

Beginnings of Industrialization

*M*uch of the interest in Japan in the recent past has arisen from the fact that it was the first non-Western society successfully to carry out an industrial revolution, that this was achieved with rapidity, and that the nation's economy in the postwar period recovered and advanced in an extraordinary fashion. The fact that Japan was able to achieve industrialization with a dearth of natural resources and with relatively little financial assistance from outside has further heightened the interest in its industrialization.

In this chapter we shall be concerned with the transition phase of the Japanese economy, the critical years from 1868 to 1885 when Japan mobilized its material and human resources and laid the foundations for modern economic growth. The great unsettled issue in the study of this period is that of determining the prime force behind the drive to industrialize. The part that government played in initiating the industrialization of Japanese society has been the subject of much discussion and controversy. There has been a tendency to credit the state with a larger role than it actually played in the process. We shall see in the course of this chapter that private enterprise—the activities of individual Japanese—played no less critical a role than the state. What the government *did* do was provide the setting for industrialization, destroy old institutions that had proved obstacles to an industrial policy, and create in their place new ones that would facilitate industrialization. It created the “infrastructure” of communication and financial institutions that was essential to the efforts of private entrepreneurs.

Initially, the most important contribution of the state was that the new Meiji leaders set economic growth and achievement of industrial strength as national goals. This decision was not something that emerged suddenly in 1868 but was, rather, the outcome of a long development that we have briefly traced in the rise of the realist school of thought in the late Tokugawa Period. Adherents of the realist school, as we have seen, believed that government must itself adopt a policy

of encouraging industry and commerce as a means of solving its own economic problems and of increasing its own strength. That policy gained support in many of the han toward the end of the Tokugawa Period, and the new leaders of the national government after 1868 effectively implemented it.

The Catch-Up Vision

In addition to learning a great deal more about the sources of Western industrial and military power, the Meiji leaders who went abroad with the Iwakura Mission strongly reconfirmed their views of the predatory nature of international politics. Above all, they came back impressed with the need for national self-reliance. Both Ōkubo and Itō subsequently recalled the advice that German Chancellor Otto Bismarck had given them. The Iron Chancellor cautioned them to prepare Japan for the intense competition among nation-states. The official narrative of the Iwakura Mission records that Bismarck counseled them that "although people say that so-called international law safeguards the rights of all countries, the fact is that when large countries pursue their advantage they talk about international law when it suits them, and they use force when it does not . . . small countries try and try to get a favorable decision only to fail sadly; it happens time after time that they can hardly maintain themselves and have to endure insult and aggravation even though they do their best to maintain their sovereignty." Bismarck concluded that everything he had learned convinced him that a nation-state could preserve its independence only through policies of strength and the cultivation of patriotism among the people.¹

Bismarck's words reinforced what the Meiji leaders had already decided: Japan must rely only on itself. The world Japan entered was one of struggle not just for survival but for superiority over other states. Two years before the departure of the mission, Iwakura had written in a memorandum on foreign affairs, "Although we have no choice in having intercourse with the countries beyond the seas, in the final analysis those countries are our enemies. Why are they our enemies? Day by day those countries develop their arts and their technology with a view to growing in wealth and power. Every country tries to become another country's superior. Country A directs its efforts at country B, country B at country C—they are all the same. That is why I say, all countries beyond the seas are our enemies."² The members of the mission returned from the West further convinced of the imperative for Japan to become self-sufficient in its economy and in its military strength; for that purpose a sharply focused but long-range view of Japan's national interest must be the foundation of comprehensive plans for Japan's development.

It was a remarkable feat for the mission to have taken more than half of the Meiji leadership abroad for nearly two years. For the period of their absence they had installed a caretaker government led by Saigō Takamori, Itagaki Taisuke, and Ōkuma Shigenobu. By written agreement this caretaker group was to hold any new policies in abeyance until the return of the Iwakura Mission. They understood that once the mission returned with conclusions about what was necessary to achieve treaty revision, new policies would then be formulated to guide Japan's future course.

Prior to the departure of the mission, much of the work of political consolidation of the new administrative state structure had been set. The central government had been strengthened, the autonomy of the old feudal domains largely overcome, and a monolithic bureaucracy established. Moreover, the leaders wholeheartedly agreed that unification of the tax system and the military had to be addressed, that samurai privilege had to be terminated, and that an education policy must be fixed in the service of the state.

