

**UNDERLYING FACTORS IN THE ECONOMIC DEVELOPMENT
OF JAPAN**

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CHAPTER I

INTRODUCTION

The problems and future of underdeveloped countries are one of the critical issues of our times because these areas today have been selected as a prime target for Communist infiltration and conquest.

Japan, alone, has withstood the gravitational pull of Communist influence. The appeal of Communism for the poverty-stricken and politically immature peoples has made little inroads on a nation that has achieved economic and political freedom. By surmounting the barriers of custom, tradition, lethargy, and colonial dominance, Japan attained her goal of world power and a position of continental leadership resembling Great Britain's role in Europe.

Japan is the product of centuries of growth. The advent of Westernization did not cause a complete break with the past but modified profoundly the inheritance bequeathed by the past. There were changes in the traditional concepts, mores, thought patterns, and institutions where they stood in the way of progress. Any country situated as was Japan either had to shape its destiny according to the hard facts of life or relapse into the thralldom of feudalism. Fortunately Japan recognized the impelling needs for national, economic, and military strength and set its course accordingly.

Only a few hundred years ago, Japan was an obscure Asiatic nation tightly closed from the rest of the world by a policy of isolation and seclusion. Then the West, spurred on by the ambitions and equipment of the commercial and military inventions of the industrial revolution, forced open the doors. After some years of unsuccessful resistance, Japan accepted the new situation and by a series of transformations achieved industrialization and became a factor to be reckoned with in the field of world-wide trade and international politics. As the dominant figure in the Far East, she established and maintained her hegemony by early, successful wars against China, Russia, and Germany.

The events of the nineteen thirties which led to the Pacific War have clearly indicated that developments within Japan can have severe repercussions and far-reaching consequences on the rest of the world.

I. PURPOSE OF STUDY

Why did rapid industrialization occur in Japan rather than in some other country of Asia? This study will attempt to present some of the underlying forces motivating the beginnings of industrialization and the local circumstances and their relationship to the economy which fostered its growth.

The economic, social, and political reforms which contributed to her metamorphosis from a feudal state to a position of world power were carried out vigorously. Despite drastic changes in the old order, the economy as a whole never broke down in confusion or disorder. Agricultural methods were drastically altered, but there was no agricultural revolution and no decline in output. Shorn of their traditional privileges, the ruling classes adapted themselves to the new points of view and the new roles assigned to them. Most remarkable of all was the ability of the postrestoration leaders to set up a system of centralized administration which was, from the start, able to cope with the most difficult problems on a nationwide scale. There was revolution in the sense of very rapid and drastic change, but not economic collapse.¹

Japan was the only nation in Asia to succeed in achieving a far-reaching industrialization of her economy. This process was carried out over the seventy years prior to World War II. It endowed her with the greatest productive potential for material well-being in the Far East and made her the foremost military power of that area.

¹Norman S. Buchanan and Howard S. Ellis, Approaches to Economic Development (New York: The Twentieth Century Fund, 1955), p. 133.

The process of modernization and growth was extended in varying degrees to all sectors of the economy. By the end of the 1920's the first difficult stages of the transition were completed. In terms of economic growth and productivity, Japan was still far behind her advanced industrial competitors of the West. Yet she readily stood comparison in many respects, not only with her Asiatic neighbors but also with a number of Western nations whose tradition and circumstances seemed to have endowed them with far superior advantages.

Her phenomenal success was due in large part to a combination of factors: favorable geographical location, strong national government, a growing middle class, a large labor force, resources for domestic capital formation, and a prevailing spirit of enterprise. Her record of amazing advance within two generations from the status of an isolated and mythical land to the position of a great trading rival with the leading nations of the world leads one to believe that strong economic, political, and social forces were behind this achievement.

How did Japan succeed in achieving her goal in so short a time, whereas other far-older nations still lagged in the initial or early stages of industrialization, or had altogether failed in securing a foothold? It is the purpose of this study to seek out the influences that have contributed to Japan's success by delving into her historical background

to find the basic forces that gave impetus to her economic growth.

II. METHODOLOGY

Analytical interest is centered on the treatment of both the proximate and the more deeply-seated factors contributing to Japanese economic development. However, the historical frame of reference will be limited to the nineteenth and early twentieth century.

The problem of interrelation among the several factors contributing to economic growth is recognized. Among these are economic trends in aggregate output, industrial structure, capital accumulation methods, business organization, entrepreneurship, social structure, and the role of the state in promoting industrialization. While economic development depends on many factors, it will not flourish where social attitudes are hostile to savings, innovations, and adoption of new techniques, or where there is occupational immobility or political instability within the country.

The analysis will be developed in three stages; (1) the initial stage dealing with the internal sources of change causing the breakdown of the feudal system in the middle of the nineteenth century; (2) the transitional stage during the latter half of the nineteenth century during which the primary forces leading to industrialization were generated; and

(3) the final stage in the early twentieth century during which modern Japan emerged.

This report will not go into the technical aspects of industry or the more formal aspects of the ideological superstructure, or the detailed features of the social institutions. Instead it will adopt an analytical methodology stressing the exploration of basic motives and attitudes and their bearing on economic growth.

CHAPTER II

THE ISLAND EMPIRE

The establishment of the Empire is traditionally placed at about 660 B.C. when the mythical Jimmu became the first Emperor. Until Japan's defeat in World War II, it was a matter of great pride to the people that their country had been under the reign of a single dynasty and had never felt the yoke of a foreign conqueror.

The Japanese nation throughout modern history has been more powerful and influential than its area in square miles would indicate. As an island empire of the Western North Pacific, approachable only by sea or air, it has succeeded in preserving its independence and repelling foreign invasions. Its insular position, no doubt, contributed to the homogeneity of the race after the initial migrations, and promoted unity and continuity in national development.

I. GEOGRAPHY, NATURAL RESOURCES, AND POPULATION

The topography of the country is mountainous with a few small plains. Japan proper consists of four large islands and hundreds of smaller islands clustered around the larger lands. These cover 147,707 square miles. Including once-held possessions and mandated islands the total land area rises to 263,050 square miles.

The Sea of Japan constitutes an effective barrier against approaches from the Asiatic mainland, the distance of the Islands varying from fifty to five hundred miles from Asia. The climate is generally moderate with variations from subarctic temperatures in the North to tropical warmth in the South.

Hokkaido, the northern island, has an area of 34,276 square miles, only a little larger than Maine. Nearly all of the island lies north of the forty-second parallel; and it is characterized by cold winters, mountainous surface, and extensive forests. The forests supply lumber and pulp, and the mines supply coal. In spite of the northern latitude an agricultural economy has developed that is based on the cultivation of rice diversified with such crops of high middle latitudes as corn, barley, buckwheat, oats, rye, wheat, beans, potatoes, and flax.

Northern Honshu Island is intermediate in position and geographical character between Hokkaido and subtropical Japan. The mountains are high enough to make the winters cold, but the summers are warm and fairly moist. The east coast is bathed by the cool Oyashio Current, but the warm Kuroshio Current moderates the temperature on the western side. The original deciduous forest has been cleared from the lowlands. Northern Honshu Island has not participated in the expansion of manufacturing characteristic of southern Japan and its urban centers are small.

Tokyo Plain, the chief subdivision of Southern Honshu, supports over fourteen million people. The city of Tokyo is the third largest in the world. Since 1909 it has been the capital of Japan; and it, together with Yokohama, is the center of trade of the Empire. Manufacturing industries using hydro-electric power from the mountainous interior and coal from Hokkaido and Kyushu developed also in the Tokyo-Yokohama area.

Southwestern Japan may be considered as consisting of two geographical regions; one, the narrow mountainous outer zone which borders the Pacific; the other, the broad inner zone. The first is economically unimportant in spite of its warm humid climate. Because of its ruggedness, activity is confined to small lowlands. The remoteness of the region places it at a disadvantage commercially.

The integrating feature of the Inner Zone is the Inland Sea which is ringed by parts of the Islands of Kyushu, Shikoku, and Honshu. The eastern end comprises the principal industrial region. Osaka, Kyoto, and Kobe, three of the larger cities, are all located in Southern Honshu where the metallurgical and chemical industries are concentrated.

In southern Japan around the Inland Sea a dense rural population cultivates the fertile soil intensively. The adjacent waters are also an important source of food and fishing villages are numerous. At the western entrance to

the Inland Sea in northern Kyushu lies another industrial region.

The islands of Japan rising from the western Pacific present a landscape in which mountains and sea appear to merge. Even inland mountains often appear to be standing in water because of the irrigated fields at their bases. Rugged and asymmetrical, largely forest-covered, and overlooking intensively cultivated lowlands, the mountain ranges give the landscape its essential character.

Mountains and narrow valleys together constitute about seven-eighths of the area of the islands. The most extensive system of volcanic veins in the world are present and there are still many active volcanoes. The soil is moderately prolific and being low is well adapted to irrigation and consequently favored for rice culture. More than eighty per cent of the area is impractical for tillage. By intensive farming astonishingly large crops are produced on small areas of arable land.

A glance at the irregular coastline, with its long reach north and south from the frigid to the tropical zone, and with its innumerable bays, gulfs, and river mouths, makes it clear that many of the inhabitants of this densely populated string of islands would probably rely upon the sea for subsistence.

The natural resources are decidedly limited; in fact, they are not even adequate for Japan's large and growing population. They are especially inadequate to supply the requirements of industry. To start with the fuels, Japan is very poor in oil with only a few scanty oil deposits in the northwestern part of the main island of Honshu and in Hokkaido in the north. The entire output of about 250,000 tons per year cannot meet more than ten per cent of the nation's requirements. Some additional fuel came from the Sakhalin Islands and Formosa, which before World War II delivered from 200,000 to 235,000 tons yearly. The balance of over eighty per cent of annual consumption was imported.

The coal reserves, on the other hand, are large consisting of about one billion tons of proved reserves and some seven billion tons of possible reserves. There is, however, no good coking coal, important in a number of industries; and this means that yet another indispensable fuel had to be imported.

The most satisfying source of energy is found to be in the inland streams of Japan. This "white coal" is abundant. Japan, in fact, generates and uses almost ten per cent of the hydroelectric power employed by the entire world.

As far as resources in minerals, Japan is far from well supplied and is again dependent on outside sources.

Before World War II the great bulk of iron ore was imported partly from the colonies and partly from abroad. This resource deficiency constituted one of the weakest links in the national economy, for in the machine age iron ore is a most important factor. The deposits in Japan proper have been estimated at between sixty and one hundred million tons of high metallic content, but this production meets but about fifteen per cent of the nation's entire need. In the non-ferrous metals Japan is much richer, particularly in copper. Lead, zinc, tin, and bauxite are present also but in smaller quantities. Precious metals, too, are mined, but not in any considerable amount.¹

The scarcity of raw materials was the key to Japanese foreign policy before 1900. Securing effective control of adequate supplies of the more essential resources were behind each aggressive move made by Imperial Japan.

All the major and secondary sources of food have been developed to a high degree. Wildlife and the forests have been explored for all the known edible materials they can produce. The physical limitations of agricultural lands have led to highly intensive farmland utilization. By concentration on the production of rice and by widespread use

¹Victor A. Yakhontoff, Eyes on Japan (New York: Coward-McCann, Inc., 1949), pp. 37-38.

of supplementary irrigation, the long growing season permits double cropping. High yields depend on intensive use of labor and fertilization. Topography will not permit a high degree of mechanization. Localized, recurrent losses occur from floods, typhoon winds, earthquakes, tidal waves, and drought.

A little over fifty per cent of the total cultivated land is devoted to rice. Next in importance are wheat, barley, millet, buckwheat, soybeans, redbeans, and sweet and white potatoes. Mulberry leaves used in the cultivation of silkworms and tea are other important products of the soil.

The handicaps of agricultural production make food supply the number one economic problem. The gravity of the situation continues to deepen as the population increases.

