THE ZAIBATSU: JAPAN'S INDUSTRIAL COMBINES

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PREFACE

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Finally, Mr. Earl Stephanson, thesis committee chairman, whose encouragement and guidance went far beyond the normal teaching load, is to be especially commended.
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CHAPTER I

INTRODUCTION

In order to understand the unique features of the Zaibatsu, a historical examination of the factors which fostered its growth is imperative. Even though the Zaibatsu have been in existence for over 300 years there has been a notable absence of literature treating the subject prior to World War II. Since so much of the literature written after the war is highly prejudiced, due to war feelings, it is difficult to find unbiased material. For these reasons I have attempted to treat the subject of the Zaibatsu on a historical basis without any attempt either to praise or to criticize the system.

Purpose: The purpose of this thesis is to examine the conditions which enabled a few powerful families to control a major portion of Japan's economy. I propose to examine the origin of the Zaibatsu and the factors which enabled them to become the financiers of Japan's industrialization.

Second, I propose to show that the existence of the Zaibatsu was tolerated and encouraged due to the admiration and respect Japan had for the free enterprise system as evidenced by the West during the Meiji Era.

Third, I propose to show that the Dissolution Program as conceived and administered by the Allied Occupation Forces
was bound to fail for numerous reasons since the basic economic conditions in Japan were not changed.

**Definition:** The term "Zaibatsu" is vague and means many things to many people. Since there is no English equivalent of the word nor any Western organization constructed in the same manner, there is a great deal of confusion and controversy regarding the Zaibatsu.

For the purpose of this paper the term, Zaibatsu, is used to denote a few powerful financial families which have been able to secure control of a major segment of Japan's industry, finance, and natural resources for their exclusive benefit. The vehicle which they used to gain this power, which has generally been used judiciously, was that of capital investment. Conditions allowed them to acquire huge fortunes, which they were able to retain and enlarge by a grateful government in the Meiji Era, and then through their considerable control of that government to eventually control almost four fifths of the wealth of Japan.

**Scope and Limit of Study:** Since a great deal of the material available on the Zaibatsu is written in Japanese with accompanying exaggerations of records no attempt is made to show the statistical extent of Japan's growth in foreign trade, income, output and employment, but rather this paper is confined to the examination of broad trends in Japan's economy.
There is a brief examination of the role of agriculture in each stage of Japan's development due to the indispensable role it has played in the development of Japan.

Chapter two deals with the acquisition of the huge fortunes the Zaibatsu were able to secure and the feudal system prevailing in Japan which enabled them to become the most powerful single group in Japan.

Chapter three investigates the Meiji Era and the methods which the semi-democratic government solved the problems which were inherited from feudal Japan.

Chapter four treats the subject of the industrialization of Japan after it was opened to the rest of the world and the vital role the Zaibatsu played in making Japan a world power.

Chapter five examines the dissolution program of the allied forces, its effect on the Zaibatsu and their success in reorganizing along traditional lines.
CHAPTER II

TOKUGAWA JAPAN

Just as the nature of modern America cannot be understood without a knowledge of Puritan New England, the slave economy of the South, the westward moving frontier, and the general idea of individual freedom of conscience and action, so Japan cannot be understood without a knowledge of the feudal governmental system based on loyalty to overlord, on careful checks on the growth of power of Outside Lords, and on a general faith on Confucian principles of government and society which stress the interests of the social group rather than that of the individual.¹

The purpose of this chapter is to show that although the social, political, and economic factors prevailing in Tokugawa Japan were designed to maintain society in a rigid mold, it only delayed advances in technology and commerce. The ineptness of the archaic Tokugawa system in dealing with a money economy, currency, debt, and taxation foredoomed its very existence. At the same time, the peculiar character of Japan's economy was shaped by the factors inherited from Tokugawa Japan. Only through the study of these factors can the course of Japan's early industrialization be understood.

Early History: Tokugawa Japan dates from the early 1600's when Ieyasu Tokugawa established his indirect control over the three main islands of Japan: Honshu, Kyushu, and

Shikoku. The ingenious, though by no means unique, methods Ieyasu used to control these islands and insure the continuance of his rule are worth describing since they are the basis of most of the political and economic institutions of Tokugawa Japan, which lasted for over two hundred years.

In 1601, Ieyasu decided to establish his government in Yedo (present day Tokyo). He proceeded to exact huge levies from his feudal barons in order to make Yedo not only the military seat of the government but also the social and economic center of Japan as well. When Ieyasu died in 1616 the Bakufu (tent government) was firmly established in Yedo with the Tokugawa Shogun at its head. Ieyasu's policy of centralizing the Shogun's power and preventing any daimyo (feudal lord ruling a clan) from becoming rich or powerful enough to threaten his existence was continued by the Bakufu.

To guard against surprise attack and the possible emergence of hostile coalitions the Shogun rewarded the fudai (hereditary lords who willing gave their support to the Shogun) with strategically located lands. Although the fudai were by no means as powerful or rich as the tozama they

2Commander. For the purposes of this paper Bakufu and Shogun will be used interchangeably.

3Outside lords who owed no hereditary vassalage to the Shogun.
exercised political powers far in excess of their actual wealth. Their lands were so located that no tozama held land which was contiguous with another so that the fudai acted as both buffers and spies for the Shogun. Any tozama who might be so foolish as to attack Yedo would have either the rear or flank exposed to one of the loyal fudai.

Another method Ieyasu used to control the tozama was the system of sankin Kotai or the law of alternate attendance. This law is extremely important since it was one of the major factors which brought about the eventual downfall of Tokugawa Japan. It put a tremendous financial burden on the Daimyo and their retainers, the samurai (military class). Sankin Kotai required each tozama to remain at Yedo for six months each year. When he returned to his fief he was required to leave his family in Yedo as hostages to guarantee his support to the Shogun. As can be readily surmised this law led to the rapid growth of service industries in Yedo and along the routes leading to the capital. Since the service class had no land and did not produce the commodity which all commerce used in its transactions - rice - something else had to be used, thus money was introduced into the economy.

The laws promulgated by Ieyasu (Buke Hatto) in 1615 illustrate the extent to which Japanese social and political life were controlled. Articles 1 and 2 established rules for the samurai to "devote themselves earnestly both to literature and arms", and admonished them to "abstain from debauchery".
Article 4 dealt with the maintenance of order in feudal domains. A limit was put on the number of samurai a daimyo could retain, bridges he could construct, size and fortifications of any castles he could build, public works he had to complete and the accommodations he had to furnish the Shogun when he was visited. Articles 9 to 11 prescribed the costumes, arms, and terms of respect each class was to use. Finally articles 12 and 13 recommended that daimyo employ retainers according to merit and prescribed frugality for samurai.4

Social Classes: The separation of classes was distinct with the emphasis placed on the relative degree of superiority or inferiority between classes. Duties, privileges, and type of work to be performed by each were carefully prescribed.

Generally class distinctions can be divided into six parts. At the top was the emperor and his court at Kyoto. Although the emperor was still considered a direct descendant of the Sun God, he was, in fact, relegated to the role of a figure head; his sole function being to grant titles. He was given an annual rice stipend which was sufficient for daily needs, but when compared with the lowest daimyo, it was niggardly. The emperor was closely guarded and there was

little chance for him to rally a force sufficient to over-
throw the Shogun if he had been so inclined.

Next to the emperor was the Shogun. He was the
temporal ruler who was responsible for the continuance of the
Tokugawa Shogunate. All laws were made by the Shogun, with
the certain approval of the emperor, and he held the power of
life and death over any of his subjects. Out of necessity
he had the largest army at his personal command.

Second were the daimyo who were directly responsible to
the Shogun and, as indicated above, were required to spend a
portion of each year in Yedo at the Shogun's court. They
were broken into two distinct groups as far as politics were
concerned. There were about 196 fudai who owed hereditary
vassalage to the Shogun and there were the basis of the
Shogun's power. Approximately 87 tozama who owed no allegiance
other than that forced from them, after the battle of
Sekigahara in 1601 in which control of the Tokugawa was es-

tablished over Japan, ruled their clans with a great deal of
autonomy. However, the Buke Hatto placed restrictions on
such miscellaneous items as marriages, fortifications, repairs
on castles, contact with the court at Kyoto and a host of
other activities which might conceivably threaten the Shogun.

5E. Herbert Norman, *Japan's Emergence as a Modern
State* (New York: Institute of Pacific Relations, 1940),
p. 18.
Third in the feudal hierarchy were the samurai. This soldier class was retained by the daimyo for protection and to help rule the clans. They were a constant financial drain on the daimyo’s resources. Since the Shogun was able to insure a comparatively peaceful 250 year period in Japan's history, their existence became useless. The administrative code written for the samurai gave them special status. It allowed a samurai to cut down, on the spot, any common person who behaved “unbecomingly” towards them. 6

Fourth were the peasants who were the basic economic and social unit of Tokugawa Japan. The peasant was forced to give at least 40% of his rice yield to the daimyo and sometimes the ratio was as high as 70%. The peasant was perhaps the most closely controlled and regulated of all classes in Japan since it was assumed that he had little intelligence of his own. They were prohibited to own or transfer land, their choice of crops was restricted, and they were not allowed to build a fine house or wear silk clothing.

Fifth was the merchant or chonin, who was looked upon with contempt because it was felt he would stoop to any measure to make a profit and he was not trusted. The evolution from near the bottom of the social scale to one of the social

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elite took almost 250 years to accomplish, but the transition was complete by the end of Tokugawa rule in Japan.

At the bottom of the social scale were the Eta. This class of artisans were the manufacturers of leather goods, sandals and clogs. They were rigidly segregated and were not allowed to eat, sit, or smoke in the company of commoners.7

Plight of the Peasant: The colossus which supported the society of aristocrats, soldiers, and merchants, was of course the peasant. The peasant was not only restricted in the sale of land, clothes, and dwelling, but he was also taxed so heavily his existence was precarious even in the best harvest years. The usual rent payment was "four to the prince, and six to the people".8 However it was not unusual to find the division favoring the daimyo in higher proportions; five and five were quite common while instances of seven and three are recorded.

An account of Fujita Yukoka states that if a peasant wished to sell seven tenth's of his land, the buyer would so word the contract that as far as the law was concerned he had sold only three tenth's; thus the peasant had to pay taxes on seven tenth's while receiving the produce from three tenth's.

7 Norman, op. cit., p. 18.
Table number one is based on a survey taken in the prefectures of Chosu and Boshu in 1845. It shows the frequency and extent tenant farming had grown due to practices similar to the one just related. Note that out of a total of 291 villages surveyed there were 155 villages in which over 50% of the farmers were tenants.9

**TABLE I**

PERCENTAGE OF TENANT FARMING IN SELECTED PREFECTURES - 1845

<table>
<thead>
<tr>
<th>Percentage of Landowning Peasants in a Village</th>
<th>Number of Villages</th>
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<tbody>
<tr>
<td>100%</td>
<td>18</td>
</tr>
<tr>
<td>90%</td>
<td>26</td>
</tr>
<tr>
<td>80%</td>
<td>20</td>
</tr>
<tr>
<td>70%</td>
<td>32</td>
</tr>
<tr>
<td>60%</td>
<td>40</td>
</tr>
<tr>
<td>50%</td>
<td>46</td>
</tr>
<tr>
<td>40%</td>
<td>32</td>
</tr>
<tr>
<td>30%</td>
<td>31</td>
</tr>
<tr>
<td>20%</td>
<td>17</td>
</tr>
<tr>
<td>10%</td>
<td>7</td>
</tr>
<tr>
<td>Less than 10%</td>
<td>5</td>
</tr>
</tbody>
</table>

**TOTAL**

291

**Introduction of Money Economy:** With emergence of a money economy the peasant could no longer obtain all his needs by barter and he had to turn to the usurer and money lenders for aid. The terms of the loan were most harsh and

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once the peasant put himself at the mercy of the money lenders his chances of recouping his fortunes was slim indeed.

Any country as intensively cultivated as Japan, must necessarily depend upon extensive use of fertilizer. At the beginning of the feudal period one ryo (unit of money) would buy fifty or sixty barrels of dry herring for fertilizer but by 1735 the same amount of money would buy only seven or eight barrels. One tan (.0245 acres) of land yielded about three koku or fifteen bushels of rice. The price of rice was about one ryo per koku. Since it took about two ryo of fertilizer per tan in order to maintain its fertility, it took at least two thirds of the entire produce for manure. A further need for money was evidenced by the rise in the price of agricultural implements. A hoe which cost three hundred momme at the beginning of the Tokugawa period cost between 700 and 800 momme by 1735. A horse which formerly cost two ryo now cost at least ten ryo.10

As a money economy extended more deeply into the economic life of the countryside the peasants lot grew worse. Instead of having one tax to pay to the daimyo, which was excessive, the peasant also had to pay fifty to seventy percent of his small income in such taxes as those on the field,

10Norman, op. cit., p. 23.
The burden of taxation became so unbearable that the practice of infanticide became common, since the more humane methods of birth control were unknown. Riots and uprisings became common, especially in times of famine. The government sensed danger in these uprisings and legislated against them but to little avail. Between 1722 and 1860 there were over sixty local uprisings, sometimes to the benefit of the peasant but more often they were cruelly suppressed.

There were other means of escape for the peasant and perhaps the most attractive was immigration to towns. They could not only earn a better living but also were exempt from the tax burden. By 1712 the decrease in rural population was so noticeable the government made a strict census and decreed that all those who had left their native villages must return. Although this law was generally ineffective a small portion of the peasants returned. Those that did return, however, took up businesses that they had learned in the towns, thus, defeating the objectives of the Shogunate.

The flight of the peasant grew to large proportions in times of famine. In 1787, during the famine of Tennii VII, land sufficient to produce several million koku was abandoned.12

11 Ibid.
12 Takizawa, op. cit., pp. 80-81.
Degeneration of the Samurai: Wretched though the peasant life may have been, the exalted samurai soon began to feel the pressures of a money economy also. The samurai, above all others, considered money as being evil and its possession was considered contrary to the ethics of the samurai code. To have any money more than that necessary for paying artisans and traders was a gross breach of the principles set forth in the administrative code.