Sufficient prior agreement allowed the caretaker government to promulgate a new education law in 1872 and a national conscription law in 1873. But the caretaker government went beyond this and, influenced especially by the forceful Satsuma warrior Saigō Takamori, was on the verge of a major foreign policy decision that would have sanctioned a punitive expedition against Korea for its rejection of diplomatic ties with the new Meiji government. This matter of a Korean expedition brought to a head the issue of priorities for the new government.

In debates after the Iwakura Mission returned, Ōkubo Toshimichi emerged as the most powerful of the oligarchs. In fact, the period from 1873 until his assassination by samurai dissidents in 1878 has been termed a period of "Ōkubo despotism." The stolid and determined Ōkubo had made up his mind in the course of the Iwakura Mission that *fukoku-kyōhei* (enriching the country, strengthening the military), the general objective of the Meiji Restoration, was more than a slogan. *Fukoku-kyōhei* must entail the formulation of far-reaching policies to transform Japanese society in an all-out effort to catch up with the West. Embarking on a Korean invasion at this juncture, he wrote, might open the way to British intervention in Japanese affairs that would further the dependency relationship of the domestic economy. "We in Japan must give careful thought to this, taking steps quickly to stimulate domestic production and increase our exports, so as to repair our weakness by attaining national wealth and strength."³

Ōkubo and his colleagues returning from the mission carried the day, and the Korean expedition was cancelled. The decision was characteristic of the circumspection and prudence, the shrewd perception of international conditions, and the foresight that characterized the

Meiji leadership. In dismissing short-term considerations of national pride, Ōkubo was exhibiting a long-range perspective that distinguished Japanese political leadership throughout the catch-up effort. Despite the Korean slight, he set his sights on the long-range future: "Shameful though it be, a thing may have to be endured; just though it be, it may not always be pursued."⁴ In opposing the Korean venture, Ōkubo was certainly not resisting armament, but he was favoring the building of an industrial foundation upon which military strength could be built.

If *fukoku-kyōhei* was to succeed, Ōkubo now knew, the Meiji government must formulate a clear set of policies and take the lead: "Our people are particularly lacking in daring: to encourage them to overcome this weakness and to study industry and overcome its difficulties is a responsibility the government must assume."⁵ Ōkubo's task in the 1870s was to focus the leadership's thinking on Japan's international position and the policies of domestic reform that must be instituted to begin the centurylong pursuit of "catch-up." Ōkubo has been called "the Colbert of Japan," after Louis XIV's minister of finance, who fostered the role of the state in manufacturing and commerce, for no one else in the Meiji government articulated the mercantilist vision with such persistence and influence as Ōkubo. He was unimpressed by the free trade theories of Fukuzawa and other enlightenment thinkers. Ōkubo dismissed such theories, believing that the state must take the lead in promoting industry. "These [state-run] industries are absolutely necessary," he argued, "even though they go against the laws of political economy." Japan was "something different" (*ibutsu*) and needed "different laws" to develop.⁶

Itō Hirobumi also counseled his countrymen against following English economic theory. He wrote: "Now from the lips of Englishmen comes the argument of free trade, and they plot how to introduce it in our country. Since they are really thinking of their own gain, there is great danger to our country from their arguments. Japan should follow the example of the United States and establish a protective tariff to ensure the prosperity of domestic manufactures. When the tariff has outlived its usefulness, then Japan should imitate England and permit free trade."⁷ The lengthy memo on "the encouragement of industry" (*shokusan kōgyō*) that Ōkubo wrote in 1874 showed that he understood that the British had pursued protectionist policies until British industry was strong enough to outdistance other economies. Japan needed a clear strategy to pursue the development of its economy, and Ōkubo and other Meiji leaders found German economic thinking more relevant than that of other countries. Germany, as Thorstein Veblen argued in his classic work, *Imperial Germany and the Industrial Revolution*, was the first nation to pursue a systematic industrial policy and the scientific development of its economy. The German historical school of

economics was particularly influential. It had arisen in the nineteenth century to challenge the *laissez-faire* liberalism of Adam Smith. Because it favored the intervention of the state to ensure that the interests of the nation-state were served, the German historical school resonated with the realist thinking that the Meiji oligarchy had imbibed in the late Tokugawa era.

