their sons emerged to assume leading roles in newly-created fields of activities after the Meiji Restoration. Though they were deprived of social status as *samurai*, they acquired government bonds instead, which provided starting-funds with which they might enter commercial and industrial ventures (government bonds could be stand as collaterals for bank-loans). The Meiji government should be commended for its success in metamorphosing the *samurai* into productive elements in new Japan, as many entrepreneurs came from amongst the recipients of the pension bonds issued in lieu of *samurai* stipends.

Generally speaking, the pioneering entrepreneurs had been given in their boyhood, irrespective of their origins, education at or above the common level in the country. Those coming from the *samurai* class which was looked up to as a 'cultured-class' rather than a 'military-class' —at least the *samurai* took themselves as such—had spent not a few years of their youth in government colleges and schools (the *bakufu* and most of *han* had been running educational institutions) or in private schools reading the classics, and they were steeped in Confucianism and the sciences of the West. We can also ascertain from their biographies that entrepreneurs coming from commoners also had obtained education based on Confucianism in the private schools under one or several teachers and masters. As previously mentioned, Confucianism worked as a decisive cultural moulder of the Japanese people in the Tokugawa era and its influences were strongly felt in the Meiji period, too. Western learning and thought streaming into this country since the end of the *bakufu* régime could not wash away the philosophical groundwork of the Japanese people and completely change their 'Weltanschauung'; the former rather served to develop the latter. Pioneering entrepreneurs, indeed, deemed it their honourable mission to toil themselves for perfection of the Confucian Kingdom of Wealth and Might and assumed the helm of their enterprises with a belief mixed with more or less pride that they were simultaneously working for the public and national ends. The pattern of their character was, therefore, aptly defined as "Man of Japanese Spirit and Western Learning" (*Wakon Yōsai* 和魂洋才).

It is to be noticed that their favourite slogan "for the sake of the country," though we cannot receive it at its face-value, was accepted

with little doubt by the general public of those days.

Professor G. Ranis of Yale University, in his thesis: "The Community-Centred Entrepreneur in Japanese Development,"[1] puts a group of 'community-centred' entrepreneurs in between the bureaucrats (caricatured by him as so many living stamping-machines) at one extreme, and Schumpeterian entrepreneurs, whom he calls 'auto-centred' entrepreneurs, at the other extreme. According to Professor Ranis, 'auto-centred' entrepreneurs represent the type of businessmen who seek to accumulate wealth and build up power for themselves as a goal, while 'community-centred' entrepreneurs represent a group of businessmen who direct their efforts towards the creation of wealth and power on behalf of their community. Unconsciously, however, both accumulate wealth and power, the former on behalf of his community and the latter, for himself, as by-products. Professor Ranis concludes that the 'community-centred' entrepreneurs played a role so significant in Japanese development. The community as defined by Professor Ranis shall be our theme in the next chapter.

IV. MODERN ENTERPRISE AND THE "*IE*" (House-Community)

The word "community" may be interpreted in many senses. It stands equally well for the State, or for local society, town and village. Here, we shall confine its implication to the "*ie*" (house or house-community) which was taken up in Chapter I, and the role played by it in developing modern enterprise in Japan will be studied.[2]

The company form of enterprise, whose development the government had strenuously encouraged, permeated this country within a short span of time, though it is not always easy to explain why. However, if a joint-stock company, which is the representative form of modern enterprise, can be distinguished from other forms of enterprise because of the following three characteristics, then the Japanese "*ie*" had been furnished with all of them from the very beginning: (i) independence of enterprise from individual persons, or permanent impersonification of the enterprise as it is; (ii) joint-stock, and (iii) separation of proprietorship from management. A brief explanation to this effect will be made with reference to commercial houses.

The famous *Zaibatsu*, Mitsui, had as its kernel an 'unlimited part-

1 *Explorations in Entrepreneurial History*, Vol. VIII, No. 2 (1955).