The continual journeys of the daimyo, between their domain and Yedo, necessitated by sankin Kotai, greatly increased the monetary needs of the samurai who were required to accompany their lords on these annual sojourns. As long as the daimyo was in his own fief he could and often did require his subjects to provide himself and his attendents with services, food and lodgings. When he entered the province of another daimyo he had to pay for all these services. The provisions of sankin Kotai requiring the daimyo to leave their family in Yedo also required the expenditure of huge sums of money for goods and services. In addition to these expenses the daimyo were also required to spend huge sums for the visitations of the Shogun and his ministers. "The daimyo of Kaga, for instance, spent over a million ryo for the new palace which he built for his distinguished guests".13

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13 Ibid., p. 47.
In order to get the money needed to support the expensive and elaborate style of living the daimyo enjoyed it was necessary to find a money market for his rice. At the same time it was necessary to reduce the rice stipends of the samurai, to such a low point that in many cases they were stopped altogether. As the daimyo became more impoverished the loyalty of the samurai slipped badly. Their economic well being had deteriorated to such an extent that they were one of the first groups to rise against the rigid caste system characteristic of the Shogunate.

The samurai provided the leadership in the overthrow of the Shogun and were extremely influential in the establishment of the Meiji restoration. Their cry Son-no (Revere the Emperor) and Jo-i (Expel the barbarian) gave the revolutionary movement a slogan which appealed to all and one which the Shogun could hardly legislate against.

Growth of Cities: The development of great cities such as Yedo and Osaka added greatly to the monetary need of Japan. In order to facilitate trade and commercial transactions the use of money became almost universal. Since many of the daimyo and their families either lived in Yedo or one of the other large cities the need for money grew. These conditions gave rise to a class of rice merchants, as no daimyo would think of carrying on commercial transactions with the lowly chonin.
At first transactions between merchant and daimyo were on a cash basis. However as expenses increased the daimyo issued notes on anticipated harvests and asked the merchants to take these notes which they guaranteed exchangeable for rice on demand. When the daimyo came to realize the brokers seldom required all the rice stipulated at once, the issued notes in excess of rice available. This led to violent fluctuations in the market price of rice. Table II shows the price fluctuations of rice over a thirteen year period. It should be remembered that speculation was not the only factor which caused these fluctuations, such factors as monetary devaluation and poor harvests also played their role.\textsuperscript{14}

\begin{table}[h]
\centering
\caption{Price Fluctuations in Rice Market}
\begin{tabular}{ll}
\hline
Year & Price per Koku (momme) \\
\hline
1854 & 84.8 \\
1855 & 77.1 \\
1856 & 82.4 \\
1857 & 106.3 \\
1858 & 131.5 \\
1859 & 120.4 \\
1860 & 203.0 \\
1861 & 142.5 \\
1862 & 172.0 \\
1863 & 100.0 \\
1864 & 325.5 \\
1865 & 513.0 \\
1866 & 1,300.0 \\
1867 & 590.0 \\
\hline
\end{tabular}
\end{table}

\textsuperscript{14}Norman, \textit{op. cit.}, p. 41.
Rise of the Merchant Class: As the cities grew the wealth of the merchants grew also. Although they were considered to be socially inferior to the soldier samurai, the flourishing trade, commerce, and the growth of a money economy greatly enhanced the merchants social status. By the end of the 17th century even the mighty daimyo were increasingly dependent upon the merchants, money lenders, and rice brokers for loans. The wealthy merchants used this lever of debt to buy their way into the nobility by adoption, marriage, or by acquiring the right to wear the double swords of the samurai.\textsuperscript{15}

The extension of markets due to the penetration of a money economy into Japanese society resulted in the development of a credit system.\textsuperscript{16} Specialization, dividing the credit system into four principal and several lesser groups, resulted. They were: (1) the \textit{ryogae-cho} who lent money to the daimyo, (2) the \textit{shichiya} or pawn brokers, (3) ordinary money lenders, and (4) \textit{mujin} or mutual finance associations.

\textsuperscript{15}It is significant to note that at no time did the merchants consider it desirable to "democratize" Japan. They merely used their money as a vehicle to nobility. This point will become more apparent when the history of Meiji Japan is considered.

and others. The types of credit extended were the same as conventional loans present in today's financial circles plus several other varieties which are interesting and give an insight into the great hardships a money economy placed on the people. The principal types of loans were secured loans, unsecured loans, loans which counted interest daily, and discounted loans. The special forms were (1) loans to the blind, (2) loans to the government and shrines, (3) loans which had to be repaid the same day, and (4) loans which carried 1% interest per day known as hyakuichi-mon (lit. 101 mon).¹⁷

The two most prominent associations engaged in finance were the junin-ryogae (ten men money changers) and the hon-ryogae or ordinary banking houses. The junin-ryogae were the most powerful and had the privilege of wearing swords and were exempt from taxation. They controlled all the other financial groups and had charge of government revenue and expenditures. This group remained fairly stable but the addition of new members and deletion of older members was not uncommon.

The most important financiers in Tokugawa Japan were the hon-ryogae or ordinary banking houses. They attended to exchanging gold and silver coins, making loans, bills, money orders, and receiving deposits. Control was in the

¹⁷Ibid., p. 216.
hands of the junin-ryogae who granted licenses to open new businesses and collected fees for the privilege of being in business. The number of hon-ryogae was limited and at no time did it exceed 200 families. Originally the hon-ryogae engaged in the exchange of gold and silver coins for clients. A commission was charged for this service which fluctuated but in the main was about 10 mon per ryo of gold. Since the hon-ryogae were engaged in general finance they were patronized by the Shogunate; Takehara by the daimyo of Owari; and the other hon-ryogae had equally important connections.\textsuperscript{18}

As the money economy progressed the hon-ryogae became engaged in official business such as (1) collection of the government's funds, (2) assaying gold and silver coins which were issued to feudal territories, (3) reporting the market price of gold and silver, (4) exchanging old gold and silver coins for new ones, and (5) the receipt of government funds for deposit.\textsuperscript{19}

To illustrate the internal organization of the great financial families, which had their birth during early Tokugawa Japan, the house founded by Mitsui Hachirobei in 1673, is perhaps the best example.

\textsuperscript{18}Ibid., p. 217.
\textsuperscript{19}Ibid., p. 218.
Hachirobei's career started as a money lender in 1673, and before many years he had won the influential position as adviser to the Shogun. From 1707 until the downfall of the Tokugawa Shogun, the house of Mitsui founded by Hachirobei was appointed as court bankers and treasurers. The house was able to maintain its position throughout the Tokugawa period and to consolidate it in the Meiji era.

The house of Mitsui was based on the Confucian ideology of revering elders. The family was the most important unit in society and the individual was subjected to the will of the family. In the official record, "The House of Mitsui: a Record of Three Centuries, Past History and Present Enterprises", the following excerpts from the family code are listed to illustrate the importance family and feudal loyalty played in the development of the company and in the conduct of its daily affairs.20

He understood the natural strength of the family system and he utilised (sic) it. He was the father of many children and before he died he formed them (his family) into collateral families and placed them in various businesses ..... On the basis of Hachirobei's will the constitution has remained in effect from the time the firm was founded.

1. The members of the House should deal with one another in close friendship and kindness. Beware the contentions among the kin would end in the ruin of the house.

2. Do not needlessly increase the number of families of the House. Everything has its limits. Know that new expansions, which you all may covet, will beget confusion and trouble.

3. Thrift enriches the House, while luxury ruins a man.

4. In making marriage, incurring debts or underwriting the debts of others, act always according to the advice of the Council of the Family.

5. Set aside a certain portion of the annual income and divide it among the members of the House according to their portions.

6. The life work of a man lasts as long as he lives. Therefore do not, without reason seek the luxury and ease of retirement.

7. Cause to be sent for auditing to the main office the financial reports from all branch Houses.

8. The essential of a business enterprise is to employ men of great abilities and take advantage of their special talents. Replace those who are aged and decrepit with young men of promise.

9. Unless one concentrates, one fails. Never touch another business.

10. He who does not know, cannot lead. Make your sons begin with the mean tasks of the apprentice, and, when they have gradually learned the secrets of the business, let them have a post in the branch house to practice their knowledge.

11. The members of the House should practise mutual caution and counsel lest they should blunder. If there be among you any evil doer, deal with him accordingly at the Council of the Family.

12. Sound judgement is essential to all things especially in business enterprises. Know that a small sacrifice to-day is preferrable to a great loss to-morrow.

13. You who have been born in the land of the gods, worship your gods, revere your Emperor, love your country, and do your duty as subjects!
The Closed Door Opens: Commodore Mathew Perry and others that followed him were to play an important part in the downfall of the Shogunate. After Japan was forcibly opened to trade in 1853, the export of raw materials brought about an inflationary crises which was both severe and disastrous. "The cost of raw silk trippled, tea doubled, and silk worm eggs were up tenfold".21 The subsequent unemployment due to business failures, the lack of raw materials, and the importation of cheap machine made products caused opposition groups to crystalize their efforts to overthrow the Shogun. Agitation by samurai, peasant, and the merchants became more open and active.22

21Although there is considerable controversy about the extent of the factory system it is safe to assume that a handicraft industry was well established, much to the Shogun's displeasure. In some localities there were several to a few hundred people working for one man. Nobutake Ike in his book "Political Democracy in Japan", (Maryland: The John Hopkins Press, 1952), pp. 106-107, gives and excellent illustration of the extent the Shogun went in trying to stop the development of the factory system.

"In recent years there has been a great deal of kokura sanka (a kind of Japanese duck cloth and braid) produced in the villages. Agriculture has been neglected, and in some villages cultivation has been impeded. Therefore, a proclamation was issued sometime ago, yet this has continued. We hear that on numerous occasions impudent people have laid in a supply of kokura and have sent out materials to have them woven. This is the rumor that has spread over the gori (county).

One loom per household is allowed for use in intervals when one is free from agricultural pursuits. Families with many hands may be permitted two looms. But no more than that will be allowed. It goes without saying that sending work to other families is prohibited. Therefore looms must not be rented out. Even though men and women servants (meaning workers?) have been coming previously, those producing kokura sanka must
One aspect of the Shogun's policy of isolation which caused considerable expense and public embarrassment was the encouragement of violent anti-foreign agitation. All Japan had become alarmed at the foreign intrusions of Russia, France, and England that a law was passed which ordered all of the citizens of Japan to attack and drive off any foreign ship that might violate the Japanese mainland. This resulted in huge indemnity payments to the United States, France, Great Britain, and the Netherlands.

The Shogun faced with the fiscal responsibility of constructing forts, producing weapons, and paying indemnities for attacks on foreigners found it necessary to debase the coinage. The gold content was reduced over eighty five percent thus applying further inflationary pressures on the economy. In desperation the Shogun placed further restrictions and heavier taxes on the peasant. When this proved to be insufficient to meet added expenses a policy of forced loans not hire them. Since as stated above it has been reported that cultivation is hindered, weavers, both men and women, must not go as day workers to the towns to say nothing of other provinces and counties. The foregoing is a translation of the work of Hirano Yoshitaro, Buruja Minshu Shugi Kakumei, (The Bourgeois Democratic Revolution), (Tokyo: 1948). pp. 106-107.

22 The merchants used their financial resources to enable the dissident groups to purchase weapons and finance the revolution which soon followed.
was exacted. These loans were unpopular to say the least since they were seldom if ever, repaid. The insulting and haughty manner the collectors assumed while collecting the loans further alienated the merchants and budding industrialists. The Shogun soon found a more lucrative and palatable source of money which was the payment of "thank money". The "thank money" was paid to the Shogun when a merchant or several merchants wished to have a particular petition look upon with favor. "Thank money" was also used in granting of titles.23

Finally, the very factors promulgated to insure its perpetuity brought 250 years of Tokugawa rule to an end. The deep resentment of the Tozama daimyo, the implacable hatred of the ronin (improverished samurai), the "asiatic wretchedness" of the peasant and the "inauguration of diplomatic and commercial intercourse with the western nations",24 coupled with the coffers of the great chonin combined into a force the Shogun was totally unable to cope with. In October 1867, the impressionable Emperor Meiji

23 The merchants used the "thank money" method of acquiring titles so excessively the Shogun was obliged to restrict the acceptance of "thank money" for the granting of licenses and favorable commercial legislation.

24 Most authors agree that feudalism ended in Europe by the end of the 13th century. It therefore stand to reason that pressures on the Tokugawa Shogunate would have been more extreme if the people have gained the chance of mingling freely with "enlightened" European traders. The author
was restored to power with the resignation of the last of
the Shoguns; Tokugawa Keiki.

The bewildering shift of loyalties from adviser to the
Shogun to financier of the revolutionaries, to economic
pillar of the Meiji government, which the House of Mitsui
and other chonin accomplished with ease, is not so difficult
to understand when it is realized that at no time did they
plan to destroy the rigid caste system of Emperor, daimyo,
samurai, and peasant; they merely wished to make it more
susceptible to trade and commerce. They wished to remove
the antiquated business restrictions instigated by the Shogun.

Summary: A study of the political, social, and economic
factors prevailing in Tokugawa Japan makes it apparent they
were bound to fail because of their inherent immobility. The
comparatively peaceful period, of over 250 years insured by
a strong Shogun, made the existence of the Samurai a para-
sitic drain on the economy of the nation. The elaborate

realizes there was a certain amount of foreign trade with the
Dutch, Spanish, and Chinese before Ieyasu came into power.
Also, there was a limited number of missionaries in Japan
until about 1638, which were used to amuse the Shogun, even
though they did win a large number of converts. The Shogun
became especially concerned with the militant Jesuit priests
since they not only tried to win converts to the Christian
faith but also dealt in court intrigue. Starting in 1587
and culminating in 1638 at the battle of Shimbara where over
37,000 Japanese Christians were slain, all foreigners were
barred from Japan. A few Dutch and Chinese traders confined
to Nagasaki were allowed to remain. It is alleged that the
Dutch complied with the practice of Efumi - trampling on the
pictures of Christ and the Virgin - in order to keep the
trading privileges granted by the Shogun.
rituals and *sankin Kōtai* with their ruinous costs coupled with the emergence of a money economy which the Daimyō were ill equipped to cope, assured their disintegration as a class. The necessity of maintaining large military forces (because of laws promulgated by the Shogun), public works, indemnity payments to foreign powers, armament works, earthquakes and fires, drained the Shogun's treasury so that it was necessary to tax more and more heavily, and the restrictions placed on trade and commerce angered the merchants sufficiently to warrant them to finance the revolutionary forces. The result was the overthrow of the Shogun.