The catch-up vision that suffused the motivation of Ōkubo and the other Meiji leaders became over time a national consensus, a goal repeatedly held up as one toward which all Japanese must aspire. Takahashi Korekiyo, who later became finance minister and prime minister, exhorted his students in an 1889 farewell address at Tokyo Agricultural College: "Gentlemen, it is your duty to advance the status of Japan, bring her to a position of equality with the civilized powers and then carry on to build a foundation from which we shall surpass them all."⁸ Moreover, the imperative of self-reliance, in spite of the craze for Western things, was widely accepted. Trade was a means of vanquishing the foreigners. "The only real difference [between us and the *jōi* swordsman of yesteryear]," said a Mitsubishi official, "is that we fight them by means of economics and trade." The founding statement of the Maruzen Company expressed the same patriotic fervor:

The foreigners did not come to our country out of friendship; their real reason for being here is to trade. . . . Their main object is solely to seek profits through trade. When we sit idly by and allow them to monopolize our foreign trade, we are betraying our duty as Japanese. If we once allow them to take over our foreign trade, if we are aided by them, if we rely on them, if we borrow money from them, if we are employed in their companies, if we invite them into our companies, if we respect and admire them, if we run around at their orders, if we fall into that kind of condition, there could not possibly be a greater disaster to our country. A country in that situation is not a country.⁹

The Beginnings of an Industrial Policy

With this vision in mind, Ōkubo and his colleagues began to formulate what ultimately became an industrial policy of the modern Japanese government. It took shape step by step with many influences, including Tokugawa realist thinking, but we can begin to see in the 1870s and 1880s the early outlines of its principal characteristics. Its first element was the active leadership of the state in the economy. When Ōkubo returned from the Iwakura Mission, he became head of the Ministry of Industry which had been established in 1870 to encourage the development of industries, especially "mining, iron-making, railroad and telegraph," which were deemed essential to the production of the

"necessities of a military nation" such as "warships, guns, ammunitions and all other arms that a nation cannot do without even a single day." In short, the ministry's founding statement clearly articulated the interconnectedness of the industrial and military goals—that is, of *fukoku-kyōhei*.

A second principal characteristic of the government's industrial policy as it began to take shape was import substitution. The commercial treaties imposed by the Western powers in 1866 had placed Japanese tariffs under international control and at such a low level that the domestic economy was thrown open for import of Western manufactured productions. As a result, between 1867 and 1880 Japan ran trade deficits in all but two years. The government took the lead in promoting industries that would compete with the imports. The most important product in the import-substitution policy was cotton goods—textiles, threads, yarns—which were imported in large quantities in the early Meiji years because of their superiority over domestic handicrafts.

Third, Japan would successively adopt as rapidly as possible the elements of Western technology that would increase its production of technologically sophisticated products. Beginning with cotton textiles, private industry with government support acted decisively in the 1880s to import the most advanced English technology. Government support came in the form of financing but probably more important in the form of a favorable institutional environment (for example, commercial codes, the banking system, cartels) for the importation of new technology. As a result, over the next several decades, Japan evolved from being an importer of cotton textiles, to being an exporter, to being a successful world competitor with England. In other key industries such as shipbuilding and steel production the Meiji government supported private industry's adoption of the most efficient technology through preferential loans, low taxes, and massive subsidies.

A fourth characteristic of the industrial policy the Meiji leaders were formulating was the development of exports, initially handicrafts, tea, and raw silk, but moving steadily into more value-added products. This strategy of *bōeki rikkoku*, or building an economy through international trade, made Japan capable of producing products increasingly competitive in price and quality in international markets.

A fifth principal characteristic was a determination to avoid relying on foreign loans. This decision was the result partly of the leadership's desire to avoid dependence on the Western powers and partly of the fact that Japan was not considered a good risk. The Meiji government took over the debts of the bakufu and of several large domains and it incurred a debt of its own to defray the costs associated with establishing the Bureau of Currencies. Nevertheless, all debts to

foreigners were paid back by 1875. Thereafter, only two loans were floated prior to the end of the nineteenth century, both were in the London capital market and both were government bond issues.

Attributing a settled industrial policy to the early Meiji leaders is premature. They were still groping and experimenting, but as they took steps to deal with Japan's economic predicament and to plan for the future, they gradually formulated policies that fixed Japan's course for years to come. Let us now turn to the problems the leadership faced.

The State of the Economy in 1868

On the surface, Japan in 1868 appeared to have a relatively backward economy. It was still heavily agricultural with approximately 80 percent of the gainfully occupied population engaged in farming. The American educator W. E. Griffis recorded in 1876 that he was amazed at "the utter poverty of the people, the contemptible houses, and the tumble-down look of the city as compared with the trim dwellings of an American town."¹⁰ (He was speaking of the town of Fukui, where he spent much of his time.) This, however, was no ordinary backward economy. In chapters 2 and 4 we discussed a great deal of evidence that pointed to economic change and development in the Tokugawa Period. As we saw, agriculture in many parts of the country was drawn into a well-developed system of national markets that encouraged specialization and stimulated productivity. Moreover, a goodly number of farm families were engaged in part-time nonagricultural occupations. A variety of cottage industries developed, such as brewing, ceramics, paper, food processing, mining, metals, and woodworking. As a consequence, many kinds of commercial and handicraft skills were widespread among Japanese farm families. The growth of the cottage industries reflected the rise and spread of attitudes conducive to economic change and development. In other words, probably the greatest resource that the Japanese economy had as it began its period of growth was a well-educated, economically motivated, and highly disciplined population. The growth of traditional manufactures during the late Tokugawa Period had tutored this population in specific skills, attitudes, and commercial practices, which made it highly responsive to further economic development.