The fact that Japan is the world's largest producer of raw silk can be explained readily in terms of economic analysis. The production of raw silk requires a different type of combination of productive factors than that required in the production of cotton and wool. The proportion of arable land employed, Japan's most scarce factor of production, is much smaller than in the case of cotton. The mulberry crop needed to feed the cocoons also fits well into the scheme of crop rotation in some areas and occupies land generally unsuitable for rice. The processes of cocoon raising and silk reeling do not draw heavily on the supply

of land. Moreover all processes in the production of raw silk require a large supply of labor of the types which are to be found in abundance in the agricultural districts of Japan.

In the modern period raw silk became the leading export commodity. It reached and passed its peak after the first World War and has declined considerably since. This is largely the outcome of changes in technique in and outside of Japan which have led to the substitution of other fibers for silk.²

From ancient times the lack of extensive pasture land and of stock farming has been compensated for by the fishing industry. Japan ranks first among the nations of the world in fishing. Her catches make up approximately one-fourth of the world supply. The populations of the coastal districts are either engaged entirely in the industry, or it is an important subsidiary to other occupations. Marine products supply four-fifths of the protein in the diet, and over ninety per cent of output is consumed at home where it provides a vital part of the national food supply.

²Elizabeth Boody Schumpeter (ed.), The Industrialization of Japan and Manchuko 1930-1940 (New York: The Macmillan Company, 1940), p. 123.

In the present century, fishing techniques were modernized, chiefly by installing power engines and improved gear on small fishing craft. Large-scale commercial operations were organized to exploit more distant seas. The overseas fishing industry was oriented toward the growing foreign market for canned fish. The problems created became important issues in Japan's economic foreign policy with her near neighbors.

The process of population increase, distribution, and manpower utilization in an industrializing Japan were more intensified than in the countries of the West. In premodern Japan, some thirty million people secured a precarious subsistence from limited land. Deficiencies in the quantity and quality of the food available for local consumption combined with the general ignorance of medical and sanitary practices made peasant and urban dwellers vulnerable. Famine and epidemics were common. People and culture survived only because the attitudes, values, and customs of family, community, and state were compulsive forces channeling the lives of women into early marriage and frequent childbearing.

The opening to the West brought an expanded and more intensive agriculture and an acceleration of industry that provided employment opportunities for the youth of the countryside and moved a once rural people cityward.

Mortality rates declined even during the early decades of modernization. Fertility rates changed more slowly. Under the particular circumstances, generally more favorable than those existing elsewhere in Asia, the modernization process involved a population increase of more than two and one-half fold within the first century.

In 1850 the density of population appeared to have been somewhere in the range of 500 to 1,000 persons per square mile of arable land with very limited opportunities for expanding the area under cultivation. In the course of seven decades, Japan raised her per capita income to a level which, though low by American or Western European standards, was far above that of all other Asiatic nations and most of Africa and Latin America. This feat was accomplished in spite of the fact that the population of the already overcrowded islands more than doubled during the interval.

The increase of the population was in process in the last half century of the feudal period itself, and quickened as modernization advanced. The first of the comprehensive reports of the Meiji period in 1872 indicated a population of over thirty-five million. Reported rates of annual increase rose gradually from less than one per cent to about one and one-half per cent in the early decades of the twentieth century. Over fifty six million people were enumerated in the census of 1920. Population had thus

increased about sixty per cent in a period of less than half a century that separated the Meiji Restoration from the first modern census of 1920.

The increase in the number of the Japanese was sufficient to constitute a formidable burden long before the spectacular annual increase called attention to the population problem of Japan. All age groups were increasing with consequent pressures that ramified throughout the economic and social system.³

Aside from the mouths to feed and bodies to clothe, the numbers entering the labor market annually made the employment problem increasingly difficult. This was manifested in the maintenance of excessive numbers of workers on business payrolls in consequence of "make work" policies and the paternalistic attitude of employers. Fear of the growth of radicalism if unemployment increased induced employers to maintain an army of unnecessary workers. Manufacturing establishments, commercial enterprises, and government offices, alike were greatly overmanned. Two drivers were found in taxicabs, not because of operating requirements but because of the pressing need for employment of some kind. An extraordinary number of small shops and

³Simon Smith Kuznets, Economic Growth: Brazil, India, Japan (Durham, North Carolina: Duke University Press, 1955), pp. 320-32.

retail establishments resulted from the lack of employment opportunities in other lines.⁴

Only through further industrialization could new employment be provided. The increase in population might be supported from manufacturing activities and the necessary addition to importation of foodstuffs paid for with exported manufactured commodities.

Japanese emigration has long been an issue of international concern. Migration either to North or South America, Australia, the Philippine Islands, and the adjoining mainland of Asia appeared to be the natural solution to population congestion. Moreover, Taiwan, Korea, Karafuto, and Kwantung were looked upon as important possible outlets.

The largest number of emigrants for a ten year period was 155,000. The maximum was reached in 1917 and 1918 when slightly more than 23,000 left Japan each year. The largest numbers of Japanese emigrants resided in Manchuria, Hawaii, the United States, and Brazil. The emigration to Brazil prior to 1929 was promoted by two factors. The first was a labor shortage in Brazil resulting from the emigration restriction policy of the Italian Government. The second was the opening of the Amazon region to settlement.⁵

⁴Harold Glenn Moulton, Japan, an Economic and Financial Appraisal (Washington, D.C.: Brookings Institution, 1931), pp. 303-309.

⁵Ibid., p. 303.

Notwithstanding the efforts made by the Japanese Government to promote emigration, little success was attained. The numbers that went abroad annually, even before immigration restriction laws were passed in other countries, constituted a negligible proportion of the increase in population. In spite of the natural reluctance of the people to leave their homeland, the lack of migration to colonies and other Asiatic areas was fundamentally economic in character. In these regions the standard of living was lower than in Japan. Just as American laborers on the Pacific Coast could not meet the competition of the Japanese, so the Japanese could not compete with other Asiatic labor.

II. CULTURAL INFLUENCES

The Japanese are the most advanced people in Asia with the highest standard of education quantitatively and qualitatively. Compulsory education can be attributed to have been one of the most significant factors in the progress of this nation. A literate population with education in the professions and trades and knowledge of foreign languages provide stepping stones to the progress of a people. Even before the war a literacy rate of 97 per cent had been achieved. Opportunities were open for men trained in new ideas. All large businesses were conducted on Western methods, and a university education was sought as requisite to a successful career.

The first Code of Education in 1872 required every child to attend school for four years. Compulsory education aided in unification of the country by outmoding provincial dialects that presented difficulties in verbal communication among natives from different provinces. Universal literacy promoted the vast circulation and use of newspapers, magazines, and books. The most important result of compulsory education was the mental and social uplift of the masses and the spread of more democratic attitudes. The adoption of English in the primary schools was official recognition of the influence it exercised in the country.

Freedom of religion has existed in Japan throughout her history. The major denominations are Shinto, Buddhism, Confucianism, and Christianity, all of which are divided into numerous sects. The state religion is Chintoism, but it is more of a cult than a religion. Christianity was introduced by early missionaries and although its converts are comparatively few in number, among them were men of power and influence in the nation. The total Christian membership is still less than one-half of one per cent of the population.

In a famous essay Professor Chamberlain described the reconstruction of Shinto in the early years of Meiji, when the ancient mythology of the race was taken into the service

of the State and used as a vehicle of national sentiment.⁶ It was a piece of brilliant statecraft, for in this way the common origin of the Japanese was demonstrated to the people and their vague religious sentiments were given the direction of nation-worship. The local and family deities were shown to be all part of that vast concourse of Gods, of whom the chief was the Sun Goddess, the ancestress of the imperial family. The Emperor himself was the representative of the Gods on earth, and as a direct descendent was considered one of their number. He was the personification of all that made Japan. He watched over his people and to him they owed unquestioned loyalty. Their sentiments of filial piety and their sense of a common origin and a common destiny were all centered on him. Thus their minds were given a wider horizon for State worship and Emperor worship that fused all their lesser loyalties into a common devotion.⁷

III. POLITICAL AND ECONOMIC CONTROL

Japan as early as the early nineteenth century remained in a stage of economic development hardly more advanced than that of Western Europe in the late middle ages. Of the twenty-

⁶George C. Allen, Modern Japan and Its Problems (New York: E. P. Dutton and Company, 1927), p. 59.

⁷Ibid.

eight to thirty million people, the overwhelming majority were poverty-stricken peasants living in self-sufficient rural villages.

The foundation of the economy and chief source of wealth was the cultivation of rice carried on by primitive methods little changed over the centuries. This agrarian base supported an aristocratic ruling hierarchy of some two hundred and seventy territorial lords. Some forty per cent or more of the peasant's produce was annually appropriated by the lords for the support of themselves and a vast army of vassals and retainers.⁸ They held their territorial fiefs by a system of land ownership and acknowledged nominal allegiance to the Emperor in Kyoto, who played no part in the political affairs of the country. Since 1603 they were under the dominance of one of the great military families, the House of Tokugawa, who were the secular rulers of Japan.

The governmental structure was a combination of highly centralized and decentralized elements. The system of controls set up by the Tokugawa Shogun was a tight and effective hierarchy. Deputy governors were scattered throughout the country. Feudal fiefs were under the unlimited discretion of the local lords who ruled through the

⁸William Wirt Lockwood, The Economic Development of Japan (Princeton, New Jersey: Princeton University Press, 1954), pp. 3-4.

guilds, city elders, and village chiefs. Next in the social order were the samurai, the warrior class, who were pensioners of a feudal lord and pledged to his military defense. Other classes in the community were the merchants, artisans, and peasants who were wholly subservient to the privileged groups and had no share in the government. The system of class distinction which was based on social position at birth and divided by occupation was a device for preserving the social, political, and economic status quo.

Under the regime an official court was set up at Tokyo, and each feudal lord of any consequence was required to spend a definite portion of his time there. By minute regulations of the social order, it achieved relative stability for some two and a half centuries. Emphasis was placed on loyalty to the various positions in the feudal hierarchy. Strict loyalty to this hierarchy and loyalty to one's family, secondarily, were the means of control over deviant individuals.

The emperor's position was almost entirely ceremonial, and even imperial high court officials depended on the Tokugawa Shogun for their positions. Feudal codes were used to perpetuate the regional feudal domains, and the ruling lords were forced to pledge oaths of loyalty and complete obedience to the Tokugawa regime. The emphasis for the

common people were on duties rather than rights. Upon the policy of dividing and isolating possible opposition rested the military strength of the Tokugawas. The political and economic dangers contained in Christianity were resolved by the adoption of isolationism.

The feudal system impeded agricultural production. Peasants could not sell their lands. In a land system already taxed to the utmost to provide food for the people, this could only mean inefficient production. Too much good land remained in the hands of the marginal farmer. He could not change the use of his land even though more valuable crops would result. Finally the custom that the son must follow the occupation of his father wasted human resources. Continued increase of already high taxes, capriciously levied and collected, laid the foundation for peasant uprisings. In addition, various natural disasters which brought famine and death led to sharp challenges to the existing regime.

Failure to solve the agrarian problem brought changes. Peasants supplemented their income by home industry. As taxes came to be collected in money rather than rice, further pressure was exerted on the peasantry which accentuated a movement to the cities. Agrarian uprisings became more frequent.

The existence of an extensive guild system was in itself an indication of the development of internal commerce and industry. The economy required the operation of a system of home industry to supplement agriculture. Both craft and merchant guilds existed and were used to control the economy. The government granted groups of artisans and merchants exclusive trade rights, and they acquired monopolistic privileges through custom in a particular industry or line of trade. The Tokugawas recognized these guilds and taxed and used them as agencies to enforce administrative policies. Thus they remained a subordinate part of the feudal system.