Many authors contend the accumulation of fortunes by the chonin was morally wrong because it benefited such a small proportion of the population. The methods are often criticized as being vicious and unique to the orient. This contention while valid in some aspects, should be qualified with the observation that they were the natural outgrowth of the political, social and economic system prevailing in Japan. The chonin had talents the Shogun could have used to great advantage but he refused to do so, thus they were forced to turn these talents to the mundane tasks of finance and trade. As a result, they acquired huge fortunes using methods not unlike those used in Europe during the Middle Ages.
CHAPTER III

MEIJI ERA

The overthrow of the Shogun by the union of lower samurai and ronin backed by the purses of the merchant princes of Osaka and Kyoto, ushered in an era of remarkable growth and expansion, commonly called the Meiji Era or the Restoration.¹ The period 1867-1911 was remarkable both in the rapidity of accomplishment and in the comparatively peaceful means used to transform Japan from a feudal economy to a modern industrial economy. In less than 50 years Japan's sphere of influence was to extend over much of Asia and in less than one hundred years she, together with Nazi Germany, was destined to plunge the world into the most costly war of all times.

The speed and scope of Japanese accomplishment contrast with limited resources both in technological background and in basic raw materials. Thus the development was a triumph of planning and determination. But neither effort would have been adequate without an underlying principle of authority which assured planners and rulers alike of a completely organized nation whose population and resources were capable of mobilization for the undertaking. In effect, this accomplishment meant integration of an entire population into a single

¹For the purposes of this paper the period 1867-1911 will be referred to as the Meiji Era. The reign of the young emperor, Meiji Tennu, was to become one of the most modern and progressive Japan has known. He, like the progressive and imaginative samurai and ronin surrounding him, was anxious to rebuild Japan as a modern state which would command the respect of the world.
grand labor force susceptible to complete domination by a directing authority. This was achieved by exploiting twin principles of religion and political solidarity - duty to spiritual doctrines of Shinto and adoration of an Emperor. 

Since the period 1867-1911 is so important to Japanese History and particularly important to the development of Japanese industry it is necessary to examine the Meiji Era closely. During this Era the new government was faced with three major problems of (1) the future status of samurai and daimyo, (2) agriculture and, (3) foreign relations, all of which had to be solved before aggressive action could be taken towards industrialization. This chapter is devoted to an examination of these problems and their solution.

The Samurai Problem and Its Solution: In order to gain the proper perspective as to the size and strength of the samurai in relation to the rest of Japanese society it should be realized that between five and six percent of the total population of about 34.3 million were of samurai households or approximately 1,892,449 persons. It must be remembered that the samurai, although a numerical minority, held the greatest political power of any single force in

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3Norman, op. cit., p. 81.
Meiji Japan. The Samurai were the treasurers of the clans, advisers to the Shogun, trained army, scholars, administrators; in short the bureaucrats of Japan. This distinction is easily understood if, once again, the social structure and the breakdown of Tokugawa Japan is referred to; the common people were "not good enough" to hold these positions, while the mighty daimyo and his family were either not talented enough or felt the tasks were below their station.

In 1869 the Meiji government relieved the Daimyo of the obligation of supporting the samurai by assuming the annual stipend the samurai was theoretically assured. The samurai's stipend was continued for a number of years however, since it was feared that immediate abolishment of the stipend would not only cause extreme hardship but also might start a civil war.

The cost, although high (210 million yen), was paid over a seven year period and it was a comparatively moderate price to pay for the support of the daimyo and most of the samurai. Under this plan the most powerful daimyo received money enough to become members of the financial oligarchy while smaller lords and samurai were pensioned with little more than middle class income and some, perhaps the majority, were reduced to poverty.

For example, a daimyo with an annual rice stipend of 100,000 koku received the equivalent of $268,000 dollars
The bonds issued to take care of the annual pensions were divided as follows:

### TABLE III

**BONDS ISSUED FOR THE COMMUTATION OF PENSIONS**

<table>
<thead>
<tr>
<th>Persons</th>
<th>Yen</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samurai (1874-76)</td>
<td>16,565,000</td>
<td>8%</td>
</tr>
<tr>
<td>Daimyo (1877)</td>
<td>31,412,000</td>
<td>5%</td>
</tr>
<tr>
<td>Daimyo &amp; Samurai</td>
<td>25,003,705</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>(1877)</td>
<td></td>
</tr>
<tr>
<td>Daimyo &amp; Samurai</td>
<td>108,242,785</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td>(1877)</td>
<td></td>
</tr>
<tr>
<td>Shinto Priests</td>
<td>304,050</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>(1877)</td>
<td></td>
</tr>
<tr>
<td>Samurai</td>
<td>9,244,005</td>
<td>10%</td>
</tr>
</tbody>
</table>

Further encroachment on the daimyo's power was accomplished with the return of the land registers in 1869 by the four most powerful clans; Satsuma, Chosu, Hizen and Tosa. This act was particularly important because it gave the Meiji government the backing of the most powerful clans towards the

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5Norman, *op. cit.*, p. 95.
abolishment of feudalism and their active participation and acceptance of the new central government. This single act returned the land of Japan to the emperor on an "unconditional and voluntary basis", and wiped out the basic power of the daimyo; his clan.

Although these schemes met with only limited success, they were successful in relieving the pressures on the infant government and gave it the breathing period needed to consolidate its support before making a complete break with the samurai as a class.

E. H. Norman sums the peculiar circumstances facing the samurai as follows:

Although the samurai were a non-productive class under late feudalism, their swords had at least been at the service of their lords, but now the Restoration spelled their utter ruin as pure feudal retainers. Although the great leaders in the Restoration came largely from the lower samurai, yet this class, divorced as it was from any except small handicraft industry—to supplement the niggardly pittance paid them as stipends, samurai households commonly took to the manufacture of lacquerware, paper, twine, lanterns, and the like—could not embody any new mode of production which was gradually supplanting feudalism was, of course, the great chonin class. Its members were, however, so immature as industrial entrepreneurs and so inexperienced in statecraft that they had to

6George Uyehara, The Political Development of Japan 1867-1909 (New York: London: Constable & Co., 1910). The voluntary and unconditional basis, the author is careful to explain, was not without cost since the central government had to assume the debts of the daimyo in order to get them to comply with the return of the land registers. The only alternative was to resort to civil war, which the Meiji government couldn't afford.
rly on the state to develop industry and on the members of the former feudal class, especially the samurai, as administrators and statesmen. Since the samurai were not anchored in the new society as were the merchants and peasants (though in markedly different fashion), the great majority of them could not survive as an independent and distinct class. Yet they had to adapt themselves into government officials, bureaucrats, petty-traders, capitalists, professional soldiers, farmers, publicists, priests, teachers, anything in short but samurai. This problem of feudal warriors stranded in a modern society was one of major proportions, and it is small wonder that many of the samurai, deprived of all secure means of livelihood, longed for a return to the old order. Since the personnel in the Meiji Government was largely recruited from men of samurai origin, they made it one of their first responsibilities to find occupations for their less fortunate fellow clansmen as government officials, local administrators, bureaucrats, prison wardens, detectives, and policemen. Consequently the whole state apparatus was soaked through and through with samurai influence; to take but one example we might say without danger of exaggeration that the police force of modern Japan at its establishment was staffed almost entirely by former samurai.

Civil War: It is obvious that the tremendous financial strain placed on the Meiji government in the payment of annual stipends to the declassed samurai and daimyo had to be removed if the government was to survive. The removal of this burden was accomplished by the commutation of pensions in 1876. The commutation of stipends, though not the principal cause, was certainly one of the major causes of the civil war which came to a climax at the Satsuma rebellion.

The immediate cause for civil war was over the question of whether to declare war on Korea. Korea had insulted the Imperial government with a contemptuous note and by firing on a Japanese gunboat which was surveying the Korean coast. In protest over the vacillating stand taken by the Meiji officials
several governmental advisers, including Saigo Takamori, who later led the Satsuma rebellion, resigned and returned to their native clans.

The Satsuma clan, because of its geographical location, was cognizant, but indifferent, to the sweeping changes wrought by the Meiji government. The ex-daimyo, Shimadzu, had voluntarily agreed to the abolition of feudalism, but in fact, retained most of the old order and customs. Since Shimadzu agreed only with the maintenance of the emperor and no other governmental policy, the discontented samurai and ronin rallied to his fief. Shimadzu, however, was not enough of a leader to effectively lead the Satsuma clan in rebellion so his most trusted adviser, Saigo Takamori, led the ill fated uprising of samurai, ronin, and discontents in an assault on the government. Saigo and his followers were promptly defeated (Saigo was killed) by an army of 65,000 conscripts, mainly from the farms, which proved once and for all that the art of war was not the sole province of the samurai but belonged to all Japanese; thus Japan's feudal period ended.

Agriculture: Its Problems and Solution: Once the Meiji government had firm political control of Japan it was then able to concentrate on the second problem which needed

7 McLaren, op. cit., pp. 84-85.
immediate attention - agriculture. As explained in chapter two, Tokugawa Japan was supported by a strictly regimented, autocratically controlled collosus; the peasant. The role played by the peasant was not to be changed by the new government but only the mode used to accomplish this role. The land and the peasant were still to be the foundation of the economy, "the sacrifice" for capital accumulation, centralization of capital, and the primary source of governmental revenue.

The first and most important legislative remedy conceived by the Meiji government in its attempt to solve the agricultural problem was the Land Tax Reform of 1873. Its importance to Japan was two fold: (1) It was a uniform tax, hard to evade, provided for the legal recognition of private ownership of land, and (2) it provided a constant source of income to facilitate a modern budgetary state.

It can hardly be an exaggeration to say that without the tax of 1873 Japan could not have become a modern state capable of taking her place in the world. With the new tax the government was assured a stable income which was not affected by harvest or price as it had been under the Tokugawa tax system of payment in kind. Capital was accumulated, at the expense of the peasant, for both governmental and private enterprise.
The tax rate was decided by averaging the previous five years' yield and price in the locality in question. This average was then capitalized and taxed at 3% of the legal evaluation.

In 1873, before the land tax revision the number of cultivator-owner households was 39.83% of the total, part tenant households was 21.94%. By 1888 only 15 years after the land tax revision the increase in the number of part tenant part owner households had risen to 45.13% or an increase of 6.48%, while there was a decrease to 21.53% in tenant households. The decrease in owner cultivator was to 33.34% or a decrease of 6.49%. These decreases can be directly attributed to the tremendous burden placed on the peasant under the new tax law. Although, the decreases in owner households are not great it is a good indication of the extreme hardship the peasant had to endure.8

Table number four below is further evidence of the peasant's burden as shown by the decrease in the number of qualified voters able to pay the poll tax of five yen or more. In the 15 year period shown 41% of the voters were unable to vote because of nonpayment of taxes.9

8Norman, op. cit., p. 147.
9Ibid.
TABLE IV
DECLINE OF QUALIFIED VOTERS DUE TO INABILITY TO PAY TAX

<table>
<thead>
<tr>
<th>Year</th>
<th>Number qualified to vote by payment of five yen tax</th>
<th>Relative decrease 1881 is 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1881</td>
<td>1,809,610</td>
<td>100</td>
</tr>
<tr>
<td>1882</td>
<td>1,784,041</td>
<td>94</td>
</tr>
<tr>
<td>1883</td>
<td>1,718,020</td>
<td>94</td>
</tr>
<tr>
<td>1884</td>
<td>1,682,419</td>
<td>93</td>
</tr>
<tr>
<td>1885</td>
<td>1,637,137</td>
<td>90</td>
</tr>
<tr>
<td>1886</td>
<td>1,531,952</td>
<td>84</td>
</tr>
<tr>
<td>1887</td>
<td>1,488,107</td>
<td>82</td>
</tr>
<tr>
<td>1888</td>
<td>1,505,183</td>
<td>83</td>
</tr>
<tr>
<td>1889</td>
<td>1,462,183</td>
<td>81</td>
</tr>
<tr>
<td>1890</td>
<td>1,409,510</td>
<td>78</td>
</tr>
<tr>
<td>1891</td>
<td>1,175,045</td>
<td>64</td>
</tr>
<tr>
<td>1892</td>
<td>1,120,643</td>
<td>62</td>
</tr>
<tr>
<td>1893</td>
<td>1,118,508</td>
<td>61</td>
</tr>
<tr>
<td>1894</td>
<td>1,083,697</td>
<td>59</td>
</tr>
</tbody>
</table>

The problem of the final disposition of the deposed peasants was in the main disregarded by the Meiji government. The official policy was to be aware of the extreme hardships of the peasant but to ignore them. Since the peasant seldom left the land completely but remained and supplemented his income through cottage industries or by having his sons and daughters work in the new industries, a ready labor force was made available to the infant industries Japan was trying to establish.

The surplus labor which Japan has had since the beginning of the Meiji Era has given her a labor force which is willing to work for tremendously long hours for
subsistence wages in order to survive. However, it should be pointed out that a large labor force was needed in order for Japan to establish industry on a scale which could compete with the West. Consider, also that for several years before the restoration many peasants had been engaged in cottage industries thus providing an intelligent and industrious labor force susceptible to training, which was a decided asset to the modernization of Japan.

**Foreign Relations:** The final problem the Meiji government had to solve was relations with other nations. Fortunately, the government was sagacious enough to realize that any attempt to maintain the *status quo* in foreign relations would be disastrously defeated and large scale encroachment on Japanese sovereignty would result. Numerous examples of the fate of nations who would not or could not adapt to western military equipment and methods of production were close at hand. The fate of China, Java, Indo-China, India, the Phillipines, Hong Kong, and Macao-Singapore, convinced the Meiji government of the urgency with which westernization had to be accomplished if Japan was to remain an autonomous nation.9

If further conviction was needed the considerable loss of sovereignty suffered from the conclusion of the unequal

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treaties which Japan was forced to make with the United States, Great Britain, The Netherlands, Russia, and France proved conclusively, that in order to remain sovereign, Japan must adopt western means of conducting war and western methods of producing the weapons of war.