While Griffis may have found the town of Fukui poor in comparison with the American towns with which he was familiar, other Westerners who had traveled more widely in Asia were impressed by the general well-being of the population, by the variety and abundance of goods sold in the towns and cities, and by the amount of traveling and shipping they saw. Townsend Harris, America's first diplomatic

representative in Japan, wrote of the people of Kawasaki: "They are all fat, well-clad, and happy looking, but there is an equal absence of any appearance of wealth or of poverty." And of the population of Edo he observed, "The people all appeared clean, well-clad, and well-fed; indeed I have never seen a case of squalid misery since I have been in Japan."¹¹ The English diplomat Sir Rutherford Alcock wrote in 1859: "The evidence of plenty, or sufficiency at least, everywhere meets the eye; cottages and farm-houses are rarely seen out of repair—in pleasant contrast to China where everything is going to decay. . . . The men and women . . . are well and comfortably clad—even the children. . . . There is no sign of starvation or penury in the midst of the population—if little room for the indulgence of luxury or the display of wealth." In another location he recorded: "The impression is irresistibly borne in upon the mind, that Europe could not show a happier or better-fed peasantry."¹²

The economic historian Crawcour sums up his impressions of the economy in the 1860s as "reasonably, but not outstandingly productive for a traditional economy."¹³ It was its potential and its responsiveness to economic stimuli that made the economy unusual. When exposed to the stimulus of foreign technology and foreign markets, the accelerated growth of the traditional economy made Japan's industrialization possible. During the Meiji Period the growth of agricultural output and of the production of traditional industries provided the capital accumulation that could be transferred to the modern sector of the economy by means of the land tax. This growth provided the exports which in turn gave the needed foreign exchange for buying raw materials abroad. Moreover, it satisfied the growing demands of the rising population. Therefore, traditional skills, resources, and their products provided the crucial building blocks for the foundation of a modern industrial society.

The Role of Government

Whether, in the absence of the stimuli of foreign markets and foreign technology, the commercial and agricultural development that was taking place in Tokugawa Japan would have led directly into modern industrial growth is a highly problematic and speculative question that need not concern us here. The steam engine did not have to be invented a second time. Industrial capitalism and modern techniques of production did not have to be invented in Japan. Instead, what was needed in the Japanese situation in the mid-nineteenth century was strong leadership, whether from the public or from the private sector, to mobilize Japan's domestic resources and to import the new technology.

In several important ways the government played a critical role in laying the foundations for industrialization. In the first place, it unified the administration of the country. This entailed a removal of restrictions that had impeded travel and commerce among different parts of the country during the Tokugawa Period. The old system of passports and barriers that had controlled traffic along the major highway was repealed, and citizens were now free to travel and choose their own place of residence. The new leaders strengthened the central government—for example, by abolishing the domains and creating a national army. In keeping with this unifying spirit, the government lifted existing feudal constraints on the internal market. The economic straight-jacket into which the bakufu had put the economy was loosened, as a multitude of restrictions controlling commodity prices, the passage of commodities from one domain to another, and the operation of the market were removed. In addition, most barriers to foreign trade were withdrawn. The export of rice, wheat, copper, and raw silk, once prohibited, was now allowed.

Second, the new government also carried out a reform of the class structure. On the face of it, this was one of the most astonishing aspects of the Meiji Restoration. The party of samurai that came to power in 1868 proceeded to abolish the legal underpinnings that had made their class a privileged elite. The daimyo were handled without great difficulty. As we have seen, many of them had become merely titular leaders by the late Tokugawa Period, ineffective men whose actual power had long since declined. Moreover, many of the domains were in serious financial straits and the position of the daimyo was therefore one of considerable difficulty. Initially many of the daimyo were made governors of the newly established prefectures, and this helped ease any resistance. More important, they were given government bonds, and later titles, in the new nobility, which allowed them to continue to live with considerable means and prestige.