In addition to the rural areas which provided most of their own necessities, there existed from the beginning of the Tokugawa era commerce between the cities and the country and among the cities themselves. Throughout most of the seventeenth century, conditions remained relatively stable. Gradually, certain factors operated to produce a change. The decree requiring alternate residence by the lords at the capital and on their home estates led to a rapid increase in the population of the city. As the new capital grew, its demand for food and manufactured goods increased. Thus, more artisans, merchants, and bankers crowded into the capital. To facilitate this trade, roads were improved and coastal commerce assumed greater impor-

tance. Production from home industries were unable to meet the new demand. There was an increase in the number of small manufacturing plants, in types of goods produced, and in the number of workers. The mining trades, gold, silver, copper, to which coal was added in the seventeenth century, employed as many as a hundred workers in a single enterprise. More money and organization were required to develop and operate the mines successfully. A form of limited capitalism appeared.

While the farmers suffered economic hardship, both feudalism and the restrictive practices of the craft guilds required self-sufficiency and promoted internal trade. There was a gradual growth of a middle class as a consequence of the profitable operations of the merchant-financier group and as the towns and cities increased in size and importance.

CHAPTER III

THE ADVENT OF MODERNIZATION

Traditionally Asian nations have offered prolonged resistance to alien influences. The disruptive wedge of Western influence in Asia was trade, to which both China and Japan were opened by commercial treaties thrust on them by superior forces in the middle of the nineteenth century. In both cases, the initial economic consequences were approximately the same. A flood of machine-made goods progressively destroyed indigenous handicraft industries.

To replace the loss of the peasant economy, Japan started on a forced march toward industrialization that began with a political revolution. The new economic base for political power had to be created before the traditional one gave way. Within a generation the transition from an almost purely agrarian to a predominantly industrial economy was made. By its strength, Japan was not only saved from the encroachment of expansive Western powers, but also was enabled to join them and garner imperialist prizes that brought additional strength.

I. COLLAPSE OF FEUDALISM

Before the Tokugawa Shogun had established his authority at the beginning of the seventeenth century, the

Japanese had shown an intense curiosity about foreign ways. What led the government in the middle of the seventeenth century to exclude foreigners from Japan, except for the Chinese at Nagasaki and the few Dutch merchants who were allowed to trade at the port of Deshima, and to forbid Japanese to leave the country, was fear of foreign aggression and the danger that foreign intercourse might present to the political regime.¹

By the middle of the nineteenth century the ruling regime was crumbling partly on account of misgovernment and partly because of its weaknesses in dealing with foreign powers who had begun to menace the independence of the country. In 1854 the policy of seclusion was brought to an end and the government was forced to grant concessions. It became obvious to those in the work of administration that if the independence of their country was to be maintained, a complete change of government was necessary.²

Another factor that contributed to the gradual weakening of the feudal economy can be traced to the increas-

¹George Cyril Allen and Audrey G. Donnithorne, Western Enterprise in Far Eastern Economic Development, China and Japan (New York: The MacMillan Company, 1954), p. 135.

²George Cyril Allen, Modern Japan and Its Problems (New York: E. P. Dutton and Company, 1927), p. 63.

ed commerce between the provinces and the towns and cities. With the gradual substitution of money for a rice economy, financiers arranged credit and carried on other banking operations and assisted the merchants in their business operations. When the merchandising and financing were combined in one family, the resulting concentration of power posed a challenge to the ruling forces. They were, together with the peasant class, ill-equipped to meet the economic crisis created by the gradual shift to a money economy.

The feudal aristocracy were caught in a vicious cycle. As they became more accustomed to the pleasures of city life, their demands for goods and services outstripped their incomes. They decreased the amount of their retainers' allowances, and borrowed large sums from moneylenders or merchants with their expected revenues of rice as collateral. Ultimately many became hopelessly indebted. Inevitably their attempts to recoup their fortunes at the expense of their retainers led to an acceleration of the latter's impoverishment and to the gradual disintegration of the old order. Increasing poverty caused the breakdown of the system of personal loyalty and feudal ideals on which the system rested. They, themselves, with greater frequency entered business and trade.

Finally the peasants lost all incentive to produce

more rice and to attempt agrarian improvements. A rice crop larger than usual came to mean only heavier taxes which a poor year made impossible of payment. The farmer's comparison of his position with that of the artisans in the cities could only be unfavorable. The latter group were virtually tax-free and had a money income which gave them a chance at least to keep up with the abrupt rises and declines in the price level. The peasants, as a consequence, although ordinarily conservative and restricted by the traditions of loyalty inherent in the system became active opponents of the existing regime. Agrarian unrest, which caused thousands of farmers to migrate to the cities, often led to open revolts and uprisings.³

Economic discontent was reinforced in turn by other factors. Some were literary and religious in character. An intellectual renaissance led to the rediscovery of national traditions and a revival of Shintoism with its glorification of the Emperor, whose traditional prerogatives had been usurped by the Shogun. Such movements were eagerly supported by dissident clans restive under the autocratic

³Meribeth E. Cameron, Thomas H. D. Mahoney, and George E. McReynolds China, Japan and the Powers (New York: Ronald Press Company, 1952), pp. 126-29.

rule. It was the arrival of Western gunboats and traders, however, coinciding with the virtual bankruptcy of the Shogunate which precipitated the crisis. The expansion of Russia in the north, the encroachment of Britain and other powers in China, and finally the appearance of Perry and his warships were cause for rising apprehension. They revived and intensified memories of European ambitions and predatory rivalries dating back to the sixteenth century. The conviction spread that a policy of passive isolation could only lead to disaster.⁴

Political and social developments during the eighteenth and nineteenth centuries had disrupted the foundations on which the exclusion policy rested. The whole fabric of Tokugawa rule was disintegrating long before the incursion of the Westerners provided the occasion for its destruction. Apart from the few who held important administrative positions, the privileged class became impoverished, while the merchants became wealthy through profits gained in their capacity as financial agents.

As in Europe, moreover, the rise of a commercial class which came with the development of internal trade and the growth of urban centers, in time undermined the econom-

⁴William Wirt Lockwood, The Economic Development of Japan (Princeton, New Jersey: Princeton University Press, 1954), p. 7.

ic power and the influence of the feudal lords. By virtue of their financial power, the despised commercial class, through loans to distressed landlords, and by means of gifts as well as by the payment of taxes to embarrassed governments, steadily rose to positions of social and political importance. The sharp distinctions of status and function faded out. The merchants acquired wealth and power. The feudal lords engaged in trade and industry and the warrior class also followed commercial occupations.

By the beginning of the nineteenth century the financial position of the Tokugawa government was desperate. Natural disasters of flood and fire which destroyed much of the capital had depleted the financial reserve. The epidemics, famines, and droughts of the last two decades of the eighteenth century forced heavy expenditures. Only rice revenues, plus some income from mines, were available to meet these. As prices soared, officials soon found that there was a limit to the tax load the peasantry would accept peacefully. Under these conditions the government turned more frequently for a solution to debasing the currency. An inevitable rise in prices followed. The purchasing power of silver and gold coins fell until in 1850 it was only one-eighth of what it had been in 1661. Efforts to collect forced taxes from the new merchant and financial class failed to produce enough additional revenue. By 1850 the

Tokugawa regime was casting about desperately for new sources of income to support routine services and governmental activity.

The Tokugawas had been regarded with jealousy by many lords since the time they first established their ascendancy; and as their power weakened, they were challenged on the ground that they had usurped the powers of the Emperor. Thus at a time when foreigners demanded entry, political revolution was imminent. There existed an important sector of the privileged class which hoped to gain by change and had little to lose by it. These men backed by the merchant houses of Osaka and Kyoto played a major part in the overthrow of the old regime and constituted themselves the leaders of new Japan in both civil and military spheres. Once the old regime was overthrown, there was little delay in recognizing the requirement of wholehearted acceptance of Western methods and ideas.⁵

The coming of Commodore Perry and the imperative need to establish foreign relations furnished the occasion for the movement which culminated in the Imperial restoration of December 1867. "Reverse the Emperor" became the watchword of the new Japan, and this brought together persons of diverse outlook and interests in a common cause to reestablish the

⁵Allen and Donnithorne, op. cit., pp. 185-183.

Emperor in a position of political authority. In this they were successful; and the modern era dates from 1868, the year of the restoration. By 1871 feudalism had been abolished. The local lords surrendered their fiefs, and they together with the warrior class were granted government pensions for life. The privileges of the aristocracy passed away.

II. GOVERNMENT REFORMS

The burden of effective modernization of political institutions was on the state. The great pressure exercised by the state and other agents of industrialization on the existing social institutions succeeded in effecting the rapid changes that were required. Decisions were made on the basis of knowledge of the conflict among groups, sections, and class interests that recognized and rationalized their short-term interests.

The first task that faced the government was that of westernizing the political institutions so that Japan could meet the Western powers on an equal footing. The elevation of the status of the Emperor called for centralization. The capital was moved from Kyoto to Tokyo where buildings were large enough to accommodate public offices created by the new government. The reform spirit permeated all spheres of government activity, including the conduct and dress of

their majesties, the political machinery, economic institutions, the educational system, social customs, modes of living, and even ways of thinking.

Feudal tariffs were abolished, as well as tolls on internal trade and commerce. Freedom of occupation, domicile, and trade were permitted to eliminate the obstruction to initiative and enterprise and internal mobility of economic resources that were necessary to specialization and greater productivity. The merchant class was the first to benefit from the new freedoms.

Inheriting the bankruptcy of the old regime, contributions and loans were sought from the large wealthy merchant houses who became the financial pillars of the new government. The nature of the Tokugawa rule with its fetters on merchant capital had so restricted the accumulation of capital that the new regime was compelled to rely upon the agricultural class for its basic source of revenue. In contrast to this, accumulation was realized in other countries such as England and France through foreign trade and the returns yielded by their early colonies.⁶

There was no social upheaval comparable to the French Revolution. The government's policies were not entirely un-

⁶Herbert E. Norman, Japan's Emergence as a Modern State; Political and Economic Problems of the Meiji Period. (New York: Institute of Pacific Relations, 1940), p. 73.

opposed, but by autocratic measures and skillful political maneuvering, critics were suppressed from serious interference with its plans.

The leaders who engineered the Emperor's restoration came to recognize that the foreigners must be accepted. At their advice, the monarch announced his intention to abide by the treaties already made and to supervise directly the relations with the powers.

To replace the old feudal army made up of contingents from individual fiefs, there was created a national army drawn from all ranks of society. An elaborate bureaucracy was organized to handle the local and national administration of the country. Formation of a national code of laws along Occidental lines was adopted with the aim of removing the foreign privilege of extraterritoriality. Demand for revision of foreign treaties made in feudal days spurred the attempts to conform national institutions to Occidental standards so that all reasons for discrimination would cease.

As Japan assimilated the externals of Western civilization to an Oriental outlook, she combined the ancient principals of government to modern institutional reforms. Superficially, she adopted a political system patterned after the English Constitution. There was a House of Representatives and a House of Peers modeled after the

upper chamber of Imperial Germany. There was a cabinet with a post of premier. A Civil Service recruited by competitive examinations was a reform that ended favoritism. There were general elections, parties, a written Constitution, and other semblances of representative government.

Constitutionalism made its first appearance in the Charter Oath and the introduction of an Assembly of the Nobility. Feudal principalities sent delegates to the general convention and two groups were formed as a deliberative body. Their function was purely consultative.

Under the pressure of popular agitation for more democratic rule, local assemblies were allowed to be formed; and a Constitution was granted in 1839. This Constitution drafted by Prince Ito after an extensive study of Western systems was modelled on the Russian Fundamental Law.

The Imperial Diet was composed of two houses. The upper chamber known as the House of Peers was composed of members classified as hereditary, nominative, and elective. The House of Representatives was entirely elective.

A Supreme Court of Justice was established and provided judges trained in the principles and methods of Western jurisprudence.

The election law was not an integral part of the Constitution and could be revised in conformity to progress and popular demand. The original law in 1890 had a poll tax

for voters and a property qualification and tax for the candidates. In 1952 the property qualification was abolished and general manhood suffrage was introduced.