An investigation of the treaties Japan concluded with the United States illustrates the extent of encroachment on Japan's sovereignty.10

The first treaty Japan had with the United States was that signed by Commodore Perry in 1854. This treaty provided for:

1. The immediate opening of the Port of Shimoda with the Port of Hakodate to be opened one year later.
2. Permission to purchase supplies and the exchange of commodities was granted.
3. Assistance to shipwrecked American sailors was guaranteed.
4. Eighteen months after the treaty was signed an American Consul was to reside at Shimoda.
5. The United States was to get the most-favoured-nation treatment.

Less than six months later another series of treaties were signed which provided that Americans who broke Japanese laws would not be tried in Japanese courts but would be returned to their ships by the Japanese police.

Four years later an agreement between Japan and the United States which led to considerable hardship for the Japanese government, was that which regulated dutiable articles. This treaty, "The Treaty of Amity and Commerce between the United States and Japan", provided for duties from five to thirty five per cent on imports and a five per cent duty on all Japanese exports. It was grossly unfair to the Japanese in the exchange of currency. The ratio of gold to silver in Japan was 5-1 while that of the United States was 15-1, resulting in Japan being faced with the bleak prospect of an immediate drain of all her gold. When the government issued coins adjusted to the international rate the United States immediately accused her of violation of the treaty.

In 1866 a tariff convention in Tokyo provided for the revision of the Treaty of Amity and Commerce and reduced all import duties to five per cent. The tariff convention of 1866 was particularly objectionable to Japan for three principal reasons: (1) Japan was importing a mass of cheap manufactured articles from the West and exporting very little because she was unable to compete, (2) Japan was attempting to establish new industries, and (3) the loss of revenue to the Meiji government was particularly difficult to absorb due to the obligations incurred in the payment of pensions due the samurai and daimyo.
Japan had no alternative but to abide by these treaties and because of them made an almost hysterical attempt to imitate western ideas and methods in her determination to remain sovereign.\(^{11}\)

Although the need for capital in Meiji Japan was tremendous and generally inadequate, the government did not acquiesce to the temptation to seek foreign loans which would have further encroached on Japanese sovereignty as had happened in China.

From 1867 until the end of the Meiji Era only two foreign loans were contracted. The first loan secured in London in 1870, was for 913,000 pounds at nine per cent interest. The money from this loan was used to construct the first railroad between Yokohama and Tokyo. The second loan was for 2,400,000 pounds at seven per cent interest which was also contracted in London. This money was used to help pay the governmental obligations in the commutation of pensions due samurai and daimyo.\(^{12}\)

Summary: Much of modern Japan's rapid growth was due to the brilliant leadership of the former samurai, who became the leaders of the Meiji government. Although they were besieged by internal strife and external pressures, the

\(^{11}\) McLaren, \textit{op. cit.}, p. 56.

\(^{12}\) Norman, \textit{op. cit.}, p. 117.
statesmanship these former samurai exhibited during the trying period following the overthrow of the Shogun enabled the government to solve its problems with a minimum of strife. Left with the feudal legacy of the Tokugawa, there was little chance of social change originating with the masses. Thus the solution to the problems of samurai, daimyo, agriculture, and foreign relations was autocratically imposed from above.

It was only after the solution to the problems inherited from the Shogun, that the Meiji government was able to turn its full attention to the role of government in Japan's industrialization. The role Japan's government elected to follow was to make a few moneyed families the power behind the government and to eventually allow these families to control governmental policy.
CHAPTER IV

EMERGENCE OF THE ZAIBATSU

Faced with the Herculean task of industrializing Japan's backward economy, the Japanese government was forced to choose between two alternatives in regard to the Zaibatsu; expropriation or accomodation. The choice was accomodation since this alternative offered the least resistance. Had the government chosen to expropriate the Zaibatsu's wealth another problem of major proportions would have been added to those of samurai, daimyo, agriculture, and foreign relations.

The Zaibatsu, for their part, were quite willing to accomodate the government for two reasons which were: (1) As entrepreneurs the Zaibatsu were naive, untested and hesitant to invest in new industries, thus governmental guidance and control were needed before they were willing to invest and (2) Investments, which the government encouraged the Zaibatsu to make, were generally guaranteed by the government. As explained in the previous chapter, prior to the Meiji Era, investment was confined to land ownership in order to acquire the extremely high land rents.

The purpose of this chapter is to examine the following aspects of Japan's industrialization: (1) The government's role in the establishment of industry, (2) the methods the Zaibatsu used to become the primary force in Japan's industrialization and, (3) the activities of the Zaibatsu in WW II.
The Establishment of Industry: In the early years of the Meiji Era the Zaibatsu were content to expand their former function as financial agents of the government since few of the houses were fitted or inclined to act as entrepreneurs in the new era. It was much safer to act as governmental agents in the execution of the government's policy since the government minimized the risks involved in the establishment of infant industries, although it could and sometimes did take many years before there was any realization of profit on original investments.

The industrialization of a materially backward country is usually accompanied by a high concentration of economic power either in the State or in a few private entrepreneurial groups. The reasons for this association are not far to seek. In such a country the supply of managerial ability is narrowly confined, while capital needed for development can be rapidly accumulated only if incomes are very unequally distributed or if the State can enforce savings on the necessary scale. So there is nothing surprising in the emergence of a few dominant business houses during the period of Japan's industrialization. It is true that their form, their internal organization and their relations with each other and with the government bore the impress of the country's social and political traditions, and that the actual direction of their development was determined by opportunities afforded by national policy. Yet in essentials, the Zaibatsu, though remarkable business constructions, were neither so peculiar nor so sinister as is sometimes made out.  

Since there was no middle class with the means or inclination to invest in industrial enterprises so vital to

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to the westernization of Japan, it was only natural for the government to look to their former comrades in arms - the Zaibatsu - for assistance. The Zaibatsu were the only group with the financial strength and executive ability to implement governmental policy in accordance with Japan's industrialization and westernization ambitions.

The industries begun by governmental initiative and guidance coupled with Zaibatsu funds are the basis of modern Japan's economy in almost every area where large scale capital is needed. A brief examination of governmental initiative in the establishment of and direction which Japanese industry was guided can perhaps be best shown by illustrations of the sugar and shipping industries.²

Although cane sugar had been produced in Japan prior to 1867, the industry had steadily declined due to the importation of cheap sugar from Java. With the annexation of Formosa the Japanese acquired extensive territories which were ideally suited for cane growing. Formosan sugar could not compete with the Javanese product, however, thus the government, which was interested in promoting trade with her new colony and in establishing a sugar industry in Japan

approached the problem with the national interest having precedence. The Zaibatsu were encouraged to invest in the Formosan sugar industry by the government agreeing to pay subsidies and by a high import duty on Javanese sugar. The result was that production of cane sugar trebled in less than ten years.

However, a sugar refining industry had already grown in Japan which was geared to the Javanese cane. The government was willing to foster this trade also and through the payment of subsidies, which were considerably less than those paid to the Formosan industry, an export trade of refined Javanese sugar soon flourished. Even though this arrangement was comparatively equitable, companies representing opposing interests agitated for the abolishment of each other. In order to resolve the conflict the government encouraged a merging of interests by having the raw sugar industries to start refineries and the refinery interests to enter into the raw sugar trade. The predominate companies in the sugar industries were owned by Mitsui and Mitsubishi the two largest Zaibatsu. 3

Thus, with governmental guidance, the Zaibatsu carried out governmental policy as semi-governmental agents.

3Allen, op. cit., pp. 80-81.
The need for a Japanese merchant marine was evident to the new government if geography alone was taken into consideration. Add the ambitions of the government to the geography and the sum is the need for an indispensable service which had to be developed as expeditiously as possible. Remember that the years of isolation and the discouragement of the Shogun towards the building of ships large enough for ocean trade left Japan deficient in trained sailors and in the knowledge of marine engineering. In order to overcome this deficiency the government set up training schools supervised by British officers. English officers were also employed as masters of ships until the turn of the century.

Japan's modern merchant marine began with the acquisition of former clan vessels owned by various daimyo under the Tokugawa rule. These ships were purchased jointly by the government and certain private interests. Since these ships were severely limited in size, the industry was confined to coastal waters only. However, the expedition to Formosa required increased capacity, which the government purchased from abroad, and had the Mitsubishi operate. During the Satsuma rebellion shipping was once again increased in the support of the government's efforts. Mitsubishi expanded its already growing fleet by receiving government assistance in the form of long term loans for their support in suppressing the rebellion.
To get additional private investors in the shipping industry the government devised a scheme which guaranteed an 8% dividend on the capital invested for fifteen years. This scheme soon had so many companies in the field that fierce competition resulted which caused the government to pressure the companies involved to amalgamate. The result was the consolidation of competing lines into the Nippon Yusen Kaisha line which has retained the predominate position in Japan's merchant marine since that time. A limited number of lines were allowed to remain in the industry, however, among which the Osaka Shonen Kaisha was the largest. At no time was the Osaka line allowed to become large enough to threaten the supremacy of the N.Y.K. line.

The principal impetus for the growth of the shipping industry in Japan had been the outbreak of wars. More capacity was needed at the outbreak of war and many new ships were added to the merchant marine in order for Japan to effectively support her war effort. These ships were purchased from foreign countries since Japan had neither the capacity nor the engineering ability to construct the needed vessels.

The Navigation Subsidy Act, passed at the end of the Sino-Japanese conflict, paid subsidies to shipowners for the construction of ships over 1,000 tons with a speed of at least ten knots provided these vessels were employed in
foreign trade. This act fostered the acquisition of larger ships, the fostering of a budding shipbuilding industry, and the extension of service to all parts of the globe. Further impetus was provided for an expanded shipping industry by the Russo-Japanese War when once again it was necessary for more and larger ships to support the war effort. In 1910 an act empowered the government to subsidize mail steamship routes and a further expansion took place.

Although the progress of the shipping industry was slow and halting in its initial stages, once started, its progress was extremely rapid. An examination of the amount of trade carried by Japanese ships will give a good indication of the rapid growth of the industry. In 1893 only seven per cent of Japan's exports and less than nine per cent of her imports were carried by Japanese ships. By 1913, twenty years later, fifty two per cent of her exports and forty seven per cent of her imports were carried on Japanese ships.

The general pattern of the establishment of the sugar and shipping industry was the one which prevailed in almost all heavy industry during the Meiji Era.4

**Strategic Industries:** The overriding concern of the Meiji government was to develop strategic military industries as expeditiously as possible, with control remaining with

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the government. The entire resources of the state were thrown into the development of strategic industries as was evidenced by the outright confiscation of the clan mining interests, clan armories, armament works, seizure of the naval shipyards at Yokosuka, Nagasaki, and Ishikawajima, and the seizure of the former Bakufu armories at Sekiguchi.5

Transport facilities along with communications were soon developed and their control was maintained by the government. When requested to consider private ownership of telegraph lines, the Council of State issued a statement which said in part, "In the West there are countries where private lines are established for the purpose of communication; but the private lines often bring inconvenience in regard to secrecy in Government."6

The establishment of an iron and steel industry was paramount if the manufacture of strategic goods was to be accomplished without Japan being forced to rely on a foreign supply of these products, which would in all probability prove fatal to Japan's ambitions. The problems facing Japan in the establishment of an iron and steel industry were exceedingly difficult to overcome and have never been fully solved. An excellent attempt was made, however, with the

5Norman, op. cit., pp. 120-122.
6Ibid., pp. 122. (Italics in the original).
government providing both the capital and management to the industry. Japan is deficient in ore and coking coal making it necessary to import both. As a result her manufactured steel products were extremely expensive, since large subsidy payments were made in order to develop the industry. Little private capital was invested in the industry until after 1926 when a law was promulgated "which granted producers exemptions from the income tax and excess profit tax and at the same time increased the rate of subsidy," for certain classes of iron and steel, resulting in a steady decline in the government's percentage of the industry. The iron and steel industry was the only industry in which the government had the largest share of production for any length of time. The government was predominate in this industry until 1937.

Men of Yen: By the end of the Meiji Era the Zaibatsu, consisting of the House of Mitsui, Mitsubishi, Sumitomo, Yasuda, Okura, and five lesser houses, controlled between sixty and seventy per cent of all the wealth in Japan. The menial birth as lowly chonin which evolved to that of great wealth and esteem was promoted and abetted in its final stages by the Meiji government.

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All the Zaibatsu benefitted substantially from their official connections. The administrative talents, technical expertise, and capital resources needed for the execution of the government's expansionist policy were not widely diffused in Japan, and the State could not dispense with the services of the few who possessed them in financing its own activities in building up the economy. So the Zaibatsu gained high rewards in their role as the essential agents of the government. They received profitable public contracts. Valuable government properties were from time to time made over them in return for financial help. They rose on the tide of economic expansion to which they themselves markedly contributed, and by the time of the First World War the ascendancy of certain houses was well established.

For example, the Mitsui interests worked in close connection with Marquis Inouye, the leader of the Seijukai party receiving for their assistance valuable properties which were developed into the now famous Miike coal mining company. Through assisting the government in the sale and purchase of goods in foreign countries during the early Meiji Era, Mitsui founded the Mitsui Bussan Kaisha or Mitsui Trading Company which grew to become the largest trading company in the world.

As explained previously Mitsubishi, the second largest of the Zaibatsu, was founded by the Iwasaki family to assist the government in the establishment of the shipping industry. Acting as governmental agents with close connections to the Kenseikia party, led by Count Okuma, the Mitsubishi company

\[\text{Ibid., p. 128.}\]
established the largest shipping company in Japan, the N.Y.K. line. Mitsubishi was also given land, which they were reluctant to take, that was later developed into the downtown business district of Tokyo.9

Reward was not the only reason the government was willing to sell the Zaibatsu state properties at advantageous terms. Japan's territorial ambitions, which had to be financed, generated a need for monies the government could not afford to have obligated in industries showing only marginal profits. With the example of the West before it, the government was strongly influenced by observing that private enterprise was a prerequisite of wealth and power. Furthermore, if the properties were to remain in the hands of Japanese nationals, the Zaibatsu were the natural recipients since they were the only group in Japan with sufficient capital and technical skill needed to operate the properties.