The new government likewise moved quickly to deal with the problem of samurai stipends and privileges. When the domains were abolished, it inherited the burden of paying samurai stipends, though it paid them at reduced rates. Nonetheless, between 1872 and 1876 stipends constituted anywhere from 25 percent to 100 percent of ordinary revenue, and it was clear that the new government, faced with competing demands for expensive Western-style reforms, especially in military and educational matters, could not continue indefinitely to support a hereditary elite. Accordingly in 1876 the government commuted samurai stipends into interest-bearing bonds that would mature in twenty years, thus limiting and in the meantime substantially reducing the government's fiscal obligations. Meanwhile, the trappings of the old samurai elite were likewise cut off. Everyone was made equal before the law. Everyone was to have the right to a family

name. Positions in the bureaucracy were thrown open to all classes. Former members of the samurai class were permitted to enter any trade they wished. The practice of sword bearing, the samurai's badge of social prestige, was ended.

Third, beyond administrative unification of the country and reform of the class structure, the most important institutional reform that the government carried out at this time to prepare the way for economic growth was the land tax reform. This was critical because agriculture continued for many decades to be the chief source of national revenue. To effect all of the reforms necessary for modern economic growth, government had to have substantial income and, for much of the Meiji Period, the land tax was the primary source. It was therefore vital that the determination and collection of this tax be modernized. During the Tokugawa Period the land tax had been collected nearly everywhere in *kind*, as a *fixed percentage of the annual harvest*. Not only was that method unwieldy, but also, because the tax was based on the amount of the annual harvest and was affected by changes in the market price of rice, planning government expenditures was impossible.

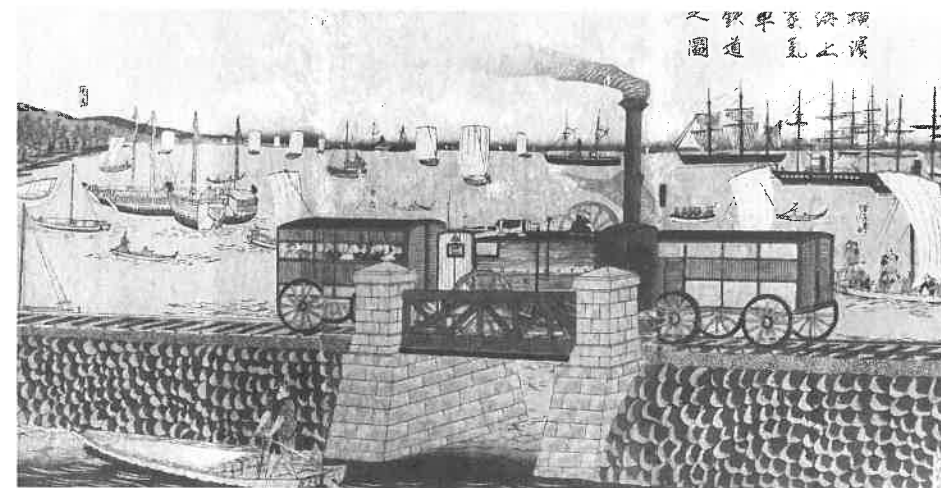
Between 1870 and 1873 a series of reforms was instituted. First, land tax payments in kind were replaced by a uniform money payment, making this revenue independent of the price of rice. Second, the sale and disposal of land was made legal, thus giving formal recognition to a practice that had for a long time existed in one form or another. The landowners were made responsible for payment of the land tax and land titles were issued to them. Third, to do away with the annual fluctuation in tax revenue geared to the state of harvest, the new tax was assessed according to the value of the land. The net effect of the reforms, therefore, was to establish a standard tax that would be paid regularly in cash, thus providing the government with a known amount of revenue.

In addition, without raising their average tax burden, the reform encouraged farmers to increase their capital investment (better implements, seed selection, and fertilizers, and increased drainage and irrigation), thereby contributing to a steadily increasing agricultural productivity during the Meiji Period. Because Japan was still predominantly rural and agrarian with the farm sector accounting for 70 percent of employment, half the gross domestic product, and three-quarters of all tax revenue, the land tax reform was a major achievement. It entailed assessing the value of more than 85 million parcels of land and issuing in excess of 109 million certificates of land ownership. Because the reform replaced the inequitable Tokugawa land tax system and did not raise taxes, "the Meiji government was able to put a quick end to the disturbances and uprisings resulting from it." In sum, because it succeeded in solidifying the social foundations of the

new government and in stabilizing its principal source of income, the land tax reform is regarded by some scholars as "the single most important reform of the Meiji Restoration."¹⁴