2 Y. Horie, "Nihon no Keizai Kindaika to Ie 日本の經濟近代化と家 (The Role of the '*Ie*' in the Economic Modernization of Japan)," *Keizai Kenkyū*, Vol. XVI, No. 2 (1965).

nership' of the same name which was, in fact, a kinship-group comprising eleven Mitsui families. This kinship-group was set up at the beginning of the 18th century, each family maintaining independence by virtue of being one of the constituent members of the bigger "Mitsui House." The principal Mitsui family-business consisted of the trade in drapery as well as money-exchange, and heads of eleven families together established a business-operational headquarters in 1710 to assume a systematic and co-ordinated control over these two kinds of business-activities among the head-office and branch-offices. The headquarters distributed a portion of the business-proceeds among these eleven families, but it was done in quite a different manner from that of the dividend on shares or stocks held by recipients. The basis of profit-distribution rested on family status and such was given in the name of "board-expenses." The independence of the family, in truth, meant the independence of the household. In short, the above family-group and business-operational headquarters were essentially meant for the everlasting prosperity of the all-in-one Mitsui House.

On the other hand, the Sumitomo House with copper-mining and refining as its family-business stood as a compact and unitary body. Structurally, it have might lacked in a brake against the head of the family becoming dictatorial at times. A strict Family-Constitution (*Kahō* 家法) which did not allow even the head of the family to ignore it solemnly stipulated that no important business affairs should be decided by the head of the family without consulting his managers. The Sumitomo House was safeguarded against the dictatorial tendency of the family-heads under this Constitution. No doubt this was contrived for the everlasting prosperity of the house. Furthermore, all the Sumitomo employees enjoyed treatment appropriate to the legitimate members of the family.

Most of the trading or commercial houses, however, were more generous than the Mitsui or Sumitomo towards non-kinship in forming their family-groups. They generally accommodated non-relatives in the groups. The case of the Ono House of Kyōto dealing in raw-silk and money-exchange may be introduced here. The Ono House maintained a stable form like a three-faced pyramid—its head-family (*honke* 本家)[1]

1 *bunke* and *honke*—In the Tokugawa period, there the *bunke* system had been established without discrimination of social classes, and this was carried over into the Meiji era. A *bunke*, given the same family name and some assets by its *honke*, was established ordinarily by a son other than the first son, exceptionally by a son-in-law married to a daughter, and rarely by a trustworthy employee. The *bunke* was expected to help its *honke* when the latter got into difficulties and to send an heir in case the latter

being supported by three branch-families (*bunke* 分家) below. The head of one of these three branch-families was to be replaced in turn for a certain length of time by a person who was selected from amongst the senior managers. This is another device which aimed at the lasting prosperity of the house by admitting excellent non-kinship into the family structure.

While the formation of such kinship-groups represents the human side of a deliberate design for everlasting prosperity of "*ie*," its material contents were the family-business and family-assets. The more prosperous is the family-business, the bigger grow the family-assets, and vice-versa. Merchant-houses of the Tokugawa period knew it very well, and upheld their family-business in great reverence. Maintenance of their customers' confidence and trust was the first and last rule of their conduct, and "the honour of the business-house" was all that must be maintained. "Honest business" alone, in their minds, brought prosperity and prosperity begot assets. These assets invariably reverted to the family and, as a rule, remained indivisible. The assets of the business-headquarters of the House of Mitsui consisted of such indivisible common stocks built by the family as a whole and not the joint-stocks shared by the eleven affiliated families. Succession in a single line in case of the Sumitomo House was probably due to their fear of division of its family-business and family-assets.

As is widely known, there was established, during the Tokugawa period, a system called "separate-house" (*bekke* 別家). Under this system, the senior employees with long careers of honest service to their master were given a sum of money and a part of his clients at their separation from the merchant-family; they made use of the money given to start separate business-houses but invariably under the business-title of their old master. It really stood for a form of awarding retirement-allowances to one's dutiful servants, but the established business of their master was never divided nor his assets split in pieces. It was rather intended to enhance the old master's family-group through creation of "separate-houses," thereby safeguarding the continuous prosperity of the "*ie*" as an entity. In short, the family-business itself was built on indivisible family-assets—in a sense, the family-business itself was the assets of the family—and it worked in a way similar to the joint-stock in the modern corporate enterprise.