The outgrowth of this peculiar Japanese situation was the promulgation of the Law on the Transfer of Factories in 1880. This law provided for the transfer of peripheral factories into the hands of private investors. The price paid for state properties sold under the Law of Transfer is indicated in Table Number three below.10 It is safe to

10Norman, op. cit., p. 131.
assume that the transfer prices indicated in the table below were the general pattern used in the disposal of the majority of governmental properties.

TABLE V
DISPOSAL OF GOVERNMENT PROPERTIES

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Price of Transfer</th>
<th>Government Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furukawa Cement Co.</td>
<td>250,000 yen (including the price of the land)</td>
<td>468,000 yen</td>
</tr>
<tr>
<td>Innai Mine</td>
<td>75,000 yen</td>
<td>195,000 yen</td>
</tr>
<tr>
<td>Knosaka Mine</td>
<td>200,000 yen</td>
<td>547,000 yen</td>
</tr>
<tr>
<td>Shinagawa Glass Factory</td>
<td>80,000 yen</td>
<td>189,000 yen</td>
</tr>
</tbody>
</table>

Perhaps the predominate reason the Zaibatsu excited the suspicion of the rest of the world was because of their internal organization. The vast industrial empires controlled by the Zaibatsu families had their foundations in the feudal past. The ownership of the companies, company activities, family and personal relationships were regulated by a family council in accordance with ancient family codes. Control of the industrial empire was exercised through the honsha or holding company. The Banto or executive of the holding company was appointed by the family council on the advice of other executives of the honsha and lesser executives in the major subsidiary companies. Although, the Banto, became wealthy in their own right, they were always at the mercy of the family council.
Personal relationships within the company were governed according to the Japanese samurai tradition which demanded absolute loyalty to superiors. Company housing, recreation areas, medical facilities, bonuses and a host of other paternalistic and socialistic prizes were the reward of the loyal employee. Another important reward which the faithful received, in short Japan, was the guarantee of a job for life. This guarantee, which was not in writing, was a fact none the less since very seldom was a worker temporarily laid off or fired.

The death of the emperor Meiji brought to an end one of the most remarkable periods in Japanese history. For the Zaibatsu, however, the years 1911-1945 were to be the years in which they reached their zenith of power. Years in which the world was to witness the might of a newly industrialized nation now strong enough and determined enough to threaten the existence of nations which less than fifty years before had compelled Japan to sign unequal treaties and grant them extra territorial rights.

During the period 1911-1937 the Zaibatsu extended their indirect control over an ever increasing share of manufacturing and commerce. By the use of intercorporate, personal and political ties the larger Zaibatsu developed into huge diversified enterprises. A notable lack of

11See Appendix A.
public restraints on the exercise of monopolistic power in Japan was balanced by the dubious belief that the Zaibatsu, because of their diversification, would be forced to compete. There was, in fact, a good deal of competition between the Zaibatsu, however, the general was to "cooperate" with other Zaibatsu in order to prevent cut throat competition which would be uneconomical to all concerned.

Control of small-scale enterprises producing for national and foreign markets (about 50% of Japan's total) was exercised by the Zaibatsu retaining control of the sale of raw materials, granting credit, and providing the market for finished products. In reality the small-scale producer was an independent producer only as far as the Zaibatsu wished him to be. Since the small producer was faced with the dilemma of the price he paid for his credit and the price he received for his product, both of which came from the same source, his bargaining position was very weak. The largest company in Japan the Mitsui Trading Company, was the outgrowth of handling the trade of both the small-scale producers and Zaibatsu products.

Earthquakes and calamities played their role in the growth of the Zaibatsu during the inter-war years. For example after World War I the Japanese economy became depressed, as did the economies of the rest of the world. However, because of the earthquakes and fires in Yokohama, a reconstruction
boom developed in 1923. Because of large imports for reconstruction, Japan was forced to use her short term credit balances remaining in foreign countries at the end of 1920. The resulting manipulations of the yen, in the attempt to maintain it at an inflated parity value, precipitated the bank crises of 1927. In desperation the government granted huge outlays of public funds in order for the banks to recoup their losses. Official encouragement was given for the amalgamation of banks and trust companies so that easier control and greater strength to the financial system in Japan could be acquired. Reorganization of financial institutions was accomplished at a rapid rate as shown by a comparison of the numbers of banks and trust companies in 1920 and 1937. There were 2000 banks in 1920 and only 377 in 1937. The 648 trust companies in 1920 were consolidated into 72 companies in 1937.12 Seven of the new banks were particularly important because they controlled over three fifth's of the loans in Japan. Four trust companies controlled over half of all the trust funds in Japan.

The paradox of the twenties was that although much of the financial disorder of this time was due to the power and independence the Zaibatsu enjoyed it tended to concentrate financial control of Japan more firmly in their hands. As the Zaibatsu grew in power their influence on governmental

12Allen, op. cit., p. 141
policy became more pronounced. Top Zaibatsu executives held high government offices such as Minister of Commerce and head of the Bank of Japan. They, with the government, developed semi-official institutions such as the Yokohama Specie Bank (controlled by the Imperial Household), the South Manchuria Railway and the Banks of Taiwan and Korea, which were indirectly controlled by the Zaibatsu. The failure of the Bank of Taiwan was due to the crisis of 1937 and a behind the scenes power play of the Zaibatsu.\footnote{Lockwood, op. cit., pp. 556-566.} 

With the shortage of capital coupled with the experience the Zaibatsu had gained during the Meiji Era, familiar business devices were used to further concentrate power. The best engineers and managers were hired by the Zaibatsu, certain economies in management, research, and inter plant operations were gained. Tremendous pressure was brought to bear on any company or group which might challenge the position of the Zaibatsu. No successful assult was made until the early thirties when several new combines were formed to advance the war effort because of both the hesitancy of the established Zaibatsu in giving their wholehearted support to the ambitions of the Militarists, and also to the tremendous growth of the war economy.\footnote{Ibid.}
Perhaps the absence of public control of big business was the principal reason the Zaibatsu were able to flourish for such a long period. Through their political connections the Zaibatsu were able to have the laws written so that as few restrictions as possible were placed on their practices. For example, there were no legal restrictions imposed on interlocking directorates, none against exclusive sales agents, none against secret partnerships, no protection for the small stockholder; auditors were usually appointed by the Zaibatsu executives, stockholders had no right of access to corporate books, and a law which was lax in its requirements for full and accurate information about company activities. Lockwood gives an enlightening example of the balance sheet of the Yasuda Kyogo Company. Although capitalized at forty million yen it could, "list a few items under such unenlightening descriptions as "investments" and "receivables" and then lump the remaining 75% of the company's assets together as "other current assets". 15

Politics: The arena of politics proved most beneficial to the Zaibatsu and it was here they gained advantages which are unparalleled in modern history. After the constitution

15 Ibid.
was promulgated, a liberal movement developed which reached its widest expression in the twenties.\textsuperscript{16} The Zaibatsu, many times in agreement, although generally at loggerheads politically, financed political parties sympathetic to their interests.

The classic example of the maneuvering the Zaibatsu used in their attempt to control political parties is clearly shown in the marriages of convenience, the Iwasaki family entered into. The combine was run by Baron Hishaya Iwasaki, heir to the original founder. His second son was married to the daughter of Seihin Ikeda, long top executive of the Mitsui combine, and holder of many leading posts in the government as well. The Baron's two sisters were married to two of the leading diplomats and political figures in pre-war Japan; Keijiro Sheihara and Takaki Kato. A daughter was married to Renzo Sawada another leading diplomat. Two nieces married Viscount Nagakae Okabe and Keizo Shibuzawa the former a diplomat and the latter a wealthy banker (one of the lesser Zaibatsu) who held many important government posts in finance and commerce. Finally, two nephews married daughters of Teizaburo Sakiya, an ex-vice minister of the Imperial Household and Tetsujiro Kataka, one time president of the Industrial Bank of Japan.\textsuperscript{17}

\textsuperscript{16}Ueyhara, \textit{op. cit.}, p. 10.
\textsuperscript{17}Lockwood, \textit{op. cit.}, p. 563.
Rise of the Militarists, Expansion, and War: In the early thirties a gradual reversal of public support to the side of the Militarists took place. The Zaibatsu's program for continued prosperity through economic expansion and a growing export trade suddenly seemed to be an impossible dream due to world developments. Because of the worldwide depression starting in 1929 resulting in the collapse of international trade together with rising protective tariffs, the only solution to Japan's lack of raw materials and markets seemed to be a resumption of colonial expansion in order for her to become a self-sufficient world power. The population explosion Japan experienced after the country was forcibly opened to world trade by Commodore Perry, made her particularly sensitive to any threat to her overseas economic enterprises. Her dependence on other countries for basic raw materials and markets put her at the mercy of the tariff policies of the other nations.

Finally, the world-wide dissolutionment with Democracy, following World War I, which fostered the creation of a host of totalitarian states with their seemingly superiority, which was congenial with traditional Japanese concepts of government, set the stage for the seizure of power by the ultra-nationalists, who believed that any means including; murder, intimidation, and limited warfare were justifiable in order to stir up the nationalistic emotions of the people.
Internal factors which aided the militarists were two-fold (1) the cult of Shinto worship and (2) the rise of the new officer caste.

The Meiji government came to power by advocating the emperor's right to rule. The government fostered this tradition since it gave them almost unlimited authority over the people. The elaborate state religion of Shinto, centered around the person of the emperor, and from the time of birth children were indoctrinated to have fanatical devotion to the emperor and to have an absolute faith in all statements which represented his will. The Zaibatsu, working in close connection with the government, felt the Shinto cult gave them an impregnable position as spokesmen of the emperor, so they were quite willing to support Shintoism to the fullest. All kinds of unresponsible statements and theories were permitted as long as they were carefully couched in terms of devotion to the emperor. This enabled the militarists, at the most opportune time, to neatly turn the tables on the Zaibatsu, by claiming that they and not the government were the true representatives of the emperor's will.

Any person who challenged the validity of the emperor concept was ruthlessly quieted. Government officials who made the mistake of either intentionally or inadvertently supporting a more rational explanation of the emperor were summarily dismissed from government service. College professors were
extremely careful in their references to the emperor lest they be chastised as having dangerous thoughts. A law passed in 1925 provided the government the right to stamp out dangerous thoughts. Any thought was dangerous if it questioned the position of the emperor or was against the system of private property.\textsuperscript{18}

Most of the army and navy officers were recruited from the farms, villages, and small towns, where the liberalism of the twenties penetrated only slightly. Historically, farmers and small landowners have always been the most conservative elements in society and Japan was no exception. Besides their natural distrust and resentment against many of the radical changes wrought during the twenties, they were the new generation taught the new education which placed emphasis on nationalistic and militaristic goals so they were quite naturally in complete sympathy with the expansionistic programs advocated by the militarists. Slowly, but surely, the officers corps, tutored in blind nationalistic beliefs from the age of 14, came to despise and hate the totally foreign philosophy of the liberals and Zaibatsu.

A reversal of the liberal trend of the twenties came in 1931 when the army without the approval or knowledge of the government, attacked and over ran Manchuria on the feeble

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excuse that Chinese troops had tried to blow up the South Manchurian Railway. Due to the unqualified success of the army in this expansionistic venture the government and business interests tried to justify the acts, rather than condemn them as acting against the will of the government, hence against the will of the emperor.

The beginning of the end of party rule in Japan was becoming a reality at the same time of the Manchurian incident. In May 1932 a group of army and naval officers assassinated the premier. The governmental and moderate leaders once again had the opportunity to take drastic action, to stand firm and united, to fight back. Instead they chose to accept the two acts as a license to abolish party government and set up a compromise government made up of professional bureaucrats, who were essentially moderates, party leaders, and the militarists. At first party leaders, financed and backed by the Zaibatsu, and military representatives were divided almost equally, but as time progressed the militarists soon took the lead in formulating new governmental policy and several cabinets were without party leaders at all.

The Diet, set up by the emperor Meiji, was never completely abolished but merely relegated to the dubious role of a debating society, since the military refused to listen to any of the arguments the Diet offered. To abolish the Diet would have been dangerous to the militarists since it
would have been a tacit admission that the emperor concept was merely a tool to control the masses.

Once the militarists were in control of the government they proceeded to use every means at their disposal both legal and otherwise to consolidate their position. Political murder, intimidation, political prisoners, and control of mass communication were all effective weapons of the military. Anything which was contrary to the militarists point of view was, if possible, banned or surpressed. Golf and other luxury sports were discouraged, dance halls were banned, bi-lingual signs were repainted using Japanese characters only, newspapers and magazines were censored, and the ranks of the dreaded thought police were expanded.¹⁹

Propaganda poured forth from the Propaganda Ministry in an ever increasing tide. Anti-American tirades against the bill passed by congress which invalidated the "Gentlemen's Agreement" classed the Japanese and all other Asiatics as being undesirable immigrants because of race. Desiring the colonial possessions of Great Britian and other European countries, Japanese leaders vilified colonial empires and contended Asia should be the province of Asiatics. The obvious omission that Japan would replace the European masters fooled few of the colonial people. In Japan, however,

¹⁹Ibid., pp. 169-171.
the majority of the people believed implicitly that Japan's rightful destiny was to free all Asiatics from European rule.

Although the Zaibatsu and other moderates, became increasingly concerned with the course the militarists were guiding Japan, they soon made their compromise with them. The militarists, fanatically nationalistic, did not have the technical knowledge or experience to operate the industrial complex needed to support a war effort. On the other hand, the Zaibatsu were fearful of the results if they refused to cooperate the military. Besides, they were content and pleased with the new territories for exploitation, increased arms and rearmaments programs, and the myriad of other programs with the tremendous profit potential a war economy would be sure to bring. They did not realize the extent of the militarists ambitions however, and as a result were "guided" by them into a much larger and disastrous war than they had bargined for.