The administrative unification of the country, the reform of the class system, and the institution of the new land tax notwithstanding, government also played a critical role in providing prerequisites to economic growth by creating an infrastructure of communications, public utilities, and financial services. Moving very resolutely and effectively in these fields, the government by 1880 had succeeded in linking nearly all of the major cities by telegraph. Railway construction, which was, of course, more costly and technically difficult, proceeded less rapidly. A rail line was built from Tokyo to Yokohama in 1872; Kobe and Osaka were linked two years later; and in 1877 the latter line was extended to Kyoto. During those early years of railway construction the Japanese gained necessary technical know-how in construction, operation, and management of the railroads. As time went by, railway building accelerated. By the turn of the century, nearly 5,000 miles of railroad had been laid.

Also absolutely essential to future economic development were the reforms that the new government carried out in the field of currency and banking. The Tokugawa economy had been characterized by a chaotic variety of coin and paper money. One of the first achievements of the Meiji government was, therefore, the adoption of a new, standardized currency. In 1872 a modern banking system was begun



An early railroad scene near Yokohama harbor. The artist, Hiroshige (believed to be the third in his family), probably executed this print to commemorate the 1872 opening of Japan's first railway line, between Tokyo and Yokohama. From the collection of Mr. and Mrs. Jack N. Greenman, Forth Worth, Texas

with the issuance of the National Bank Act. It led ultimately to the establishment of more than 150 banks, which depended heavily upon capital supplied by samurai commutation bonds. By the 1890s Japan had achieved a modern banking system with a nationally integrated structure of interest rates. Though the complexities and problems of establishing a modern banking system were by no means easily resolved, we may note here that, as with schooling, an accumulation of sophisticated techniques during the Tokugawa Period greatly facilitated the development of modern institutions. Even before 1868 many merchants were familiar with deposits, advances, bill discounting, and exchange transactions.

Of critical importance too, was the government's role in establishing an elastic and stable currency. In the late 1870s the economy was characterized by a galloping inflation that threatened to wreck the government's efforts to create conditions for modern economic growth. At this critical juncture the government was fortunate in having an extremely shrewd and astute finance minister. Matsukata Masayoshi was appointed to that office in 1881. For the next four years he pursued a financial policy of tight money and austerity, which produced "the most severe deflation of modern Japanese economic history." Matsukata, writes Henry Rosovsky,

combined firmness and wisdom with a strong belief in financial orthodoxy, and succeeded by 1885 in regaining control of the economic situation. He cleared the decks, and made it possible for modern economic growth to begin. . . . For five years he stayed on the same road, and by then the original government targets—adequate revenues, sound currency, modern banking—were safely and permanently achieved. The Matsukata deflation was strong medicine, but in our view it had life-saving qualities. . . . Thus, by about 1885–1886 the main targets of the government, first set in 1868, were in hand; a central bank was functioning, currency, purged of inconvertible paper, had become "respectable," and revenues were consistent with expenditures. It took government nineteen years to accomplish this; from that time the economy was free to move progressively.¹⁵

The Role of Private Capital

We may discern two schools of thought regarding the prime force behind the drive to industrialize. Oversimplifying somewhat, we may term one the "growth-from-above" school and the other, which rose in reaction to the first, we may call the "growth-from-below" school.

The growth-from-above school holds that measures instituted by the government and by a closely associated small group of industrial-

ists provided the major impetus. This point of view draws inspiration from comparative economic history, which tends to expect that in the early stages of economic growth strong government leadership is required. Alexander Gerschenkron argued from the examples of Germany and Russia that "the more backward the economy, the more the reliance on the state rather than on private enterprise." Adherents of the growth-from-above school stress the importance of the establishment of national banks, the government's role in importing technicians, sending students abroad, and investing in the industrial sector. In particular, they point to the role of official entrepreneurship in the establishment of model factories. Construction of modern cotton mills and the purchase of British spinning machinery by the government in the early Meiji Period set an example for private enterprise, by overcoming the initial ignorance of machine technology and factory organization. Then, once private inertia was overcome, these "model plants" were sold to private industry at low prices and on easy terms. Thomas Smith writes that without government help "private capital would have been no more successful in developing machine cotton spinning in the decade after 1880 than it had been in the decade before; in short, in this field as in all others except silk reeling, the government was responsible for overcoming the initial difficulties of industrialization."¹⁶