Dissatisfaction was rife among the clans which reaped no benefit from the change from feudalism. These groups formed the nucleus of parties and the liberal and progressive factions continuously aroused opposition to the government which turned deaf ears to their harangues.

As the various feudal territories had been largely self-sufficient and payments had been made in kind, and with the absence of overseas trade, no banking system existed. The merchant houses had conducted limited banking operations by collecting dues and taxes, accepting deposits, and making loans. The reform government assumed the responsibility of the country's monetary institutions and before the end of the century had succeeded in establishing a sound currency and banking system.

According to regulations issued in 1872, a national bank was given the right of issuing notes to the extent of sixty per cent of its capital provided that it deposited government paper money to the same amount with the Treasury in return for interest-bearing government bonds and held a gold reserve equivalent to forty per cent of the note issue. This experiment was not very successful. In 1876 the regulations were revised and the new national banks were

permitted to issue notes against a deposit with the Treasury of government bonds equal to eighty per cent of their capital; and, in place of a specie reserve, the banks were required to keep only a reserve of government paper money.

It was hoped that the new banking regulations would not only stimulate banking activities, but also would create a market for the government bonds. This was a political necessity, for if the bonds depreciated, unrest among the warrior class who had received them in lieu of their hereditary pensions, would endanger the new regime.

About one hundred and fifty new national banks were established after 1876, and to the Government's issues of paper money there was added a large issue of inconvertible bank notes. The silver yen which became legal tender throughout Japan in 1873 when a bi-metallic standard was officially adopted rose steeply in terms of paper money, and all the symptoms of a violent inflation appeared. The government, however, soon had control over the situation. The taxation system was reorganized and increased taxes were used as a deflationary device. A new financial policy was formulated which aimed at the establishment of a central banking system. The Bank of Japan was founded in 1882 as the country's central bank. By 1886 it was able to begin specie payments against its own notes. Eleven years later Japan carried through the transference from a silver to a gold standard.

Meanwhile, the great finance minister, Prince Matsukata, had begun to apply the principle that a sound banking system depended upon the existence of banks with specialized functions. These functions included the provisions of long-term loans for industry and agriculture, the conduct of foreign exchange transactions, the handling of domestic commercial business, and the collection of savings from the poorer classes. During the next eighteen years, this policy was carried out.⁷

The currency system was thoroughly reorganized and nationalized. Under the old regime many kinds of money had been in circulation, both coin and paper. Paper money issued by each fief resulted in instability. The newly centralized government instituted a uniform national currency. By this step the support of the mercantile class was assured and every new coin and bill was evidence to the public of the power of the Emperor and his administration. A commission was sent to the United States to study the financial methods used there. On its return the decimal system was introduced, a new coinage was issued, and a plan of national banks and paper currency was adopted which resembled the one in use in America.⁸

⁷Allen and Donnithorne, op. cit., pp. 212-13.

⁸Kenneth Scott Latourette, The Development of Japan (New York: The Macmillan Company, 1933), p. 125.

Before many years a financial crisis made necessary a reorganization of the banking system, and the American plan was modified by the founding of a central national bank along European lines. This strengthened the control exercised by the central government over the banking organization of the nation and aided as well in the marketing of government bonds and in the financing of its other undertakings.⁹

III. ADOPTION OF WESTERN SCIENCE AND LEARNING

The former experience in assimilating alien ideas and institutions was repeated with the coming of the European. The civilization of the prefeudal ages had been developed largely under the stimulus of contact with China which had the highest civilization then known. Social standards were partly molded by Confucian and Buddhist ideals of China and India.

By 1335 a generation was growing up which had attained the position not only of reading but also of assimilating European literature. The period of absorption was replaced by the desire to create. The fundamental characteristics of the civilization remained essentially the same but were modified by Western influences. The institutions and

⁹Ibid., p. 126.

systems imported from abroad were molded to fit the pattern of the nation.¹⁰

Laissez-faire and free-trade concepts were introduced into Japan through the writings of English and American economists. The government became involved in the study of economic systems of the West as part of the program to assimilate the best features of organization and production methods.¹¹

Envoys were sent abroad to study foreign conditions. Japanese were encouraged to go abroad to acquire Western knowledge and study the new learning at its sources. Means were devised to provide for the technical education of the people. Samples of foreign goods and machinery were imported by the government and lent to the prefectural authorities who used them as models for the producers in their locality. Itinerant teachers were sent around the country. Foreign teachers were engaged in the colleges and universities, and translations of Western books in all fields were made. Schools and colleges were established by the state, including engineering, mining, and agricultural colleges. Agricultural experimental stations were set up to assist in the adaptation

¹⁰ Ibid., p. 90.

¹¹ Chitoshi Yanaga, Japan Since Perry (New York: McGraw Hill Book Company, Inc., 1949), pp. 70-71.

of foreign crops to Japanese conditions and to work out improvements in farming methods.¹²

Early Dutch traders had brought news of developments in other lands, and as early as 1700 a book on conditions abroad had been published in Japanese. In due course Dutch was studied as a language and through Dutch books much of the scientific knowledge of the Western world was introduced. As early as 1800, plans for establishing factories were discussed. A progressive ruler living near Nagasaki established plants which cast guns and produced many articles such as glass, sulphuric acid, distilled spirits, sugar, agricultural implements, shipbuilding machinery, and oil extracting machines. Electric machines were also experimented with.¹³

After 1872 official figures were available to show the number of foreigners in the service of the Japanese government. In that year there were 214, of whom 119 were British, 50 French, and 16 American. The majority were employed in connection with railways, lighthouses, communications, shipbuilding, and educational services. According to a Japanese authority, the salaries paid represented about five per cent

¹²George C. Allen, A Short Economic History of Modern Japan. (London: Allen and Unwin, 1946), p. 23.

¹³Latourette, op. cit., p. 106.

of the total public expenditure. The numbers employed by Japanese business firms are not known.¹⁴

The following table shows the number of foreigners in the service of the national and prefectural governments during the eighteen seventies classified according to their occupation.¹⁵

TABLE I
FOREIGNERS EMPLOYED IN JAPAN
FROM 1872-1880

| | Teachers | Technical Advisers | Business & Adminis- tration | Skilled Workmen | Others | Total |
|------|----------|-----------------------|-----------------------------------|--------------------|--------|-------|
| 1872 | 102 | 127 | 43 | 46 | 51 | 369 |
| 1873 | 127 | 204 | 72 | 35 | 69 | 507 |
| 1874 | 151 | 213 | 63 | 27 | 65 | 524 |
| 1875 | 144 | 205 | 69 | 36 | 73 | 527 |
| 1876 | 129 | 170 | 60 | 26 | 84 | 469 |
| 1877 | 109 | 146 | 55 | 13 | 53 | 381 |
| 1878 | 101 | 118 | 51 | 7 | 44 | 321 |
| 1879 | 84 | 111 | 35 | 9 | 22 | 261 |
| 1880 | 76 | 103 | 40 | 6 | 12 | 237 |

Source: The Fifth Annual Statistics of the Japanese Empire, 1886.

¹⁴Allen and Donnithorne, op. cit., pp. 270-71.

¹⁵Ibid., p. 271.

IV. TRANSPORTATION AND COMMUNICATION

At the opening of the Meiji era transportation facilities were of the most meagre character. Highways were few in number and of primitive type; railroad and tramway lines were unknown. Inland waterways, because of the mountainous topography, were navigable only for short distances. In consequence of the policy of national seclusion, there were no ships that could navigate the open seas.

The slowness, uncertainty, and high cost of transportation were a deterrent to industrial development. The leaders of the new order saw that administrative centralization, economic development, and military efficiency depended on modern communications. The successful outcome was no doubt due in part to the efforts made in this field.

In less than fifty years a comprehensive unified railroad system was developed in the colonies as well as in Japan proper; steam, gas, or electric tramways were in operation in all the principal cities; and Japanese shipping lines encircled the globe.

Railway development began some forty years later than in the United States, Great Britain, and other western countries. The first railroad was constructed by the government in 1873 between Tokyo and Yokohama, a distance of a little over seventeen miles. Topographical and other

conditions led to the adoption of a gauge of three feet, six inches as compared with the prevailing four feet, eight and one-half inches of Western countries. This narrow gauge is universal in the country. Railroad construction was carried out in part under government and in part under private auspices. As part of its general program of modernization, the government took the lead in the development of railroads as it did in many other lines of activity. It was expected that after the initial stage further railway construction would be left to private enterprise. In the eighties private capital entered the field and for nearly twenty years private lines increased much more rapidly than did those constructed by the Government. Since 1906, however, private construction has been confined to local or "feeder" lines.

Agitation arose in favor of nationalization of railroads. There were the usual controversies over the level of rates and discriminatory schedules. The existence of numerous private lines made co-ordinated control difficult; moreover, many of the private lines were in financial difficulties. As early as 1898, the Tokyo and Kyoto Chambers of Commerce formally urged upon the government the desirability of railway nationalization. After thorough investigation the Government reached the conclusion that the placing of all railroad lines under single control was necessary for the most efficient transportation service and for eventual reduction of freight

rates. The relation of railway development to military requirements was also a factor in the situation. In 1906, the year after the Russo-Japanese War, the Railway Nationalization Law was enacted under which all trunk lines were nationalized. The financial transaction involved the issue of government bonds to the owners of the private railway companies.¹⁶

With the growth of commerce, the Government encouraged and subsidized the development of shipping. At first most of the ships were built abroad, but before long they were produced in government shipyards. In the seventies and early eighties rapid growth in shipping led to the virtual elimination of foreign steamers from coastwise trade. Ships were furnished to private enterprise free of cost. Shipbuilding and the shipping industries started by the state were later transferred to individual concerns with generous support from the government by subsidies, premiums, and special contracts.

The expansion of foreign commerce, following the revival of world-wide prosperity in 1896, saw further extension of shipping to overseas service. Foreign steamers were purchased for war purposes by both government and private

¹⁶Harold Glenn Moulton, Japan, an Economic and Financial Appraisal. (Washington, D.C.: The Brookings Institution, 1931), pp. 53-54.

interests. Canal and river transportation were negligible as the short and rapid streams made the development of internal water transportation impractical.

The development of the highways began during the Tokugawa period. A number of important roads were built with a view to military requirements. The first general regulation was found in a law of 1876 which adopted the classification of national, prefectural, town, and village roads. In 1919 further development in public roads was made by the promulgation of a Highway Law. A loan was authorized to be used for the improvement of 4,830 miles of national roads, about 170 miles of military roads, and 890 miles of prefectural roads, as well as for the improvement of streets in the six largest municipalities. Despite the efforts put forth, the road system is still primitive in character and inadequate.¹⁷

Telegraph lines were built by the state and in 1836 were united with the postal service under a joint bureau. The telephone was introduced in 1877, also under official auspices. These services were placed under the Department of Communications, and their receipts and expenditures handled as a part of the government's general budget.

¹⁷Moulton, op. cit., pp. 67-68.

CHAPTER IV

THE TRANSITION TO INDUSTRY

The critical period of Japan's industrialization was from 1868 to 1890 when governmental enterprise was dominant. These early years throw more light than later periods on how the feat of industrialization, unique in Asia to the middle of the twentieth century, was accomplished. Industrialization is more difficult to initiate than to sustain, and initial failure or delay would have been fatal.

Characteristically, the Japanese assimilated the applied arts and techniques of the West more readily than the spirit and ideals of Western culture. Everywhere the new jostled the old. The changes were more pronounced in the cities and especially in the superstructure of capitalistic finance and industry. Though much remained of the simple pre-machine economy of Tokugawa days, especially in the rural areas, this increasingly gave way to a reorganization and expansion of the country's productive resources along the lines pioneered by the West a century or more before.¹

¹ Simon Smith Kuznets, Economic Growth: Brazil, India, Japan (Durham, North Carolina: Duke University Press, 1955), pp. 129-30.