War Economy: Prior to the outbreak of the war with China in 1938, government intervention and control over industry became an important feature of Japan's industrial development. Throughout this period the course of Japanese industrial development was subjected to the development of industries needed for military and strategic objectives. Measures were enacted as early as 1934, which paved the way for government regulation of industry on a broad scale.
One of the most important quasi-wartime control measures was the establishment of the Yawata Iron Manufacturing Company by the amalgamation of several private companies with the Yawata Works. This action enabled the government to secure control over almost the entire pig iron output and more than half the steel output in Japan. Another of the early pre-war laws worth consideration is the Petroleum Industry Law which forced the industry, mostly controlled by foreign companies, to store oil equal to six months sales and required licenses for the production, refining, and marketing of oil in Japan. The government was thus able not only to regulate the oil industry but also to get foreign "assistance" in building up an oil reserve for expansion.

As war approached, extensive legislation was passed which authorized the government to regulate strategic industries thus clearing the way for the realization of the militarists dreams. Although the industries which came under these laws were government controlled, they were given preferential treatment for capital expansion, supplies of raw materials, and permitted to import materials and equipment duty free. In certain industries subsidies and tax exemptions were granted.

The Zaibatsu were given the task of making the militarists grandiose schemes a reality and in the main were left undisturbed in the ownership and operation of industry. They held advisory positions on the government control boards and were able to temper the militarists desires with a modicum of business restraint. In the final analysis, however, the militarists issued the final judgement as to output, price, and employment in the industries listed in Table Six below, which shows the major industries under government control before the war started. 21

**TABLE VI**

**GOVERNMENT REGULATION OF INDUSTRY**

<table>
<thead>
<tr>
<th>Law</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum Law</td>
<td>1936</td>
</tr>
<tr>
<td>Major Fertilizer Industry Law</td>
<td>1936</td>
</tr>
<tr>
<td>Motor Car Industry Law</td>
<td>1937</td>
</tr>
<tr>
<td>Gold Production Law</td>
<td>1937</td>
</tr>
<tr>
<td>Synthetic Petroleum Production Law</td>
<td>1937</td>
</tr>
<tr>
<td>Iron and Steel Industry Law</td>
<td>1938</td>
</tr>
<tr>
<td>Mineral Production Law</td>
<td>1938</td>
</tr>
<tr>
<td>Electric Power Control Law</td>
<td>1938</td>
</tr>
<tr>
<td>Airplane Manufacturing Industry Law</td>
<td>1938</td>
</tr>
<tr>
<td>Machine Tool Industry Law</td>
<td>1938</td>
</tr>
<tr>
<td>Light Metals Industry Law</td>
<td>1938</td>
</tr>
<tr>
<td>Shipbuilding Industry Law</td>
<td>1939</td>
</tr>
<tr>
<td>Coal Distribution Control Law</td>
<td>1940</td>
</tr>
<tr>
<td>Synthetic Chemical Industry Law</td>
<td>1940</td>
</tr>
</tbody>
</table>

The emergence of national policy companies financed by the government and private was the second striking feature

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21 Ibid., pp. 8-9.
in Japan's war economy. These companies dealt with the production of war materials exclusively and since few of the companies started after 1936 were economically sound the government underwrote their operation by guaranteeing the principal and interest on debentures and stocks sold. Due to the close association the Zaibatsu had with the government, they contributed the bulk of the private capital invested in the national policy companies listed below.22 Operation of the companies was usually left with the Zaibatsu, subject of course, to government control if deemed necessary. In most instances the bulk of capital investment was by private individuals although there were wide variations in the percentage of private versus governmental capital. For example, the Yokohama Specie Bank, the Bank of Formosa, the Northeast Electric Power Company, and others were financed by private capital exclusively, while the Japan Iron Manufacturing Company was almost two-thirds financed by the government.

In Table VII, note that prior to the rise of the militarists, the semi-official companies were limited to banking institutions principally. However, as Japan's plans for expansion gathered momentum the semi-official companies became more and more engaged in industrial enterprises, especially after 1936.

22_ Ibid._
### TABLE VII

**SEMI-OFFICIAL COMPANIES IN JAPAN**

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yokohama Specie Bank</td>
<td>1881</td>
</tr>
<tr>
<td>Bank of Japan</td>
<td>1882</td>
</tr>
<tr>
<td>Japan Hypothec Bank</td>
<td>1896</td>
</tr>
<tr>
<td>Bank of Formosa</td>
<td>1897</td>
</tr>
<tr>
<td>Hokkaido Colonial Bank</td>
<td>1899</td>
</tr>
<tr>
<td>Industrial Bank of Japan</td>
<td>1900</td>
</tr>
<tr>
<td>South Manchuria Railway Co.</td>
<td>1906</td>
</tr>
<tr>
<td>Oriental Development Co.</td>
<td>1908</td>
</tr>
<tr>
<td>Bank of Chosen</td>
<td>1911</td>
</tr>
<tr>
<td>Korea Industrial Bank</td>
<td>1918</td>
</tr>
<tr>
<td>Formosa Electric Power Co.</td>
<td>1919</td>
</tr>
<tr>
<td>Central Bank of Co-operative Societies</td>
<td>1923</td>
</tr>
<tr>
<td>International Electric Communication Co.</td>
<td>1925</td>
</tr>
<tr>
<td>North Saghalien Mining Co.</td>
<td>1926</td>
</tr>
<tr>
<td>North Saghalien Oil Co.</td>
<td>1926</td>
</tr>
<tr>
<td>Japan Iron Manufacturing Co.</td>
<td>1933</td>
</tr>
<tr>
<td>Central Bank of Commercial and Industrial Assn.</td>
<td>1936</td>
</tr>
<tr>
<td>Northeast Development Co.</td>
<td>1936</td>
</tr>
<tr>
<td>Northeast Electric Power Co.</td>
<td>1936</td>
</tr>
<tr>
<td>Korea and Manchukuo Development Co.</td>
<td>1936</td>
</tr>
<tr>
<td>Formosa Development Co.</td>
<td>1936</td>
</tr>
<tr>
<td>South Seas Development Co.</td>
<td>1936</td>
</tr>
<tr>
<td>Imperial Fuel Development Co.</td>
<td>1937</td>
</tr>
<tr>
<td>Japan Transportation Co.</td>
<td>1937</td>
</tr>
<tr>
<td>Manchuria Development Co.</td>
<td>1937</td>
</tr>
<tr>
<td>Popular Loan Fund Bank</td>
<td>1938</td>
</tr>
<tr>
<td>Pension Loan Fund Bank</td>
<td>1938</td>
</tr>
<tr>
<td>Japan Gold Production Co.</td>
<td>1938</td>
</tr>
<tr>
<td>Japan Electric Power Generation &amp; Trans. Co.</td>
<td>1938</td>
</tr>
<tr>
<td>North China Development Co.</td>
<td>1938</td>
</tr>
<tr>
<td>Central China Development Co.</td>
<td>1938</td>
</tr>
<tr>
<td>Japan Rice Co.</td>
<td>1939</td>
</tr>
<tr>
<td>Imperial Mining Development Co.</td>
<td>1939</td>
</tr>
<tr>
<td>Japan Aeronautical Transportation Co.</td>
<td>1939</td>
</tr>
<tr>
<td>Japan Fertilizer Co.</td>
<td>1940</td>
</tr>
<tr>
<td>Japan Coal Co.</td>
<td>1940</td>
</tr>
</tbody>
</table>
Any nation preparing for war or engaged in a war must necessarily choose to develop heavy industry at the expense of consumer goods. Japan's lack of raw materials made it imperative that she restrict the manufacture of consumer goods, since the imports not only had to be limited to the production of strategic goods but the drain on Japan's foreign credit balances had to be kept manageable for her to be able to get the foreign credit needed to buy raw materials. The Zaibatsu naturally resented the governmental restrictions since the bulk of their investments were in consumer industries and foreign trade. However, as it became apparent that Japan's war with China was going to develop into the larger war raging on the European continent, the Zaibatsu had little choice but to follow the government's lead.

A tremendous amount of internal maneuvering between the radical extremists and the Zaibatsu took place as Japan's war machine grew. The radicals wanted all industry to be directed by the government which would appoint directors, and limit profits and dividends. The Zaibatsu, on the other hand, condemned the idea of bureaucrats running important industries. They offered an alternate plan which would leave corporate control in their own hands. Under this plan small enterprises would be forced to merge with larger concerns because it would be easier to control them and certain large scale economies would result. Voluntary and profitable cooperation between government and industry would result.
A compromise was worked out in December 1940, when the, "Outline for the Establishment of the New Economic Structure", was formally approved. This program stipulated that private industrial enterprise is to be the basis of the new structure while the government retained the right to manage certain industries as deemed justifiable by a committee of industrialists and government officials. The principles which guided Japan's war time effort are as follows:

Operators of industrial enterprises in important industries are to form organizations according to the nature of their business and raw materials handled by them. These economic organizations are to be special juridical persons and their affairs are to be conducted by directors, approved by the enterprises affiliated with them and by the government. The government is to supervise these economic organizations.

Finally, as Japan became more embroiled in world politics and less than six months before her attack on Pearl Harbor, the National Mobilization Law was passed which channeled all possible funds, labor and material into the war effort, thus placing Japan's industry in the straight jacket of a war economy.

Summary: Underlying circumstances favored the concentration of economic power in the hands of the government and a few great Zaibatsu. Since the public preferred to invest their money in the less risky bank debentures or fixed deposits, the development of Japan's economy was placed on the shoulders

\[23\text{Ibid.}, \text{p.} \ 57.\]
of either the government or the great financial houses. Due
to insufficient funds and no prejudice against private enter-
prise, the Zaibatsu were chosen for the task. However, since
it was so vital to develop strategic industries and because
the financial houses were reluctant entrepreneurs, the
government became the guiding hand in industrial development.

As Japan's economy progressed there was evidence of a
liberal trend in democratic though and government. The
constitution which was given to the people by the emperor
Meiji, was interpreted with increasing liberalism. The
growth of political parties, which were supported and financed
by the Zaibatsu, enabled the Zaibatsu to not only be advisers
to the government but also to be the administrators as well.
The Zaibatsu supported the liberal trend only as long as it
was to their benefit. As Japan developed politically the
rise of trade unionism and the increasing pressure of the
liberals to assume a more reasonable concept of the emperor
quickly changed their attitude to one of surpresion.

As the world situation changed and the great depression
came into full swing Japan, who was so thoroughly dependent
on foreign, faced the bleak prospect of economic starvation.
Her only alternative seemed to be expansion so that she could
become independent of world markets and supplies; a course
she pursued with vengance. As Japan's economy became completely
enmeshed in the support of her war machine certain features
became prominent. The foremost characteristic of Japan's war economy was that the economic structure of Japan's industry became highly unbalanced favoring the war industries at great expense to consumer industries.

Secondly, the role of the Zaibatsu, as outlined in the New Economic Order, enabled them to further concentrate their control of Japan's economy.

Thirdly, the lack of raw materials and the lack of the ability to produce machine tools in sufficient quantity was a serious handicap to Japan's war effort.

Finally, the managerial and technical talents of the Zaibatsu were indispensable in order for Japan to sustain her war machine for any length of time. Although these talents were acquired by coercion in the early stage of the development of the war economy, the Zaibatsu soon became willing cohorts of the militarists.
CHAPTER V

THE POST WAR ERA

When the Battleship Missouri entered Tokyo Bay on September 2, 1945, forcing the surrender of the Imperial Japanese government, Japan's industrial complex had been practically reduced to rubble. Whole cities had been totally destroyed and the fire bomb raids on Tokyo had reduced that once proud city to little more than a conglomeration of shacks and destruction. The city, itself, was almost 68% destroyed while the industrial complex in the outlying areas of Tokyo was almost 90% obliterated. The consuming task of the hour was the necessity of keeping alive. Few, Japanese, were concerned with little more than something to fill their stomachs and a place to sleep.

Into this void stepped the governments of the United States, Great Britain and Soviet Russia, determined first, to keep the nation alive, and then to prevent Japan from ever again having the ability to threaten world peace.

The purpose of this chapter is to examine the two most important occupation reforms in post war Japan; agriculture reform and Zaibatsu dissolution. The remainder of the chapter will be devoted to the methods the Zaibatsu used to gain their former prominence. An attempt to analyze the effect of the reforms and their permanency is included.
The immediate problem of the occupation forces was to feed and clothe the Japanese nation. Massive doses of foreign aid, worth more than six billion dollars, which came primarily from the United States, was the only solution. Through the import of huge amounts of agricultural products, including both food and seed, the public was kept alive for the first two years of the occupation.

**Agriculture Reform:** The allied powers had no intention of letting Japan become their ward indefinitely, however, and plans were formulated to instigate agriculture reforms which would not only relieve the peasant's burden of debt and taxation but also raise agricultural output through the added incentive of land ownership rather than the existing land tenancy. The result was that General Douglas MacArthur issued his famous Land Reform Directive, on December 5, 1945, which in effect, "cancelled the existing tenancy system and ordered the substitution of a new system of land ownership based on those who had cultivated it". ¹

The Japanese government was directed to formulate a plan containing the following provisions:

1. The transfer of land ownership from absentee land owners to land operators.

2. Purchase of farm land from any non-operating owner at equitable rates.

3. Sale of land to tenants at annual installments comensurate with tenant income, and

4. Protection of tenants who purchase land against revision to tenancy status.²

Initially there was a tremendous amount of opposition to the program from the government, land lords, and the farmers. The government used obstructionists tactics first in formulating and then in implementation of the program. The land lords were quite successful in obstructing SCAP aims by intimidation, slander, and, in rare, instances open overt violence against the peasants. The peasants for their part, were timid and afraid to oppose their old masters, they were uncooperative, feared reprisals after the occupation forces withdrew and since they were used to being told what to do, many were conspicuous by their absence at the polls, a cornerstone of allied policy in setting up the new land reform program.