To explain the motivation behind the drive to industrialize, many adherents of the growth-from-above school emphasize the patriotism and samurai spirit of the Meiji leaders and of the entrepreneurs who were closely associated with them. They argue that the traditional merchant class of the Tokugawa Period was largely lacking in the qualities of opportunism, inventiveness, and risk-taking that ordinarily characterize modern entrepreneurship. Instead, they find motivation arising out of the nationalistic or community-centered spirit of the old samurai class. As a result of their training, the samurai, in this view, possessed a selfless dedication to the nation that moved them to work for a wealthy, powerful country able to ward off Western imperialism. As one writer puts it, "in the case of Japan, the feudalistic samurai or their sons shouldered the leadership role of the Meiji entrepreneurs. Unlike any other nation, the development of capitalism was guided by bureaucrats who were samurai and by business leaders who were also of samurai origin. . . . Thus, the Meiji entrepreneurs were strongly motivated by the semi-feudal spirit of *shūkon shōsai* (the soul of the samurai with business acumen)."¹⁷ Why did Japan alone among non-Western countries make a rapid transition to industrial society? These scholars found the answer by pointing to the unique cultural tradition of its leadership. The spirit of bushidō—the warrior's code—inspired elements of the samurai class to selfless devotion to their nation, led others to invest their commutation bonds in the new

PRINCIPAL CITIES OF MODERN JAPAN

- ★ More than 1,000,000
- ▲ 500,000 – 1,000,000
- 100,000 – 500,000



national banks, and so fueled Japan's industrialization. In other words, the growth-from-above scholars stress a unique motivation behind Japanese industrialization—an "irrational, non-capitalist, dynamic and romantic approach of the pioneering entrepreneurs."¹⁸

On the other hand, the growth-from-below school argues that the traditional interpretation "overemphasizes the contribution of government and large-scale enterprise to increases in output, and that proper emphasis should also be placed on the contribution of the myriad of smaller rural and urban entrepreneurs who used more labor-intensive methods of production that embodied relatively simple improvements in technology, who acted in response to opportunities for profit, and who were relatively independent of the government."¹⁹ These critics point out that the model factories were losing money when the government sold them off in the early 1880s and that afterward, in the hands of private managers, they earned substantial profits. The conclusion drawn, therefore, is that private enterprise was not incapable of successfully developing modern industries.

Likewise these adherents downgrade the significance of the contribution of samurai to the beginning of banking. They point out that the commutation of samurai bonds was essentially passive participation—in other words, the samurai lacked alternatives for investment. Instead, these critics are impressed with the contributions of members of the old *heimin* (commoner) class. "While the participation of samurai in new banks was passive," writes Kozo Yamamura, "the *heimin* class participated actively in the majority of new banks by supplying the necessary cash (20 percent of the initial capital) and the entrepreneurial energy in the form of directors and initiators in obtaining charters."²⁰

As a consequence of their emphasis upon the role of the commoner class, adherents of the growth-from-below school emphasize the profit motive rather than the peculiar patriotism of the samurai class. Studies of Meiji entrepreneurs par excellence such as Iwasaki Yatarō or Yasuda Zenjirō, both founders of leading industrial combines, show them to be on many occasions cold, ruthless, competitive profit-maximizers—very much in the tradition of Andrew Carnegie, Cornelius Vanderbilt, and John Rockefeller.

Many of the Meiji entrepreneurs emerged from the *gōnō*, the wealthy peasant class in the villages. The experience of their families had done much to prepare them for this new capitalistic undertaking. In the first place, they sprang from a tradition of leadership acquired in the villages, where many of their fathers had served as village headmen. Second, they had accumulated capital through investment in rural enterprises. Third, the experience in undertaking rural enterprises gave them qualities of initiative, self-reliance, and risk-taking that the traditional city merchants in the Tokugawa Period had long since lost. Fourth, the *gōnō* were rendered both ambitious and frustrated by their

position in the Tokugawa class structure. During the late Tokugawa Period, as we have seen, they had been able to share in the attributes of the samurai class—occasionally buying the right to wear swords, send their sons to fief schools, and take surnames. Yet they were not treated like bona fide samurai, and this experience frustrated them. They were therefore anxious to rise in the world, to do better than their fathers. Fifth, as a group the wealthy peasantry had always placed a high value on education and hard work. The interest in education, coupled with the wherewithal to acquire it, contributed powerfully to the emergence of young landlords' sons in the business elite.