I. ROLE OF THE STATE

The historic stage through which Japan accomplished her industrial transition had its beginnings in the political reformation of 1868. A burst of productive energies were released. The first quarter century saw the establishment of a new political and legal framework within which the new technology was pioneered in experimental fashion. During the next twenty years, beginning in 1893, the foundation of industrial capitalism was laid as Japan passed through two successful but limited wars with China and Russia.

The advance from an agricultural economy to an industrial power of first rank was contingent on governmental policies, which initiated strategic industries, endowed lavishly the defense forces, and encouraged the merchant banking class to move into the field of industry. At the start this policy was marked by a disproportionately heavy tax burden on the agricultural class. Autocratic measures were used to subdue any signs of unrest which might precipitate a domestic crisis and hinder or retard the task ahead. It was this policy which succeeded in the speedy creation of industries and development of overseas trade.

The tempo of progress was increased by the fact that those nations which were singled out as a model had already proceeded a great distance along the road of technological improvement and economic organization. Japan thus stood to

profit from the experience of others. Technical illiteracy, scarcity of certain essential materials, a late start in the race for the preemption of markets, and the need to allocate raw materials increased the difficulties. These disabilities of an inherent nature together with those arbitrarily created by the pre-existing balance of world economic forces contributed to the formation, at a comparatively early state, of cartels and monopoly control in trade and industry. This trend was emphasized by government subsidies and the interlocking of banks and industries.²

The government used both direct and indirect means of attacking the problems of entrepreneurship and capital mobilization. On the one hand, the state itself at times acted as entrepreneur and capital supplier. On the other hand, the state encouraged and fostered private enterprise and investment.

During the first two decades the government took the initiative in developing essential industries and pioneered and financed new industrial undertakings over a broad front. It saw that at least in the beginning private groups would not build railways and telegraph lines or factories to

²Herbert E. Korman, Japan's Emergence as a Modern State; Political and Economic Problems of the Meiji Period (New York: Institute of Pacific Relations, 1940), p. 266.

manufacture wholly unfamiliar goods even though these might be necessary to assure political independence. Consequently the government established railways and telegraph systems, constructed pilot plants or demonstration projects, and saw to it that foreign experts and technicians were brought to Japan so that the people might learn. By 1830 government properties included 3 shipbuilding yards, 51 merchant ships, 5 munition works, 52 other factories, 10 mines, 75 miles of railway, and a telegraph system which linked all the chief towns.³

These undertakings in communication and transportation were initiated by the Government on the grounds of strategic necessity or because no private enterprise could be found to operate them profitably in the initial stages. Manufacturing plants were constructed at government expense later to be turned over to private firms after industry had progressed enough to pick up momentum from initial efforts.

In the field of mining the government employed foreign engineers, imported and installed the latest machines, and operated all the principal gold and silver mines and two of the most important coal mines as model enter-

³John C. Allen, A Short Economic History of Modern Japan 1867-1937 (London: Allen and Unwin, 1946), p. 30.

prises. These mines were then gradually transferred to private enterprise. By 1833 nearly all of them were operated by private concerns.

In textiles the Government established a model factory for silk reeling as early as 1872. In 1874 a model factory for silk spinning was established under the supervision of a Swiss engineer with a view to better utilization of waste silk. Cotton and woolen factories were also set up by the government. Spindles were imported from England, while a German expert was obtained to supervise. Cement and glass factories were established in the seventies. In 1830 the Government enacted a law providing for the gradual transference of all establishments to private owners.

The Government operated similarly in the development of the iron and steel industries. In some cases it established industries outright, and in others it participated in financing pioneer business enterprise by the use of public credit and through the credit of banks established under government auspices.

Agricultural programs assumed a high priority when the increase in population brought stress on the food problem. Official efforts to improve food production included irrigation and reclamation projects, the improvement of farm techniques, increasing the use of multiple cropping, and pest and disease control.

The state performed in a large way the function of

the entrepreneur. Because of old traditions, there were few experienced business enterprises and virtually no accumulation of private capital. The entrepreneurial function was not confined to the construction and operation of industries. Of greater significance was the over-all plan in setting up general economic objectives, in studying the economic institutions of other countries and adapting them to local requirements, and in promoting simultaneous development of these institutions as parts of a coordinated economic system. Financial aid was rendered in part by the use of credit and in part by means of its power of taxation. By virtue of its ability to draw upon foreign sources of capital and also to tap such domestic sources which existed, funds were made available more rapidly, more abundantly, and more cheaply than would otherwise have been possible.

Large credit is due the state for the leading role it played in the nation's industrial revolution. First, it shouldered the responsibility of defending the nation from foreign domination in the nineteenth century and cleared the path for autonomous development under Japanese leadership. Second, the overthrow of the old feudal system removed the legal and political obstacles to freedom of ownership, occupation, and movement. Third, the Meiji state carried through a series of governmental reforms establishing a unified and stable framework for development.

Especially important was the national network of transport and communication, the national system of banking, currency, and taxation, all of which provided security of life and property within broad limits.

After 1830 the Government relinquished its lead as private capital and experience began to accumulate. Subsequently, state capitalism in the sense of public ownership played a steadily declining role. However, the state continued to foster industrial progress. Abroad it used force and diplomacy to win trading and investment opportunities. At home it placed major reliance on its taxing and regulatory powers.

II. GROWTH OF INDUSTRY

In some sectors the state could only promote industries by granting privileges of various kinds to a few large groups that possessed some initial capital. This scarcity of capital and entrepreneurial ability led to the appearance of a few huge businesses with a wide range of interests. These groups were popularly known as the Zaibatsu, of which the four outstanding were Mitsui, Mitsubishi, Sumitomo, and Yasuda.

There is no satisfactory translation of the term Zaibatsu. Literally, zai means money or wealth, and batsu means a clique or group or faction. Hence the term may be

translated "financial group" or clique.⁴

These groups were family businesses. The capital was owned entirely by a family or group of families with a common ancestor. Through the influence they exerted over the government, either through its connections with leading bureaucrats or by control of a political party, they were able to secure considerable advantages for themselves through policy direction, as well as through the securing of subsidies, special protection for their enterprises, and governmental contracts. What distinguished them from other large business groups was not merely the magnitude of their interests and their close association with the government, but their preeminence in finance, industry, and commerce.

The association of financial institutions and industrial and commercial undertakings under single control confers an important competitive advantage which cannot be enjoyed by firms which operate in only one field.

The types of combinations found in the large scale industries resembled closely those influential families commercially prominent in Europe and America. They ranged from complete mergers and consolidations to trusts and syndicates. A few of these business combinations became members of international cartels in textiles, chemicals,

⁴Elizabeth Boody Schumpeter (ed.), The Industrialization of Japan and Manchuko 1930-1940 (New York: The Macmillan Company, 1940), p. 620.

and in the coal and fuel oil industries.

In the infancy of industry many of the initial plants were established by state initiative, especially in metallurgy, machinery manufacture, and shipbuilding. However, with the growth of private capitalism, state-owned enterprises became relatively minor. After it had determined the direction of industrial development in such a way to achieve certain of its political objectives, there was no desire on the part of the state to retain industry permanently under state ownership and control. Once the industry was firmly established, the tendency was to transfer its properties to private concerns. The exceptions were the salt, tobacco, and camphor industries. These were created as state monopolies before the end of the nineteenth century for the purpose of providing a source of revenue needed to meet the increasing expenses of the Government.

Industrialization first began in the cotton textile industry for which native cotton and ample resources of skilled labor were available. For some years native cotton was used until its cultivation decreased to almost nothing. By 1890 the industry became almost completely dependent on imports of American and later Indian cotton. Thus development along light industry lines, particularly the textile industry, set the initial pattern.

The lack of natural resources was balanced to some extent by an abundance of human resources. Labor was amenable to the monotony of factory life and was, above all, cheap. The textile industry in particular benefited from an abundance of young female labor from the rural areas. The employment of vast numbers of people of limited training and skill compensated in part for the lack of efficiency in production.

Myriads of tiny establishments comprising the workshop industry continued to account for a major share of manufacturing activity. The small industrialist fitted into the framework of large-scale organization which provided efficient marketing arrangements, cheap credit, and electric power.

The development of the heavy metal industry from its inception was influenced by political considerations, especially in the determination of the government to ensure that equipment for munitions production was made available. Japan had greater difficulty in adapting her metallurgical trades to Western technical methods. The metal and heavy engineering industries needed more expensive equipment and more elaborate technical processes. The scarcity of capital was a further handicap in addition to the lack of scientific knowledge and trained technicians.

In the major branch of metal production; namely, the

iron and steel industries, Japan lacked an adequate supply of iron ore and good coking coal. In 1901 production began with a state owned and operated plant purchased from Germany. Most of the heavy engineering industry was concentrated in a few large firms, each with a wide range of output. There were a considerable number of small workshops engaged in manufacturing parts and working on orders from the larger factories. Freedom from dependence on foreign manufacturing resources in the war industries stimulated the growth of engineering, but for a long time the heavy industries depended on the state for help.

Among other large-scale operations were the cement, sugar growing and refining, glass, beer brewing, paper, artificial fertilizer, and rayon industries. All these owed their inception to the large business families who were often assisted by state subsidies in launching these new enterprises.

Large plants had the necessary prerequisites for the basic metal industries, electric power, heavy engineering, equipment, chemical, fertilizer, cotton yarn, and sugar industries. Elsewhere, as well, the big establishments made progressive inroads as markets widened, capital accumulation increased, and the people gained experience in the technical and managerial skill of large scale

organization.⁵

The greatest spurts in development were in those industries which were new or nonexistent in 1900. Among these were the producer goods industries, textile, metallurgical, and chemical industries, as well as gas and electric power, which provided modern energy sources basic to industrial progress. Textiles, along with metals and machinery, formed the two largest components of Japanese manufacturing.

The actual growth of manufacturing output was not rapid. At five per cent a year it was, however, well above the rate of expansion of world manufacturing as a whole. The relative gains were achieved mainly in two periods: (1) the years of World War I when Japan seized the opportunity afforded by her virtual noncombatant status to forge ahead commercially and industrially; and (2) the world depression years of 1931-35 when her industry again spurred ahead under the impetus of monetary expansion and exchange depreciation.⁶

III. PROBLEMS OF CAPITAL FORMATION

As a matter of historical record, economies prior to

⁵Zuznets, op. cit., pp. 142-50.

⁶Ibid., p. 153.

the onset of industrialization and intensive growth are characterized by the dominance of agriculture. If favorable natural conditions and improved methods yield substantial economic surpluses, and they are used to extend agricultural cultivation and raise the over-all standard of living, a trend toward industrialization usually occurs. However, if social and political conditions are unfavorable, the tendency is toward conspicuous consumption and relatively unproductive types of consumer expenditures. The problem is not what to do with a given substantial surplus, but rather how to direct the economy so that the surplus will flow into the proper channels to provide a widening base for substantial economic growth.⁷

In Japan in the early years taxation and public borrowing were employed primarily to mobilize capital for productive government enterprise. At that time the private capital market was undeveloped and the principal economic problem was one of mobilizing the surplus in agriculture for industrial and commercial investment.

To meet her total capital requirements Japan possessed a modest amount of accumulated capital; but her people had a relatively high marginal propensity to save. Current saving was remarkably high in view of the low

⁷Ibid., p. 18.

levels of national per capita income. The devotion to thrift and a long-term outlook prevalent in all classes tended to promote investment into new sectors.

The people were willing to bear a high level of sacrifice, and this made possible the diversion of most of the gains in national product into savings. This mass toleration was due to population pressure, lack of organization, traditional docility, and patriotic fervor. Moreover, the fact that the masses had never been exposed to high standards of living was a further favorable influence.

There was no large sector of the public willing to invest in industry. The bulk of the public's savings were on fixed deposit at the banks or entrusted to insurance companies. Some important industrial concerns were built up from small beginnings through the reinvestment of these available funds. Large scale enterprises in need of investment capital had to obtain it mainly by selling their securities to banks and other financial institutions. Working capital was provided for the most part by bank loans against promissory notes.