Several unsatisfactory plans were forwarded by the government officials, who were careful not to antagonize the rich land lord class, and were promptly returned by SCAP headquarters for revision. The plan finally approved and accepted by SCAP was the Agriculture Land Adjustment Law as revised by Law No. 43 and Law No. 64, which provided for

²Ibid., p. 54.
a drastic revision of land ownership but allowed only minimal derangement of agricultural production. At the risk of oversimplification a brief summary of the major points of the law as revised is as follows.\(^3\)

1. An appeal procedure, for legal interpretation and official decisions of the village, prefectural, and Central Land Commission to the Ministry of Agriculture was guaranteed.

2. Each village was to solve its own problems, thus preventing the disruption of the pattern of overall land use and distribution.

3. Variations, according to the prevailing pattern in the area being reorganized, in the size of farms, from a minimum of 1.7 acres to 25 acres, were allowed.

4. Generally tenants would become owners of the land they were renting.

5. Each applicant wishing to purchase land must first prove he was a resident on an established farm in the locality in which he wished to buy.

6. He then must prove he was a tenant and had the ability to work the farm.

7. A resident landlord could not own more than 2.5 acres, above the land he was cultivating, to rent.

8. Any land subject to lease must be approved by the local land commission.

Although the size of the farms has remained very small (in most cases they have been reduced in size) the tremendous increase in farm ownership is beneficial both economically and politically since the farmers have enjoyed unparalleled prosperity and appear to be a stabilizing force in the trend of Japanese politics. As a group the farmer tends to vote the conservative ticket and in reality is the strength of the

\(^3\)Ibid., pp. 63-72.
conservative government. The problem of underemployment in Japanese Agriculture lingers on however, especially in times of recession since they still perform their traditional function of providing the minimal creature comforts for temporarily unemployed sons and daughters who return home at the termination of their employment thus swelling the farm labor force.

The result of the Agriculture Land Adjustment Law as indicated in the table below is an increase in farm ownership from 51.8% to 91.1% during the period August 1, 1941 to February 1, 1955. During this same period tenant households decreased from 47.7% in 1941 to 8.7% in 1955.2

**TABLE VIII**

OWNER-FARMER AND TENANT FARMER HOUSEHOLD, JAPAN

<table>
<thead>
<tr>
<th></th>
<th>Total Farm Households (Thous)</th>
<th>Owner-Farmera</th>
<th>Owner Farmerb</th>
<th>Tenant Farmerc</th>
<th>Tenant Farmerd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 1, 1941</td>
<td>5,499</td>
<td>31.2%</td>
<td>20.7%</td>
<td>27.7%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Aug. 1, 1947</td>
<td>5,909</td>
<td>36.5%</td>
<td>20.0%</td>
<td>26.6%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Feb. 1, 1950</td>
<td>3,822</td>
<td>61.8%</td>
<td>25.7%</td>
<td>5.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Feb. 1, 1955</td>
<td>4,199</td>
<td>69.5%</td>
<td>21.6%</td>
<td>4.0%</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

a. acreage 90% his own.  b. acreage is from 50%-90% his own.  c. acreage is less than 10% his own.  d. acreage is 10%-50% his own.

Thus the Land Reform Program of the Occupation Forces removed the tremendous burden of debt the peasant has been forced to bear since the beginning of Japan as a nation. From a position of near slavery to one of economic and political equality is a right the peasant will not soon relinquish.

The effect of the Land Reform Program has been to assure the Conservative Party the vote of the peasant since he has no desire to have his new found wealth and status eroded by socialistic schemes. It has made the former landowners invest in industry either directly or indirectly through their deposits in banks. The capital thus freed from land ownership gave Japan a portion of the capital needed for the rehabilitation of her war torn industries.

Although, the allied policies in agriculture were extremely beneficial and effective to Japan's economy, they were neither beneficial nor effective in the dissolution program. The policies as conceived by the allied powers impeded Japan's recovery after the war and only when world events forced a revision of these policies was Japan able to assume her economic position in the world.

Zaibatsu Dissolution: Dissolution proceedings began on October 22, 1945, under the direction and control of General Douglas MacArthur's headquarters in Tokyo. The Supreme Commander was directed by the President of the United
States to pursue a dissolution policy which would promote democratic forces by initiating a program which would offer "freer possibilities to the Japanese people in all economic relationships". 5

The program as outlined in a communique dated September 6, 1945, contained the following general terms: 6

Encouragement shall be given and favor shown to the development of organizations in labor, industry and agriculture, organized in a democratic fashion. Policies shall be favored which permit a wide distribution of income and of ownership of the means of production and trade.

Those forms of economic activity, organization and leadership shall be favored that are deemed likely to strengthen the peaceful disposition of the Japanese people, and to make it more difficult to command or direct economic activity in support of military ends.

To this end it shall be the policy of the Supreme commander:

(a) To prohibit the retention in or selection for places of importance in the economic field of individuals who do not direct future Japanese economic effort solely towards peaceful ends; and

(b) To favor a program for the dissolution of the large industrial and banking combinations which have exercised control of a great part of Japan's trade and industry.

The plan presented by the Yasuda Company, one of the big five, was the one ultimately followed in dissolution.


6 Ibid., p. 239.
This plan had three major objectives, first the destruction of the power and wealth of the Zaibatsu families, secondly, the dissolution of excessively large companies, and thirdly, the preservation of competition in the economy.

The properties of Zaibatsu families were to be frozen immediately and the family securities, with those of the holding companies, were to transferred to the Holding Company Dissolution Commission which was to be set up by the government. It was the duty of the commission to dispose of these securities to the public in order to achieve a wide distribution of industrial ownership. Family members were to be reimbursed with ten year non-negotiable bonds. No family member was to be permitted to participate in any of the businesses which had formerly been under their control and the leading banto (managers) were to be purged from business and all government positions. 7

As in any reform imposed from foreign sources, the dissolution program encountered varying degrees of opposition. At first members of the former Zaibatsu maintained that they actively opposed the militarists programs and were nothing more than the victims of circumstance. Although there was a certain amount of truth in the contention the fact remained that without the active participation of Zaibatsu members and

7Allen, op. cit., p. 89.
businesses Japan would have been incapable of maintaining her war effort. Since their pleas of innocence fell on deaf ears many business leaders became convinced that the Occupation forces were more interested in destroying Japan's economic competitive status in world trade rather than the noble democratization of Japan's economy. Thus it became fashionable, indeed mandatory, to use whatever means available to evade and circumvent dissolution policy. The bureaucracy, the least affected by occupation reforms, opposed dissolution, as a group, because they were resistant to any change, suspicious of democracy, which threatened their authority, and in favor of doing things in the traditional manner.\(^8\) Perhaps the most difficult problem to overcome in order to have a successful dissolution program was the education of the buying public. To convince the public that they should invest in companies, which were being punished by the selling authority and with the bleak economic outlook Japan faced after the war, was a task requiring both time and patience, neither of which the Occupation forces had, resulting in a general apathy on the part of most Japanese. Because of this apathy SCAP created the Holding Company Liquidation Commission whose objective was to dispose of holding company securities as quickly as possible.

\(^8\)Cohen, op. cit., p. 192
**Holding Company Abolition:** Abolition of the holding companies was the primary objective of the dissolution program and to a large degree was successful even though its implementation was delayed until the fall of 1946. At this time the Mitsui, Mitsubishi, and Yasuda holding companies filed the dissolution papers with the government.

It was the responsibility of the HCLC to sell Zaibatsu securities to a widely distributed group of new owners none of which were to be allowed to purchase more than 1% of the total shares of a company. The final outcome of this action was that the government under the auspices of SCAP took control of disposing of over 42% of the total paid up shares in Japan. Since the sale of securities proceeded so slowly with only 1.5% of it's securities sold by May, 1948 the HCLC was directed by SCAP to dispose of it's securities as quickly as possible. To accomplish the SCAP directive the HCLC sold through dealers which could not be controlled effectively. The result is shown in the chart below.\(^9\) Table IX indicates that the great majority of the securities the HCLC was authorized to dispose of were sold to brokers and dealers for disposal to clients. By the time the peace treaty was signed in 1951 it became evident a lack of control of security sales

had made it possible to evade the law so effectively that although the monopolistic power of the ten leading Zaibatsu families had been broken, a realignment of security ownership and control along traditional lines had taken place.\textsuperscript{10}

\textbf{TABLE IX}

\textbf{HCLC SHARE DISPOSALS JULY, 1950}

<table>
<thead>
<tr>
<th>To whom or how Disposed</th>
<th>No. of shares sold or cancelled (million)</th>
<th>No. of subscription rights sold (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees and local residents</td>
<td>55.7</td>
<td>47</td>
</tr>
<tr>
<td>Brokers and dealers for disposal to clients</td>
<td>24.7</td>
<td>21</td>
</tr>
<tr>
<td>Tender for public</td>
<td>22.8</td>
<td>19</td>
</tr>
</tbody>
</table>

By the end of March 1951, stock ownership had been concentrated so thoroughly that less than 10\% of the shareholders controlled more than seventy percent of the stocks. There was evidence of hundreds of stock transfers, by mail intercepts, with no effort made to prosecute the offenders even though this was a direct challenge to occupation directives. An unknown official is quoted by Bisson as stating "Stock was juggled so much by 1947 that no one knows who actually owned it". Table X below shows how completely stock ownership had once again been purchased by a few powerful buyers.\textsuperscript{11}

\textsuperscript{10}Ibid.

\textsuperscript{11}Ibid., p. 120.
As indicated from the table above, the dispersal of security ownership was never as successful as originally intended. Evasion of the law was not the only reason however, the tremendous pressures of the Korean War, the recession of 1951, and traditional pressures of population and scarce resources soon forced a more lenient enforcement policy. The task of disposing of family assets was also given to the HCLC and was the most effective dissolution program instigated.

**Family Assets:** Although the dissolution of the Zaibatsu family assets was not formerly completed until 1951, and the last of the assets sold, an immediate freeze of Zaibatsu assets was instigated after the directive of October 1945. However, for one year after the freeze was put into effect the assets of the families remained in their control. Restriction and control of their use depended entirely on the effective

### TABLE X

**SHARES CLASSIFIED BY SIZE OF HOLDING**

<table>
<thead>
<tr>
<th>No. of Shares Held</th>
<th>Percentage of Shareholders End of March</th>
<th>Percentage of Shares End of March</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1950</td>
<td>1951</td>
</tr>
<tr>
<td>Less than 100</td>
<td>33.32</td>
<td>26.89</td>
</tr>
<tr>
<td>100-499</td>
<td>50.41</td>
<td>54.79</td>
</tr>
<tr>
<td>500-999</td>
<td>8.60</td>
<td>10.00</td>
</tr>
<tr>
<td>1,000-4,999</td>
<td>6.87</td>
<td>7.38</td>
</tr>
<tr>
<td>5,000-9,999</td>
<td>0.40</td>
<td>0.43</td>
</tr>
<tr>
<td>10,000 and over</td>
<td>0.40</td>
<td>0.51</td>
</tr>
</tbody>
</table>
action of the Finance Ministry, this post being held by Viscount Keizo Shibusawa and Tanzan Ishibashi, one the head of a Zaibatsu family, the other a manager of a Zaibatsu holding company.

In November, 1946 the HCLC was given the authority to assume control of all family assets and property with the injunction to liquidate them and to compensate the family members for their disposal. Although official criticism of the Finance Ministry was not made, the manner in which control was given to the HCLC was such as to indirectly indicate dissatisfaction with the Ministry. A survey of family assets was made by the HCLC and the following report was made: 12

The fifty six individuals had personal resources and investments of 1,865,000,000 yen in December 1945. Five years later, after disposal of securities and application of the capital levy, their total assets amounted to some 1,830,000,000 yen. Using 200 as a price adjustment figure, the assets held in 1950 would represent 9,150,000 yen in the original values, or a decrease of roughly 95 per cent. They would presumably be held mainly in nonnegotiable bonds, payable toward the end of the decade.

Through a combination of issuing nonnegotiable bonds and the rampant inflation Japan experienced, the Zaibatsu family wealth was presumed to be effectively wiped out. This presumption proved to be overly optimistic, as will be shown by a study of the rest of the dissolution program.

12Ibid., p. 93.
Operation of Business Firms: Perhaps the most difficult area of enforcement in the dissolution program was the operation of business firms. In this field the practical difficulties encountered made it possible for the Zaibatsu to circumvent SCAP directives because of the lack of allied supervisory personnel. Bisson states the problems encountered as follows:13

The serious problem was how to check on the complex business operations of the restricted companies, which included the major combine units and formed the greater part of Japan's modern Economy. Dividends and salaries, in the formal sense, might be held within limits, but undercover division of funds could still occur. A black market economy existed, large amounts of hoarded goods were concealed and extensive cash transactions in the "new yen" issued in March 1946, took the form of undercover deals.

Early in 1948, SCAP's monthly summary of financial operations contained the following account of the Nakajima Company, which was the fifth largest Zaibatsu:14

On 6 March it was announced that investigations by the Tokyo District Procurator's Office and Local officials of plants belonging to the former Nakajima Aircraft Company, scattered in some 260 places in Gumma, Saitama, and Tochigi Prefectures, had disclosed ¥9,000,000 worth of goods.

Goods unearthed in Gumma included machinery and parts, steel products, parts for aircraft, duralumin, textiles, paper, oil, and other essential materials. Those found in Saitama included also medicines and medical supplies, while those discovered in Tochigi included duralumin, aluminum, steel, copper and metal goods.

13 Ibid., p. 88.
14 Ibid., p. 89.
Since Zaibatsu executives retained control of their firms for almost two years after dissolution proceedings started it is safe to assume the illicit operation of these firms was the basis for purchase of Zaibatsu assets after 1947.

**Company Reorganization:** FEC-230 was formulated for the reorganization of companies under the Deconcentration Law, which caused such a furor that the law was modified so that out of 325 companies originally designated for reorganization 297 were removed from the list. Only 11 final reorganization orders were given, 6 proposed and 11 were put under further study. Of the eighteen companies affected only nine were Zaibatsu concerns.

The fear that Japan would become a permanent ward of the U.S. was expressed by Newsweek in December 1945.\(^\text{15}\)

In September the new Under Secretary of the Army, William H. Draper Jr., visited Japan. Draper, who gained an outstanding reputation as economic adviser to General Clay in Germany, became aware of FEC-230 during this visit. He and other officials found FEC-230 not only provided for the abolition of the Zaibatsu but also a virtual destruction of Japanese business and the sale of its assets at nominal prices to selected purchasers, including Japanese labor unions, of which about one-half were communist dominated. On his return to Washington Draper warned the State Department that application of the directive would make Japan a permanent ward of the United States.