The family-business used to be personally managed by the head of

lacked a proper successor. In short, the *honke-bunke* system was a device to prevent the extinction of the family line and aimed at the lasting prosperity of the "*ie*." pp. 98–103.

the family in a smaller unit, but by a manager or a group of managers in a bigger concern. Both the Mitsui and Sumitomo houses had some half-a-dozen managers, and the day-to-day management of their family-business was entrusted to those senior employees. They were selected from amongst the senior-most employees who had spent many years of service in climbing up the steep ladder from apprenticeship to clerk and from clerk to assistant, before reaching the height of managership. In post Restoration years, extraordinarily brilliant characters were sometimes scouted into the established business-houses to assume the post of managership but, by and large, this highest attainable post for the employees was reserved for those who had been brought up in their master's house, under his strict discipline. This practice of allocating managerial duty to senior employees, in fact, resulted in the divorcement of the managerial function from the ownership of the enterprise. Our old custom of entrusting the senior managers with the managerial work of the enterprise partly originated from the traditional sense of family-worship which could not tolerate the family honour to be spoilt by personal fault of its head. It was also to satisfy the demand to increase managerial efficiency by filling the post with the best brain among the experienced. This pattern of modern managerial system was naturally introduced into Japanese enterprise out of a strong urge for the perpetuation of their family prosperity.

Summarizing the above, we may say as follows. The attitude of desiring the maintenance of the family would lead to conservatism. In fact, unexperienced engagement in business-deals, particularly those of a speculative nature, was put under a taboo in the Tokugawa era—many Family-Constitutions of business-houses literally say so. In such a climate, the economy of the country had remained dull. With a change of social conditions, people increasingly came to react to their environments constructively and started to look forward for the further prosperity of their families in new fields of business. The Meiji Restoration gave such an impetus. Not all the business-houses turned forward-looking overnight—rather, most failed to avail themselves of the change of social conditions to extend their family-business; yet a group of traditional families stepped out under a new guise. The Mitsui and Sumitomo houses were only a few typical examples of them. Although both families adhered to the system of indivisible joint family stock, many others transformed their joint-family-assets into joint-stocks shared by their own people.

The "*ie*" was the object of loyalty even for the family head, and

needless to say, for the employees. Again, the "*ie*" was in their minds the "public," as against their personal, "private" matters. Moreover, while the "*ie*" was the first and basic public institution, there were the secondary and wider ones, the state being the highest among others. Thus, in the minds of the Japanese people, the idea of "for the sake of the '*ie*'" could immediately and with comparative ease be enhanced to the idea of "for the sake of the country." It was due to the magic-wand of the traditional Japanese sense of "*ie*" that the businessmen of Meiji era behaved as so many 'community-centred' entrepreneurs.

V. CONCLUSION: SELF-PROPELLED MODERNIZATION

The role played by the old traditions nurtured during the Tokugawa period in the process of Japanese modernization as started by the Meiji Restoration has been discussed in the preceding chapters. Three elements have been argued: (i) the old *élite* functioned as a new *élite* after the Meiji Restoration as well; (ii) Japanese nationalism had already been formed during the Tokugawa period; and (iii) Japanese people took the "*ie*" far more seriously than each individual. These three, combinedly, smoothened the maintenance and development of 'leader-follower relations' in Japan in political, economic and other fields. This did not preclude occasional frictions accompanying individual issues and, in fact, bloodshed incidents were not necessarily rare. Among such, the military conflicts between the Imperial forces and the *bakufu* army on the eve of the establishment of the new Meiji government and the Saigō Rebellion in 1877 may be pointed out as two major cases. Unhappy accidents though they were along the course leading to unified rule, they were characteristically foreign to today's 'coup d'état' or 'counter coup d'état.' For example, Tokugawa Yoshinobu 徳川慶喜, the last Shōgun ousted by the force of the Restoration, was not made a prisoner but simply degraded to the rank of a *daimyō* entitled to a fief convertible to 700,000 *koku* of rice. The "Liberty and Popular Rights Movement" (*Jiyū-Minken-Undō* 自由民權運動) which rose high after the Saigō Rebellion had been settled, must be differentiated from a kind of conspiracy to overthrow the government.[1]