An excellent example of this phenomenon is Shibusawa Eiichi, who rose from peasant origins to become the founder of several of Japan's impressive modern companies. His father was a village headman and rural entrepreneur who had invested widely in village industries such as indigo. Like many wealthy farmers' sons, Shibusawa received a samurai education. Through the good offices of a friend, he entered the services of the Tokugawa family and in this capacity accompanied a Tokugawa prince to France in 1867. When he returned a year later, having the extensive knowledge of the West that he did, he was able to enter the new Ministry of Finance in a prominent position. He resigned from the ministry in 1872 in order to enter banking and shortly became president of the First National Bank. His mastery of the field of banking led him ultimately into connections with more than 500 diverse industrial enterprises in many different capacities, such as president, director, or major shareholder. One of Shibusawa's impressive early entrepreneurial achievements was in the field of cotton spinning. He imported the latest technology and in 1880 directed the construction of the Osaka spinning mill, which, owing to its up-to-date technology and efficient organization, proved extremely profitable. It became a model for the development of other successful textile ventures in Japan.

However the debate between these two schools is ultimately resolved, we may conclude that the government played an important role in creating the environment within which growth could take place. Establishing a unified national administration, mobilizing human resources, and skillfully using fiscal policy were essential contributions of the state. Moreover, through what is now called "administrative guidance" (that is, through guarantees, subsidies, and preferential access to bank funds), the government used its influence to encourage economic growth. On the other hand, a new breed of entrepreneurs was clearly emerging in the private sector, and their ambition, inventiveness, and opportunism contributed immensely to the expansion of commerce and industry in this period. As Crawcour concludes, "Before World War I, growth-from-above and growth-from-below proceeded together."²¹

Notes

1. Marius B. Jansen, "Modernization and Foreign Policy in Meiji Japan," in *Political Development in Modern Japan*, ed. Robert E. Ward (Princeton, N.J.: Princeton University Press, 1968), 158.
2. *Ibid.*, 158–159.
3. William G. Beasley, *The Meiji Restoration* (Stanford, Calif.: Stanford University Press, 1972), 377.
4. *Ibid.*, 378.
5. Thomas C. Smith, *Political Change and Industrial Development in Japan: Government Enterprise, 1868–1880* (Stanford, Calif.: Stanford University Press, 1955), 40–41.
6. Albert M. Craig, "Kido Kōin and Ōkubo Toshimichi: A Psychohistorical Analysis," in *Personality in Japanese History*, ed. Albert M. Craig and Donald H. Shively (Berkeley: University of California Press, 1970), 296.
7. Japan, of course, did not have tariff autonomy at this time. Marlene J. Mayo, "Rationality in the Meiji Restoration," in *Modern Japanese Leadership: Transition and Change*, ed. Bernard S. Silberman and Harry D. Harootunian (Tucson: University of Arizona Press, 1966), 344.
8. Quoted by E. Sydney Crawcour, "Industrialization and Technological Change," in Peter Duus, ed., *The Twentieth Century*, vol. 6 of *The Cambridge History of Japan*, ed. John Whitney Hall (Cambridge: Cambridge University Press, 1988), 389.
9. Quoted in Arthur Tiedemann, "Japan's Economic Foreign Policies, 1868–1893," in *Japan's Foreign Policy, 1868–1941: A Research Guide*, ed. James W. Morley (New York: Columbia University Press, 1974), 130.
10. Quoted in E. Sydney Crawcour, "The Tokugawa Heritage," in *The State and Economic Enterprise in Japan*, ed. William W. Lockwood (Princeton, N.J.: Princeton University Press, 1965), 27.
11. *Ibid.*, 26–27.
12. *Ibid.*, 26.
13. *Ibid.*, 44.
14. Kozo Yamamura, "The Meiji Land Tax Reform and Its Effects," in *Japan in Transition*, ed. Jansen and Rozman, 382–397.
15. Henry Rosovsky, "Japan's Transition to Modern Economic Growth, 1868–1885," in *Industrialization in Two Systems: Essays in Honor of Alexander Gerschenkron*, ed. Henry Rosovsky (New York: Wiley, 1966), 135.
16. Smith, *Political Change*, 63.
17. Tsuchiya Takao, quoted in Kozo Yamamura, *A Study of Samurai Income and Entrepreneurship* (Cambridge, Mass.: Cambridge University Press, 1974), 214.
18. Johannes Hirschmeier, *The Origins of Entrepreneurship in Meiji Japan* (Cambridge, Mass.: Cambridge University Press, 1964), 289.
19. Hugh Patrick, "Japan: 1868–1914," in *Banking in the Early Stages of Industrialization*, ed. Rondo Cameron (New York: Oxford University Press, 1967), 241.
20. Kozo Yamamura, "A Re-examination of Entrepreneurship in Meiji Japan (1868–1912)," *Economic History Review* (spring 1968), 156.
21. Crawcour, "Industrialization and Technological Change," in Duus, ed., *The Twentieth Century*, 390.