The smaller producers, who were responsible for the larger proportion of the output of consumer goods, were financed by merchants, who in turn obtained the bulk of their resources from the great banks. Thus, those who

controlled the financial institutions could direct the development of industry.⁸

The Deposits Bureau of the Ministry of Finance founded in 1877 was entrusted with postal savings as well as certain other funds belonging to the Government. The savings were provided largely by numerous small depositors, especially farmers with the traditional impulses to thrift. In 1885 there were about 300,000 depositors and about 9 million yen of deposits. By 1914 this had increased to 12 million depositors and 189 million yen of deposits.⁹

The significance of the Deposits Bureau was that it provided a channel for directing the savings of the people towards enterprises sponsored by the state. The Bureau invested the funds mainly in bonds and debentures issued by the government and local authorities, and in the debentures of special banks. It also made extensive loans to semi-official concerns, such as public utilities, and to colonial enterprises. Thus the savings of the poor were directed toward furnishing capital for modern large-scale enterprises.

In 1863 the Government found itself faced with grave budgetary difficulties. Public expenditures were heavy,

⁸Schumpeter, op. cit., p. 630.

⁹Harold Glenn Moulton, Japan, an Economic and Financial Appraisal (Washington, D.C.: The Brookings Institution, 1931), p. 139.

while the cost of crushing clans hostile to the Imperial regime had taken a toll on the public treasury. With the Government's expenses increasing, the cost of paying the pensions to the former ruling and warrior classes became more difficult. Tariff revenues had been fixed by treaties that had been made with the Western powers who were not interested in raising tariff rates to help Japan meet a financial crisis. Increases in direct taxes, the only other way to add to the Government's income, met popular resistance, both because of lack of understanding and the inability to pay.

In 1873 Count Okuma, the Finance Minister, offered in lieu of pensions to the former lords and warrior class a settlement of one-half in cash and one-half in government bonds bearing eight per cent interest. This was so satisfactory from the government's point of view that the plan was made compulsory. It was a financially necessary expedient for the state, although it amounted to a partial repudiation of the original obligation. With little knowledge of financial matters, many quickly accepted the new settlement and spent the cash quickly. Others used the money to enter or enlarge business ventures.¹⁰

To alleviate the financial burden, reforms were

¹⁰George C. Allen, A Short Economic History of Japan, loc. cit.

effected in the system of land taxation and increased taxes were levied. Economies in administration were achieved and government factories were sold. A sinking fund was instituted to provide for the redemption of the public debt. As a consequence, the public debt of 245 million yen in 1330 was reduced to only 5 million yen ten years later when the national income and taxable capacity of the country had risen considerably.¹¹

For a nation desirous of rapid industrialization but short on capital, Japan's reluctance to borrow from abroad is explained by her fear of foreign domination over the national economy. From the outset, Japan had taken control over her own destiny and was determined not to incur financial obligations that might at some stage invite political interference in her internal affairs. This policy may have retarded the pace of development for it compelled reliance on domestic savings in the process of capital formation.

A further reason for the absence of foreign industrial enterprise was the misgivings of foreigners themselves in the country's financial stability and economic prospects. They saw the country as a supplier of certain products of small-scale agriculture and handicrafts, and

¹¹Ibid., p. 42.

as a market for textile and other manufactured goods. They did not conceive of Japan as an industrial competitor.

From the Restoration until the end of the century only two foreign loans were contracted for designated purposes. The first was a loan of £913,000 at nine per cent floated in London in 1870 to help in the construction of the first railway. The second loan was also floated in London in 1873 for £2,400,000 with interest at seven per cent to help the government meet the cash needs for pension commutation and capitalization. Until a London syndicate purchased 43 million yen of bonds through a contract with the Bank of Japan in 1897, no foreign capital was introduced into the country.¹²

By the end of the century Japan had passed over the hurdles of the early Meiji period. Her prestige had been raised by her success in the Sino-Japanese War of 1894-95, and her currency reserves were strengthened through the payment by China of an indemnity in gold equivalent to £33 million sterling. In 1897 she had successfully carried through a transference from a silver to a gold standard. Two years later she had freed herself from the shackles of unequal treaties made in 1855 with the leading Western powers which fixed Japan's rate of import duties. Her

¹²Norman, op. cit., p. 115.

credit was so much improved that she was now in a position to raise capital abroad on favorable terms and was no longer haunted by the dread of foreign political influence. The government felt free, therefore, to solicit long-term investments for large scale capital developments.

In 1899 a period of large-scale foreign borrowing began. In that year the government issued a long-term sterling loan of 95,500,000 yen. Between then and 1903 a quantity of domestic bonds were sold abroad. By 1903 the total amount of foreign debt had risen from an insignificant amount to 195 million yen.¹³

The Industrial Bank of Japan became an important channel of foreign investment. Some of its capital was held by foreigners. Between 1900 and 1911 it raised 350 million yen abroad by the sale of its own debentures and those of other public corporations.

Direct investment by foreigners in Japan were estimated to have been 40 million yen in 1904 and 70 million yen in 1913. During the 1920's such investment rose considerably, along with the development of joint enterprises by foreign and Japanese concerns. By 1932 the total was about 245 million yen. The British and Americans were

¹³George C. Allen and Audrey G. Donnithorne, Western Enterprise in Far Eastern Economic Development, China and Japan (New York: The Macmillan Company, 1954), p. 234.

responsible for most of this direct investment. No estimate is known of the short-term capital investment.¹⁴

While capital formation in Japan came about mainly through the medium of domestic savings, it is doubtful that Japan would have been able to accelerate the rate of industrial development as she did, or to realize her plans of territorial expansion on the continent without the foreign loans raised during the first decade of the twentieth century. This new source of credit enabled Japan to initiate enlarged programs not otherwise possible.

IV. TERRITORIAL EXPANSION

The security of the Japanese homeland was no mere accident. The military implications of the proximity of the continent long ago had been brought home to the Japanese by several attempted invasions, and the necessity of defense against sea power was fully recognized after 1853. Beginning in 1895 until World War II, an outer ring of territory was acquired bit by bit. These included the Kurile and Bonin Islands, Formosa, Korea, Kwantung, Manchuria, and the South Seas Mandated Islands. As a result of this geopolitical foresight, Japan was shielded from direct attack on every side except that facing the southernmost shore of Siberia.

¹⁴Ibid., p. 236.

The initial policy of imperialistic expansion was motivated by national pride and economic necessity. Agricultural production could not provide an adequate food supply in the face of the growing population. Greater reliance had to be placed on importations of food products. The effect of this situation prompted Japan to incorporate within her borders other areas which could supply both agricultural and industrial raw materials.

In Japan's quest for an empire she had but few assets, chiefly location and a virile and dynamic people. At the height of her conquests in 1942 she was more nearly self-sufficient than the United States. Her conquered territory extended from the Aleutians 4,500 south to the Solomon Islands and from Wake Island 5,000 miles west to Burma. This involved a land area of 3,250,000 square miles.¹⁵

Whether by conquest or annexation, as in the case of Korea; by protectorate, as in Manchuria; or by special interest supported by bayonets, as in the case of the Northern Provinces of China; a large empire was built up. By adding Formosa, the Pescadores, half of Sakhalin Island, Kwantung, Korea, and the Mandated Islands in the South Seas, given to her by the League of Nations, Japan almost doubled

¹⁵George B. Cressey, Asia's Lands and Peoples (New York: McGraw-Hill Book Company, Inc., 1944), p. 170.

her territory. After Manchuria, a part of Mongolia, and some Northern Provinces of China were added, an empire many times the size of the original island base was created.

The population of this newly created empire was estimated at between one hundred and twenty-five and two hundred million or more. This population, although not homogenous, was an enlarged source of manpower under Japan's control and disposal.

Formosa, the first colony, was a valuable source of food supply with its rice, tea, sugar, and fruits. It also provided camphor and sulphur and furnished a market for Japanese goods to the value of some one hundred and fifty million yen annually. It failed, however, to become an outlet for Japan's excess population. As a producer of wealth, it was the best of the colonies. Strategically, the island was valuable as an important link in the barrier against approaches to the Chinese coast from the Pacific.

The Treaty of Portsmouth, which concluded the Russo-Japanese War in 1905, added Karafuto, a territory almost equal in size to that of Formosa. This area was valuable for its natural resources and its surrounding waters furnished bountiful crops to the fishing industry.¹⁶

¹⁶Victor A. Yakhontoff, Eyes on Japan (New York: Coward-McCann, Inc., 1936), p. 52.

Korea, annexed in 1910, was also rich in natural resources. Its possession solidly established Japan for the first time on the mainland of Asia.

The Mandated Islands in the South Seas were not significant in area or revenue producers; rather, their importance lay in the fact that they controlled an immense expanse of sea, thus increasing the area patrolled by the Japanese navy.

In 1914 Japan not only occupied the formerly German-held territories in China, but extended her occupation beyond them. When asked to withdraw, she not only refused but served on her neighbor the imperious document known as the Twenty-One Demands. The President of China yielded to the ultimatum, and by this agreement Manchuria came under Japanese domination. This area furnished many vital raw materials such as coal and iron ore, and contained valuable oil-shale deposits. Japan thus obtained control of that part of China which provided natural wealth and favorable foreign trade.¹⁷

These colonies were to serve not only the purpose of military strategy but also the economic needs of the homeland. They supplemented Japan's food supply and furnished

¹⁷Ibid., p. 64.

raw materials to Japanese industry. They provided outlets for Japan's excess population and markets for the production of her industries.

CHAPTER V

JAPAN'S RISE AS A TRADING NATION

Limited natural resources and limited geographical area combined with a large population from the beginning geared the economy of Japan to dependence on foreign trade. It provided the key that unlocked the door to economic opportunity, and it enabled Japan to draw on the world's industrial resources to compensate for her basic deficiencies.

During the early decades of the Meiji period (1863-1912) Japan's foreign commerce was significant chiefly as a newly opened highway of communication over which new stimuli and knowledge flowed from the West. Through this channel, as well as through foreign travel and study, the Japanese began to import and assimilate the industrial arts which were made a part of the national economy.¹

The recognition by the state of the importance of foreign trade as a stimulus to the growth of new industries contributed to Japan's rapid economic advancement. Political leaders realized that the industrial development of Japan would be impossible without the import of capital goods.

¹Hugh Borton (ed.), *Japan*, (Ithaca, New York: Cornell University Press, 1951), pp. 85-86.

By foreign trade Japan realized a margin of profit sufficient to maintain her industrial establishment and provide her people with a decent standard of life. In a real sense the whole increase in national income and wealth in modern times was founded upon expanding contacts with the outside world.

Many industries were dependant upon foreign sources for raw materials and foreign markets for the disposal of manufactured products. Some of the major income-producing industries were oriented to the export market. The silk industry obtained its raw materials from within the country but disposed of over eighty per cent of its production abroad. The cotton textile industry looked to the foreign markets to absorb nearly sixty per cent of the value of its product. The tea and ceramics industries exported over one-third of their production. The cotton spinning industry imported practically all of its raw cotton and the woolen industry about three-fourths of its raw wool. The iron and steel industry imported over ninety per cent of the iron ore consumed and nearly one-half of the pig iron. The engineering industries required imported machine tools. Food, chemicals, and fertilizers were needed to supplement the domestic supply.²

²John Ewing Orchard and Dorothy Orchard, Japan's Economic Position; the Progress of Industrialization, (New York: McGraw-Hill Book Company, 1930), p. 419.