One of the significant effects of the fact that leader-follower relations could be maintained and developed without major frictions in Japan was that she was enabled to raise the funds required for her economic

1 R. A. Scalapino, *Democracy and the Party Movement in Prewar Japan*, Berkeley, University of California Press, 1953, p. 45 ff.

modernization almost single-handedly.[1] Soon after the start of the Meiji government, two kinds of debentures were issued abroad. The first was the 9 per cent loan of one million pounds sterling (4.88 million yen) floated in 1870 for the purpose of constructing the Yokohama-Tokyo and Kōbe-Ōsaka railroads. The second, also floated in London in 1873, was a loan of 2.4 million pounds sterling (11.71 million yen) at 7 per cent interest to help the government meet the financial needs of pension commutations. Since then until the Sino-Japanese War (1894–1895), no loan was ever floated in the foreign market and, in the meanwhile, the government completely redeemed the above-mentioned two loans. The Meiji government had earlier honoured all the debts to the foreign commercial firms and banks which it took over from the former *bakufu* and *han* governments at the time of the Restoration, within 5–6 years of its coming into being.

But how was the capital to meet the requirements of economic modernization actually mobilized? Commercial houses had their own family-assets and *samurai* got the hereditary pension bonds or capitalized pension bonds in lieu of their stipends. In case of the farmers, especially land-owning farmers, surplus-profit due to them through favourable terms of trade in marketing rice occasioned by the hyper-inflation following the Saigō Rebellion was added to their assets. These formed the source of private investment in modern industries. A question still remains. How was it possible for the government to raise the fund which was actually spent in accordance with the above-mentioned protectionist policies? The answer is simple and straightforward: The one was its success in obtaining a stabilized land-tax revenue, and the other the issuance of inconvertible paper-notes.

As explained earlier, the government came to secure in its own hand the land-tax which had been divided among the *bakufu* and *han*; moreover, the land-tax which made up the greater part of the annual revenue was made free from yearly fluctuations due to weather conditions, etc., because it came to be paid in cash and not in kind. These benefits were brought about by the radical changes made in the land-tax law and they jointly assured the new government of sound finances. Still, it was very much short of the expenditure-demand pressing hard on the government which had so many commitments. The alternative was an issuance of inconvertible paper-notes. By 1881, its aggregate total reached

1 Y. Horie, "Capital Formation in the Early Stages of Industrialization in Japan," in *Second International Conference of Economic History in Aix-en-Provence*, Vol. II, Paris, Mouton, 1965, pp. 685–700.

a level of 143,576,000 yen, exceeding an aggregate total of the annual tax-receipts in the corresponding period. But for the 20,000,000 yen which was directed to the Saigō Rebellion, the rest of the amount was mostly spent in financing the current expenditures of the government. The source of the government investment for the execution of its protectionist policies, such as the granting of subsidies and financial assistance to private enterprises, etc., came from the land-tax receipts plus the circulation of the inconvertible notes.

In those years, the trade balance of Japan was perennially in adversity and she had no means of checking a liberal outflow of specie abroad. Issuance of inconvertible notes valuing an enormous amount at this juncture unavoidably provoked a terrible inflation. Inflation no doubt stimulated economic activities and induced livelier investment, on the one hand, but deteriorated the government finances through commodity-price increase and intensified the difficulties of the people's livelihood on the other. The trade balance further worsened and speculative elements became rampant in business. Thereupon, the government had to resort to definite measures to control the inflationary trend. One of the government leaders suggested the creation of an inconvertible-note depreciation fund with borrowings from abroad, and the establishment of a central bank with a joint-capital shared by Japanese and foreigners. At the back of this suggestion was advice given by a certain foreign minister commissioned to Japan at that time. The cabinet, however, did not give approval to this suggestion on the grounds that: (i) borrowings from abroad might help stabilize the value of the notes in the currency but not reduce the amount of the notes actually in circulation; (ii) even though both aims might be attained, it would not be wise to depend on foreign help for the creation of a note-depreciation fund. Matsukata Masayoshi 松方正義, the then Finance Minister, adopted in 1871 the drastic note-redemption measures based on a hyper-balancing of revenue and expenditure, a measure which overcame the inflation within 2–3 years' time. In the meanwhile, the Bank of Japan was founded in 1872 and within a short time the convertible bank-note system was introduced.