The result of this article was that pressure from U.S. taxpayers and the Japanese government forced a modification of the program.

\(^{15}\text{Ibid., p. 149}\)
<table>
<thead>
<tr>
<th>Company</th>
<th>Structural Divisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsubishi Heavy Industries</td>
<td>One machinery and two shipbuilding companies.</td>
</tr>
<tr>
<td>Japan Iron and Steel*</td>
<td>Two iron and steel companies.</td>
</tr>
<tr>
<td>Mitsui Mining</td>
<td>One coal mining and one metal mining company.</td>
</tr>
<tr>
<td>Mitsubishi Mining</td>
<td>One coal mining and one metal mining company.</td>
</tr>
<tr>
<td>Seika Mining (Sumitomo)</td>
<td>One coal mining and one metal mining company.</td>
</tr>
<tr>
<td>Oji Paper (Mitsui)</td>
<td>Three pulp and paper co's.</td>
</tr>
<tr>
<td>Imperial Textile (Yasuda)</td>
<td>One rayon and two flax co's.</td>
</tr>
<tr>
<td>Oriental Can (Mitsui)</td>
<td>Two can manufacturing co's.</td>
</tr>
<tr>
<td>Daiken Industrial</td>
<td>One textile and one trading company.</td>
</tr>
<tr>
<td>Hokkaido Dairy Products</td>
<td>Two milk products companies and the disposal of two plants.</td>
</tr>
</tbody>
</table>

**LESSER CHANGES**

<table>
<thead>
<tr>
<th>Company</th>
<th>Change Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hitachi Works (Nissan)</td>
<td>Disposal of plants.</td>
</tr>
<tr>
<td>Tokyo-Shibaura Electric (Mitsui connections)</td>
<td>Disposal of plants.</td>
</tr>
<tr>
<td>Japan Express*</td>
<td>Disposal of freight facilities, stocks and other assets.</td>
</tr>
<tr>
<td>Imperial Petroleum*</td>
<td>Disposal of stocks and unexploited mine lots.</td>
</tr>
<tr>
<td>Japan Explosives</td>
<td>Disposal of stocks.</td>
</tr>
<tr>
<td>Shochiku Cinema</td>
<td>Disposal of securities.</td>
</tr>
<tr>
<td>Toho Cinema</td>
<td>Disposal of securities.</td>
</tr>
</tbody>
</table>

**NO ACTION TAKEN UNDER LAW 207**

<table>
<thead>
<tr>
<th>Company</th>
<th>Change Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan Electric Generation and Transmission (with nine regional outlets)*</td>
<td>Eventually (spring 1951) divided into nine private companies under a public commission.</td>
</tr>
</tbody>
</table>

*Government and Zaibatsu joint ownership with government direction and control.
Although company reorganization could be accomplished with considerable effect on the companies involved, bank reorganization was an area which SCAP was hesitant to try. The implications of bank reorganization were so complex and the delay before SCAP attempted any type of reorganization were such that world events required a strong banking system even if it was along traditional lines.

**Bank Reorganization:** The most startling omission of the deconcentration program was the failure to attempt to reorganize the banks, other than requiring them to change their names to show their independence of former associations. The peculiar features of Japan’s banking system can be explained by the absence of a capital money market developed sufficiently to invest in industrial securities to the extent necessary for expansion and growth of the economy. The general practice was to deposit personal savings in city banks or with the Ministry of Finance since the interest rate was rather attractive and the risk was slight. The city banks, controlled and owned by the Zaibatsu, freed business from the necessity of cultivating outside capital since they controlled three-fifth’s of the deposits and two-third’s of all loans in Japan.\(^16\)

This peculiar aspect of the Japanese banking system was the primary source of Zaibatsu strength and to leave it

\(^{16}\text{Allen, *op. cit.*, pp 40-42.}\)
untouched except for such a minor reorganization as changing the name was to almost insure a resurgence of economic concentration along former lines.

At the end of the Second World War the big five in the banking field were Mitsui, Mitsubishi, Sumitomo, Yasuda, and one other not considered a member of the Zaibatsu, Sanwa. The extent of their reorganization is shown in Table XII. As indicated, punitive action against the Zaibatsu banks was limited to renaming them and in the case of Mitsui of reorganizing it into two separate banks. Sanwa was not affected.

**TABLE XII**

FINANCIAL REORGANIZATION OF BIG FIVE BANKS

<table>
<thead>
<tr>
<th>Old Name</th>
<th>New Name</th>
<th>Change in Capital Auth. (yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Initial</td>
</tr>
<tr>
<td>Teikoku (Mitsui)</td>
<td>Teikoku</td>
<td>200</td>
</tr>
<tr>
<td>Mitsubishi</td>
<td>Chiyoda</td>
<td>135</td>
</tr>
<tr>
<td>Sumitomo</td>
<td>Osaka</td>
<td>73</td>
</tr>
<tr>
<td>Yasuda</td>
<td>Fuji</td>
<td>170</td>
</tr>
<tr>
<td>Sanwa</td>
<td>Sanwa</td>
<td>153</td>
</tr>
</tbody>
</table>

After reorganization took place it was less than two years before the Zaibatsu banks once again had more than 30% of all deposits and had assumed more than 58% of all the ordinary loans "with the proportion steadily increasing".

17Bisson, op. cit., p. 155.

18Ibid.
Zaibatsu Reemergence: As soon as the Occupation ended in 1952, steps were taken to relax restrictions it had put on business. Various laws were passed which amended the anti-monopoly law and permitted the formation of cartels for a variety of industries. Perhaps the most effective revision of the anti-monopoly law which permitted the reemergence of the Zaibatsu were the amendments which allowed corporations to hold shares in competitive companies, legalized interlocking directorates, and raised the percentage of shares financial institutions could hold from 5% to 10%.19

The regrouping of Zaibatsu enterprises was duly noted and reported by the Mitsubishi Economic Research Institute as follows:20

It was not until the coming into force of the San Francisco Peace Treaty in April 1952 that the various restrictions on the activities of these former Zaibatsu affiliates were gradually removed or moderated. There has since then been a natural desire among them either to revert to former titles and trade marks, in view of their inherent value, or to undertake a joint investment of capital, or even to merge with related concerns with a view of strengthening their foundation.

Rather than the family ownership of holding companies there are now three principal methods used to consolidate former Zaibatsu enterprises into their previous preeminence

20Ibid., p. 200.
in Japanese industry. The methods used by the Zaibatsu were (1) purchase of competitive stocks, (2) interlocking directorates, and (3) the use of Zaibatsu banks for financing and organizing scattered companies.

The resurgence to power of the three largest Zaibatsu has as its base the former Zaibatsu banks which have a group-directed lending policy. For example a study of loans granted by the Sumitomo, the most completely integrated, "clearly reveals the preference" given to former Sumitomo enterprises. As much as 20% of all loans granted by the Sumitomo Bank are secured by former Sumitomo enterprises. An illustration of the effect interlocking directorates have on the actions of the Zaibatsu can be shown by a study of the buying and selling policies of the Sumitomo companies. Sumitomo Metal Mining sells 60% of its copper output to Sumitomo Electric Industry and to Sumitomo Metal Industry, while it supplies Sumitomo Chemical Industry with pyrites and sulphric acid. Sumitomo Chemical Industry sells the bulk of its aluminum to Sumitomo Electric Industry and to Sumitomo Metal Industry. Sumitomo Kyodo Electric Power sells its

21Ibid., p. 201.

22Ibid., The bulk of material in the illustrations of Zaibatsu regrouping is taken from Chapter Nine.
power to Sumitomo Metal Mining, Sumitomo Chemical Industry and Sumitomo Machinery Industry, while Sumitomo Trading Company does the bulk of selling of Sumitomo products and of buying all raw materials for Sumitomo Companies.

In case of the number two Zaibatsu, Mitsubishi, over 30% of Mitsubishi Bank's investments are in the shares of former Mitsubishi enterprises. At least 25% of all the capital of the Mitsubishi companies is owned by the bank. Interlocking directorates, the purchase of stock by one company in another is evident in the case of the Mitsubishi Bank, Mitsubishi Trust and Banking, Mitsubishi Warehouse, Mitsubishi Shipping, Mitsubishi Trading Company, Tokyo Marine and Fire Insurance Company, Mitsubishi Chemical Industries, Mitsubishi Shipbuilding, Mitsubishi Mining, Mitsubishi Heavy Industries Reorganization, Mitsubishi Steel, and Mitsubishi Rayon.

The Mitsui was fragmented more completely than any of the other Zaibatsu by the dissolution program. The reason is two fold (1) Mitsui Bussan Kaisha (Mitsui Holding Company) held the predominate position rather than the Mitsui Bank as was the case with the other Zaibatsu, and (2) the Mitsui combine was forced to give up the Dai-ichi bank which it had absorbed during the war. The occupation authorities were particularly severe in the destruction of the holding companies while hardly affecting the banking structure at all. The Mitsui company lost over half its funds when forced
to disinvest itself of the Dai-ichi Bank, thus lacking the necessary capital to finance former enterprises when the opportunity presented itself. However, the Mitsui Bank has succeeded in overcoming these disadvantages and has reorganized the 180 companies into which it had been split along traditional lines.

Summary: Of the many reforms the occupation forces instigated during the period 1945-1952 the one most likely to remain the longest is that of agriculture reform.

In evaluating the Zaibatsu Dissolution Program several facts must be considered which affected the results obtained. First, the program was promulgated by foreign authorities on an uncooperative populace. Second, because of cold war pressures and the hot war which erupted in Korea it soon became vitally necessary to have a strong vibrant Japan able to carry her share of the cold war burden. The easiest and quickest means available was to use all haste in channeling allied efforts towards revival of Japanese business rather than having the dubious pleasure of conducting a grand experiment to democratize Japanese industry. Third, the program was hastily conceived and the plan followed was neither adequate nor judiciously administered. The Yasuda plan had no provision for deconcentration of power due to inflation and the accompanying black market operations. Fourth, only a minimal effort was made towards deconcentration
of financial institutions, the very basis of Zaibatsu power. Occupation efforts in this field, strangely enough was limited to renaming the banks and recapitalizing them. Fifth, the scope of the dissolution program was so broad that systematic evasionary procedures were almost a foregone certainty. To make the dissolution program effective a program aimed at convincing the Japanese people that deconcentration was a "good" thing was needed and indeed a necessity if Japan was to become free of the undue influence of the Zaibatsu. Since occupation authorities were not inclined to sell the public on the benefits of deconcentration, but merely to impose it on them, it became fashionable to do everything possible to impede dissolution. No official attempt to make a bitter pill more palatable was made. Finally, occupation authorities had a host of other duties to perform such as reconstruction, policing the islands, war trials, etc., resulting in such dissipated effort that few occupation reforms are evident in Japan today.
CHAPTER VI

CONCLUSION

As Japan's economy was in transition from a feudal barter economy to a monetary economy, certain merchants were able to accumulate huge fortunes by means which are open to moral criticism, but were effective none the less. Through wise management of the funds thus acquired and the uncanny ability of the financial magnates to walk the tightrope of correct political alignment, capital necessary for the industrialization of Japan, was acquired.

Although considerable pressure was applied by the Shogun in an attempt to liquidate much of this new wealth and to impede industrialization, the government was helpless to cope with a monetary economy, thus making it imperative to work with and not against the merchants.

As Japan emerged on the threshold of civil war the merchants, now commonly called, the Zaibatsu, were astute enough to finance the rebel forces. The activities of the Zaibatsu were more than opportunistic however, since they chaffed at the restriction on trade and commerce the Shogun applied. They were also afraid Japan would be colonized by Western powers, thus they were willing and indeed anxious to finance the overthrow of the Shogun.
At the conclusion of hostilities the new government was faced with two alternatives in regard to the industrialization of Japan, (1) to nationalize the existing industry in Japan and to socialize all new industry or (2) to "guide" the development of industry under the private enterprise system. Fortunately, the new government chose to use a combination of the two. Nationalization of industries vital to the defense of Japan was accomplished with all haste. Very little opposition was encountered from private interests which were content to let the government take the initiative. The government encouraged and solicited private investment in new industries which were aimed at making Japan as nearly self-sufficient as possible. Since the investment structure of Japan was such that the investing public was limited to a very few Zaibatsu families, as opposed to the corporate structure of Western nations, the government was forced to accommodate the Zaibatsu. The Zaibatsu, on the other hand, were naive and inexperienced entrepreneurs and were dependent upon the government for guidance and protection before they could be induced to invest in industry.

As industry developed and the Zaibatsu became more sophisticated in political and managerial procedures they were able to assure the continuance of the private enterprise system fostered by a grateful, and at times hard pressed, government. In their attempt to insure their continuance in
power, they made the fatal mistake of viciously repressing anyone who might question the divinity of the emperor, thus weaving a web in which they themselves were neatly enmeshed by the militarists. As the militarists rose to power the Zaibatsu became convinced that the expedient course to take was to once again accommodate the government. They did this without reserve after initial protestations were summarily rejected. Even though their control of government had been wrested from them, their fortunes continued to grow due to their efforts during World War II.

At the end of the war, with Japan's complete defeat, the Zaibatsu were placed in the unenviable position of maintaining their position and wealth in the face of the allied forces who were determined to democratize Japan's economy at their expense. To try blunt allied deconcentration activities the Zaibatsu first tried to justify their existence and then to absolve themselves of all blame for the war by claiming they were the unwilling tools of the militarists. When these arguments failed, every means of evasion possible was used to avoid allied policy resulting in only limited success of the program.

The signing of the peace treaty in 1952, saw a re-emergence of Zaibatsu institutions due to the belief, by government and business leaders, that the economies the Zaibatsu could insure would advance Japan's competitive position in World trade. Safeguards instigated by the Allied Powers were
either amended or repealed thus enabling the Zaibatsu to once again gain control of a considerable portion of Japan's trade and commerce, natural resources, and industries.
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