Most of the basic natural resources such as iron ore, coking coal, petroleum, and other essential minerals necessary for modern industry were lacking. In addition, as Japan's population grew, her agriculture was increasingly unable to provide food, cotton, and other agricultural raw materials needed to sustain the steady progress of industrialization. Japan attained a degree of national dependence on overseas materials that was exceeded by few nations.³

The ratio between the value of merchandise exports to foreign countries and colonies and the total value of all goods and services produced in Japan averaged about twenty per cent in the early decades of the twentieth century. The rise in foreign trade was part of the general process of expansion characterizing all parts of the Japanese economy.⁴

Scarcity in natural resources was in some respects an asset as long as the world situation enabled her to meet these deficiencies abroad. Access to world markets enabled Japan to use her skills and resources to build up an economy based on overseas supplies of commodities more cheaply and efficiently produced abroad. Her deficiencies in the raw materials of industry and in certain branches of engineering were paid for with exports in which she had competitive

³Borton, op. cit., p. 86.

⁴Ibid., p. 84.

advantages. Japan was able to reap the benefits of international specialisation and relatively free multilateral trade which prevailed during the period 1868-1933.⁵

I. FOREIGN TRADE

When Japan first entered the field of foreign trade her national economy was practically self-sufficient for there was little demand for Western manufactured products. Consequently imports were negligible in volume and exports comprised but a few varieties of raw materials.

For over one-half a century after the opening of the country, the volume of trade remained insignificantly small. When commercial relations with the West started, only a little trade was carried on through the three open ports. Even after three additional ports were opened in 1863, there was little increase in trade. This was a period when the national economy was still based on agriculture, and industrialization had barely started.

An attempt was made in 1876 by Japanese businessmen to capture their share of the profits of foreign trade and large firms set up offices in the principal foreign cities. However most of the imports and exports were handled by

⁵William Hirt Lockwood, The Economic Development of Japan (Princeton, New Jersey: Princeton University Press, 1954), p. 319.

foreign business houses and carried in foreign bottoms. The establishment of the Yokohama Specie Bank in 1830 to facilitate foreign exchange transactions and the founding of two Japanese steamship lines helped to provide some of the needed facilities for foreign trade.⁶

By 1874 foreign trade began to show notable development when both imports and exports were in excess of 100 million yen for the first time. Five years later they exceeded 200 million yen. Contact with Western civilization and the progress of modernization produced a demand for foreign goods. The nation required more raw materials, machinery, and other supplies for the building of a modern business and industrial structure.⁷

Several factors were responsible for the spurt in foreign trade in the period following the Sino-Japanese War of 1894-1895. The victory over China gave the nation both the confidence and the means to carry out a program of economic expansion overseas. Industrialization within the country had proceeded rapidly during the war and in the period following.

To encourage development in the field of foreign trade the government enacted a law in 1896 for the subsidi-

⁶Chitoshi Yanaga, Japan Since Perry, (New York: McGraw-Hill Book Company, Inc., 1949), p. 381.

⁷Ibid., p. 332.

zation of ocean transportation and at the same time abolished import duties on cotton. Three years later export duties were abolished. Private enterprise responded by extending and expanding commercial activities abroad.⁸

The period immediately following the Russo-Japanese War saw the expansion of Japan's market for manufactured goods not only to China and Korea but also to other Asiatic countries and to Southeast Asia. The importation of foreign capital and the development and improvement of transportation led to the amazing growth of enterprises of all types. Exports rose from 300 million yen in 1904 to 400 million yen the following year. In the year preceding the outbreak of the first World War it had reached 632 million yen.⁹

Tariff autonomy restored by the Treaty of Commerce and Navigation in 1911 enabled Japan to pursue a protective policy. This was followed by a significant shift in the handling of foreign trade from foreign to Japanese firms.¹⁰

Of all the deterrents to Japan's export trade, one of the greatest was the existence of foreign protective and discriminatory tariffs. The "Empire Preference" system used by the British commonwealth countries was perhaps the best

⁸Ibid.

⁹Ibid.

¹⁰Ibid.

known example. Other measures such as the "Buy American" slogan in the United States and the quota limitation imposed by many countries added to the difficulties of trade expansion. These measures effectively eliminated Japanese competition in many products and areas. Even in the United States today there is constant pressure by manufacturers for tariff action against certain Japanese products.

II. IMPORTS AND EXPORTS

From 1831 to 1893 there was a favorable balance of trade. After the Sino-Japanese War of 1894 to 1895 heavy imports of capital caused a large adverse balance. Of the total volume of imports in the early eighties, nearly one-half consisted of manufactures and some industrial raw material. Other chief imports were sugar, mineral oil, and iron and steel products. By 1913 finished manufactured imports had fallen to under one-fifth of the total trade while over one-third consisted of raw materials and about one-sixth of semi-manufactured goods. Despite the large growth in population food imports declined from the early eighties. Imports of iron, steel, and other metals as well as machinery and tools rose, while cotton yarn and textile imports declined.¹¹

¹¹George C. Allen, A Short Economic History of Modern Japan 1857-1937 (London: Allen and Unwin, 1945), p. 33.

In the early eighties the three major exports were raw silk, tea, and rice. Other manufactured exports were in pottery and other products of the old domestic trade. There was in addition a small trade in copper. In 1900 raw silk declined in export volume and its share was taken by cotton and cotton yarn.¹²

Since the Manchurian and China incident the usual short-term commercial credits were curtailed and Japan had to make substantial cash payments for machinery and equipment. At the same time her imports of metals and metal products, machinery, and petroleum increased as a consequence of the war in China, industrial expansion at home, and capital investments in Manchuria and North China.

The investments resulted in exports of consumer goods, building materials, and industrial equipment to the regions being developed, which were dependent to some extent on imported raw materials. Imports of food and finished manufactures diminished steadily during the present century; and imports of semi-manufactures, largely metal and metal products, rose.

Among the exports there was a tendency for semi-manufactures to decline after 1900 due to the decreasing importance of raw silk in the export trade. There was a

¹²Ibid., p. 87.

corresponding tendency for exports of manufactures to rise and become more diversified. Raw silk, which accounted for forty per cent of total exports in the early 1920's, constituted only fourteen per cent in the years prior to World War II. Agriculture and trade required adjustments to the increased demand for rayon, staple fiber, and nylon which replaced the dominant positions formerly held by silk and cotton.¹³

Prior to World War I Asia and North America each accounted for about forty per cent of Japan's imports, Europe for over ten per cent. Since 1937 the United States alone provided one-third of Japan's imports, with cotton diminishing and petroleum, metals, and machinery increasing.¹⁴

Beginning in the present century there was a marked shift from Europe to North America as a source of imports. The United States had been the cheapest and most convenient source of strategic raw materials, but the trade between the two countries continued to be increasingly unfavorable to Japan. It was necessary to cast about for new sources of raw materials where there was also a possibility of potential markets for Japanese manufactures, even if the raw

¹³Elizabeth Boody Schumpeter (ed.), The Industrialization of Japan and Manchuko 1930-1940 (New York: The Macmillan Company, 1940), p. 533.

¹⁴Ibid.

materials were of inferior quality and higher cost.

Under the treaties of 1853 the export trade entered upon a period of expansion which continued almost without interruption for eighty years. Through the Meiji era (1868-1911) shipments overseas doubled in volume, approximately, during each decade. At first exports consisted of a variety of foodstuffs and industrial materials, mostly products of traditional occupations and handicraft methods. Among them were tea, dried fish, seaweed, copper, gold, silver, coal from newly developed mines, camphor, sulphur, vegetable wax, and wood and straw products. By far the largest item was raw silk which accounted for forty per cent of the value of all exports. Miscellaneous food products and industrial materials found an export market chiefly in China and other nearby countries of Asia. To Europe and the United States went silk, tea, mats, and a variety of wares in which Japanese artisans had long excelled.¹⁵

Some twenty-five to thirty per cent of the products of the manufacturing industry were sold to foreign markets. The items which furnished the major bulk of trade were raw silk and cotton which contributed one-third of all industrial exports to foreign countries and to the Japanese colonies. Non-textile production and the engineering trades

¹⁵Lockwood, op. cit., p. 336.

each averaged fifteen to thirty per cent of exports. Taken altogether Japanese exports of manufactures far outstripped those of most other industrial nations in rate of growth over the first three decades of the century. World exports of manufactured goods increased only 20 per cent in physical volume while Japan's rose 600 per cent, although in value they still comprised no more than one-sixteenth of the world total at the end of the period.¹⁶

Trade with Southeast Asia was cited most frequently as the answer to Japan's need for export markets. Increase in trade levels with nations in that area had been slow and difficult to obtain. These nations were economically and politically weak, their standards of living were low, and their productivity limited. Many of these countries were rich in natural resources, but their development even under colonial auspices had been exceedingly slow. There was a little capital available for investment. Most of these nations were dependent upon raw material exports for foreign exchange income thus making them vulnerable to fluctuations in the world's unstable commodity markets.

Although the Southeast Asian nations desired consumer goods in large quantities - and Japan was able and eager to supply their needs - they lacked the purchasing power to

¹⁶Ibid., p. 339.

make their demands effective. An additional deterrent to an increase in Japan's exports of soft goods to these nations was their growing self-sufficiency in the production of textiles, particularly in India. Spinning and weaving industries could be established without large capital investments and therefore had first priority in development. Thus the largest component of Japan's trade with them was subject to competition from local industry. There were no great attempts to shift exports to the field of heavy industrial products and machinery as the capacity of these nations to absorb products of heavy industries was low.

The foreign market early influenced commercial organization, transport, and finance. The trend in industry was toward large scale organization. The small factory replaced the workshop. The wholesale merchant rose to a position of increasing responsibility. The export market required orders in bulk with standardisation of quality and certainty of delivery.

The major contribution of these exports was in financing imports of machinery, food, and materials which were essential to the modernization and expansion of industry. Silk and silk manufactures alone paid for nearly one-third of the entire purchases from foreign countries in sixty years from 1870 to 1930.¹⁷ Foreign borrowing on a

¹⁷Ibid., p. 370.

large scale was thus avoided and restrictions on imports of consumer goods to small proportions conserved most of Japan's foreign exchange earnings.

Expansion abroad created profitable opportunities for new types of enterprises and enlarged the scale of operations in various industries. Uniformity and standardization made possible economies of large-scale marketing, production, and finance.

The Asiatic market played a more vital role than trade with the West. Japan's exports to the United States, Europe, and the British Dominions continued to be mainly materials and manufactures produced by relatively simple processes in which hand labor was the chief element of cost. The bulk of Japanese factory exports requiring more advanced methods of production, such as in the production of cheap clothing materials, were marketed mainly in the East. The direct stimulus to more advanced processes in industrialization came largely from the home market and the market of Japan's Asiatic neighbors.

The functional role of the export market in economic development may thus be summarized as follows: (1) Exports paid for essential imports; (2) Exports contributed to the dynamics of income growth and capital formation; (3) Exports fostered technological advance by the contacts and industrial opportunities it afforded and by the enlarged scale

of production made possible in certain industries.

III. BALANCE OF TRADE

The key to Japan's ability to hold the markets of the world's backward areas lay in the cheapness of her products. The basic need was for Japanese industry to keep costs at a minimum and production at the highest levels of efficiency. Because of her overseas, trade-based economy, a major factor in the economy was ocean transportation. After the development of the merchant marine, the largest percentage of overseas trade was carried on Japanese ships. This, together with the shipments of goods between third countries, contributed favorably toward Japan's balance of international payments. The cost of maintenance and operation was about ten to fifteen per cent less than that of other foreign vessels and the efficiency of operation was high.

The state-sponsored Nippon Yusen Kaisha and Osaka Chosen Kaisha lines was destined to become two of the great shipping firms of the world. Each war contributed further to their expansion and demonstrated the military importance of a merchant fleet.

Beginning at first with the nearby sea routes, the steamship lines rapidly extended the range of their activities and progressively replaced the junks and other sailing craft which carried the early coastal traffic. Following

the shipping boom of World War I, Japan emerged in fourth place among the world's maritime nations. Henceforth her merchant marine carried two-thirds or more of her own overseas trade and continued to bid for an increasing share of the traffic on every major shipping route around the globe except in the North Atlantic.