All through the above description, we realize that the modernization of the Japanese economy was propelled, by and large, by the country's own efforts. Those efforts had their origin in the Japanese people's tradition and were directed towards the construction of a modern state equal in every sense to the advanced countries of the West. It is to be admitted, however, that in the course of her westernization to attain

her ultimate purpose, environmental situations were in many ways favourable to Japan.

First, the technological level of the world was very much lower in those years than it is today. Petroleum and electricity were simply utilized for lighting purposes and the Bessemer process was the only modern technique for the production of steel. Chemical industry techniques were in their infancy. Speaking in general, it happened to be the time when production technique was about to make a spectacular advance with the backing of science. Needless to say, the manufacturing industry of the world was light-industry-centred. This was the reason why the Japanese people did not find it too difficult to adopt or imitate Western techniques.

Secondly, it was also the time when liberalistic ideas and policies based on these ideas enjoyed the heartiest welcome all over the globe. Foreign teachers and technicians thus freely travelled in and out of Japan and the exchange of machinery and techniques was least interrupted between countries; Japanese students were welcome wherever they went. Lack of ideological hostility among the world-powers in those days meant something very important for Japan. They were no doubt in rivalry among each other and, in fact, a few of them were very much covetous of extending colonial control over Japan. Yet, Great Britain, the biggest imperial power of the world, probably learning a lesson from her experience in granting an independence to America, maintained a most sympathetic and friendly attitude towards the start of the Meiji government. Under these circumstances and amidst the said international politics, Japan herself had no serious cause for internal conflicts. There was no bewilderment for her, either, at the cross-roads, one way leading to Capitalism and the other to Communism. Only one way was left open for Japan; to unite all the national strength to catch up on the Western powers.

Thirdly, Japan had a God-sent merchandise in the name of raw silk. Learning from China the primitive technique of sericulture-filature in the remote days of her history, the Japanese people had known how to breed and feed silkworms and reel silk-thread from cocoons. It was, however, since the middle of the Tokugawa period, when Chinese silk-yarn came to be imported in volume, that silk filature became a flourishing industry in Japan under the feudalistic governments' protection and encouragement motivated by the idea of self-substitution for foreign imports. By the time the country's door was forced open to international trade at the close of the Tokugawa Shogunate rule, Japanese raw silk

had attained appreciable qualitative development and it was made a champion export-item in earning the most coveted foreign-exchange. To meet with the augmenting world-demand for it, measures for both qualitative and quantitative improvements to the product were imminently required. Italian, and then French filature techniques were soon introduced.

The developing raw-silk industry contributed to the economic modernization of Japan in two ways: (i) raw-silk exports supported the otherwise precarious trade-balance of Japan. Japan's industrialization was conditioned by her capacity in importing foreign capital-goods and industrial raw materials; the ambitious modernization policy of the government kept up continuous pressure on her foreign exchange. But for the exports of raw silk and a few other purely indigenous products, Japan's trade-balance would have been helplessly frustrated. (ii) The raw-silk industry provided a lucrative supplementary-employment for the nation's farmers. Mulberry-orchards were extensively cultivated even on difficult terrain and the cocoons raised from their back-breaking labour fetched handsome money; not a small number of farmers' daughters turned silk-reeling-mill hands for wages which, though by no means fat, contributed to the household-economy of their parents. The cash-income obtained in greater or lesser volume through these channels undoubtedly raised the purchasing power of the farm households as well as their ability to save.

Blessed was Japan that she launched on a radical modernization programme some 100 years ago in a favourable environment and on a sound national ground where old traditions were made good for new venturers.