The income from the merchant marine ranked high among the export industries. Shipping services sold to foreigners averaged 127 million yen a year in gross receipts from 1927 to 1936. Japanese shipping carried sixty-three per cent of the imports purchased from foreign countries and seventy-three per cent of her exports. It also handled virtually all of the colonial trade.¹³

Japan alternated between periods of favorable and unfavorable trade balances. Prior to World War II, Japan had comparatively little difficulty in maintaining equilibrium in her balance of international payments because foreign currencies were freely convertible. She was able to cover her visible trade deficit with a substantial invisible trade surplus composed largely of the earnings of the merchant fleet. This favorable situation was not long to be maintained.

¹³Ibid., pp. 343-49.

The dilemma of Japan was how to increase exports without increasing imports in order to establish an even or favorable balance of trade. The problem appeared almost insoluble since the dependency of Japan on imported raw materials had always existed. The dominant imports of ores, metals, petroleum, coal, foodstuffs, chemicals, fertilizers, and raw textile materials provided the basis for Japan's industrial deficiency. Each of these commodities were necessary to maintain a modern industrial power. None of them except foodstuffs were available on the domestic market in any substantial amount. Cotton, wool, and rayon pulp had to be imported for domestic consumption as well as for the export trade.

From 1897 to the first World War, Japan borrowed heavily from abroad. The bulk of the loans were contracted by the national government. There were also some direct investments by foreigners in Japanese enterprises. On the other hand there was a considerable increase in Japanese investments abroad, particularly in Manchuria following the first Russo-Japanese War. By the end of 1913 Japan was a substantial debtor.¹⁹

With the stimulation of foreign trade and increased

¹⁹Simon Smith Kusnets, Economic Growth: Brazil, India, Japan (Durham, North Carolina: Duke University Press, 1927), pp. 186-87.

revenues from shipping, charterage, and insurance, there rose a favorable balance of international payments. The favorable balance of trade for the four year period 1915 to 1918 aggregated 1,480 million yen, and the combined foreign specie holding of the government and the Bank of Japan at the end of 1919 reached 1,343 million yen. While the war continued to drain heavily the financial resources of the Allies, Japan accumulated large quantities of gold through foreign trade. The country had changed from a debtor to a creditor status.²⁰

The second half of 1919 began to show a marked decline in Japan's foreign trade, and by the early spring of 1920 the prosperity bubble had burst. The war boom came to an abrupt end and recession set in. Industry as a whole began to feel the effects of abnormal overexpansion. Advantages gained during the war disappeared but the increased cost of labor, high prices, and high cost of living continued. Foreign competition returned and exports declined while imports increased. The disastrous earthquake of 1923 set back recovery by destroying the means of production as well as wealth and manpower, necessitating foreign loans and increased imports of goods and machinery to meet reconstruction requirements. This led to a period of

²⁰ Yanaga, op. cit., p. 333.

inflationary finance and abandonment of the gold standard.²¹

The depreciation of the yen was followed by a trading and industrial boom. The decline of silk was replaced by a diversified export business in cotton and rayon goods and other manufactures. The expansion of the munitions and other industries in the thirties drew increasing supplies of material and equipment from the United States. Japan's former dollar surplus gave way to a large deficit which was paid for by exchange surpluses accruing from the spread of her export manufactures in Asia and Africa. War and conquest stepped up her import requirements from the sterling areas.

The Oriental trade provided the maximum of reciprocal advantages to the countries concerned. Japan's economic policy in the Orient was twofold. She endeavored to expand through normal processes her commerce with other Asiatic countries while she pursued a policy of military and economic penetration of the Asiatic mainland. In the program envisaged for the "Greater East Asia Co-prosperity Sphere," Japan was the administrative center. Economic resources of conquered territories and puppet states were exploited and diverted for the benefit of Japan. The rise of the military to power together with their ambitions of territorial

²¹Ibid., p. 390.

expansion culminated in Japan's disastrous defeat in World War II. By the surrender terms, all the colonial possessions were granted autonomy, restored to China, or ceded to Russia. Thus Japan's empire and the basis of her economy disintegrated.

Japan's ultimate recovery to her former place in the world economic order will depend, it would appear, on a revival of trade within the Orient and the economic and political strengthening of the underdeveloped countries in that area. The nation's dependence on overseas markets and materials extended beyond the boundaries of her Empire, and foreign trade was the foundation on which her prosperity had been built.

CHAPTER VI

CONCLUSION

By the middle of the nineteenth century political and social changes in Japan were long overdue. The political system had been basically reactionary and was more than two hundred years out of date. Despite the efforts of the Tokugawa rulers to preserve the existing political order they could not hold back the wheels of normal social and economic progress.

The need to modernize the economy as well as armaments was not met by the Tokugawas. To have done this would have been to destroy the feudal system they upheld. Failure of the older leadership thus gave rise to a new regime which seized power by political revolution.

The collapse of the Tokugawa regime came as the culmination of a series of developments that had steadily weakened the existing regime. Among the contributory events was the forced opening of the ports to foreigners through pressure from abroad. The existing government had been compelled to sign treaties conferring rights of trade to Britain, France, and other nations. Japan was helpless in face of the superiority of Western naval equipment and had no alternative but to accede to the foreign demands.

The foundation of the existing regime had been undermined by political, economic, and intellectual change; it required only the shock of foreign aggression to complete its downfall. Thus the opening of the country and the conclusion of agreements with foreign nations placed the Tokugawas in a position of usurper of Imperial rights and betrayer of the country. When the Western clans led by an able group of the military moved against them in the name of the Emperor, the resistance was weak. All military resistance was soon suppressed and the outward vestiges of feudalism abolished.

After the Restoration, the control of the central government rested in the hands of those leaders of the clans that had led the revolt. They had bitterly opposed the former policy of coming to terms with the foreigners and recognized that Japan's military weakness and economic backwardness might make her the easy spoil of Western powers.

In the preindustrial period, the only outside contacts had been through missionaries and traders in the 16th and 17th centuries. However, Japanese leaders learned of happenings abroad and of Western scientific achievements and economic changes. They learned of English exploits in Indonesia, Malaya, India, and China. They had seen the modern warships of various Occidental nations

which had visited Japan at intervals all demanding a chance to trade.

The Japanese were much disturbed when Perry arrived. The leaders were in deadly fear lest their country should be conquered by the powerful and aggressive Occidentals and their people become a subject race. They realized that they were utterly outdated and helpless. Young scholars were sent abroad for scientific study. The more the Japanese learned, the more they were convinced that their only hope lay in applying the new economy to national defense. It was imperative that they adopt the new commercial and industrial system of the West or meet the fate of India and China.

In 1867 the economy was not only backward compared to that of the chief Western nations, but the foundations for expansion appeared to be non-existent. There was no accumulation of scientific knowledge or widespread experimentation in the scientific method as applied to the processes of production. Japanese society had been stagnant. Before 1663 there had been no expansion of overseas commerce and no gains from imperialism such as had preceded the industrial age of Great Britain.¹

¹George C. Allen, A Short Economic History of Modern Japan, 1867-1937 (London: Allen and Unwin, 1940), p. 174.

Among the internal factors that contributed to Japan's rise there were several which were both significant and unique. At the time of the Restoration, in spite of internal dissensions, the people of Japan possessed an underlying sense of national unity which was the product of Japan's geographical position, linguistic uniformity, and long history.

The Emperor had long existed as an institution which was used to focus the sentiment of absolute loyalty to a superior, which was one of the most revered customs of the nation. This institution had deep roots in the past and around it were clustered the myths and traditions of the people. The emperor was a leader with divine attributes who claimed, not merely respect and obedience, but also fanatical devotion. He served as a symbol of the state and as a unifying force. Nationalism was exploited in rallying the people to the efforts required to create a modern nation.

Prior to the Restoration a vigorously expanding merchant class had promoted a commercial economy which replaced the old concept that agriculture was the only source of true wealth. Paper credits of all sorts were developing, and in the expanding money economy city merchants rose from the bottom of the social scale to hold positions of power and influence. The financial agents of the old regime with

experience in business came to the forefront and served as the nucleus for the entrepreneurial class.

The large and fast growing peasantry furnished a superabundance of labor for industry. New needs for labor could be met by fresh recruits from villages and farms. At the same time her technical inheritance was not negligible. The peasants possessed traditional skill in agriculture, metal working, textiles, and other crafts.

The new government was in essence an oligarchy. The transition did not change the system of highly controlled direction of society, but the closed class system gave way to a new class system based on political and commercial ability. The new political leadership consisted of those groups who had aided in the overthrow of the Tokugawa rule and were available for the planning and administrative roles. Its members, who were generally of a high level of competence, were largely drawn from former feudal aristocratic classes who could ill afford to turn their backs on career politics.

The bureaucracy came to enjoy its unique position of power partly through the equilibrium of forces personified on the one hand by the reforming feudal clans and on the other by business interests. They took over the administration of the strategic, state-controlled industries. Under their leadership the task of internal reconstruction

was pursued in preference to the path of foreign conquest. Without the science and machinery essential to the armaments industry and a modern army and navy, military expansion would have been disastrous.

Growth of the economy was fostered under state patronage and direction. There was no foreordained solution to the problems arising out of a decayed feudalism but the alternatives were few. Japanese leadership realized that a country emerging so tardily from feudalism and handicapped by economic insufficiency required skilled direction and preparation before it could hope to assume a position of world power. Circumstances dictated from the outset that Japan's only choice was to industrialize, urbanize, and trade.

The comprehensive nature of the major initial undertakings and the shortness of time favored centralized planning and monopoly. From the start the control of key industries was in the hands of a restricted group, and the less strategic industries were dependent on the key industries. Industrialization had grown in countries such as England and the United States with relatively little centralized planning. Japan's case was different as she was not developing industrialization but taking over what had already been highly developed elsewhere. The program

was one of large-scale coordination taking full advantage of existing technology.²

Japan had the advantage of starting with the latest technical equipment without having to go through the process of development and experimentation with all the implications of the process. She could start with the most modern machines available without the burden of obsolete machinery which still carried capital obligations. She could use the latest managerial techniques. She had a source of labor that was abundant and cheap. These advantages were necessary. Out of those industries in which the nation had a competitive advantage, she needed to make enough not only to pay for those industries which had to be subsidized but also to finance developmental expenditures.

The foundation of industry was laid in the first quarter century after the Meiji Restoration of 1868. By 1893 industrial capitalism in Japan had passed through its early formative stage and was preparing for rapid expansion. The growing spirit of commercial and industrial enterprise released from the stifling restriction of the old regime sought new opportunities at home and abroad. Between 1893 and 1913 industrial expansion was accelerated by two wars,

²Simon Smith Euznets, Economic Growth: Brazil, India, Japan (Durham, North Carolina: Duke University Press, 1955), p. 510.

the conflict with China and war with Russia. Japanese industry began to assume the basic patterns which were to characterize it for the next twenty-five years.³

While the government's chief determination was to create heavy industry as the basis for a military and naval establishment, it also planned a completely industrialized state. This was needed to support an increasing population and provide the material and financial power necessary to an independent nation.

Socialist doctrines had not infiltrated the Far East. Government ownership and control of an entire economy was still an untried theory. Under the circumstances, Japan was responsive to the liberal principles of economic organization current in the nineteenth century. The system of private enterprise apparently successful in Europe and America was readily accepted with the compromise that government initiative and direction would be permitted at the outset.

The state took the original risk and when it became evident that a plant could be operated profitably, the government sold out to private parties. As private capital and experience began to accumulate, the government relinquished its lead and state capitalism declined. However

³Hugh Borton (ed.), Japan (Ithaca, New York: Cornell University Press, 1951), pp. 67-68.

the government continued in a variety of ways to foster industrial progress. Abroad it used force and diplomacy to win trading and investment opportunities. At home it placed major reliance on its taxing and regulatory powers and the financial resources of its official and semi-official banks.

The late nineteenth century saw the rise of large-scale enterprises closely affiliated with the government. While the newly created bureaucracy might plan the objectives of economic policy, it could hardly concentrate itself on the detailed administration of economic resources. The heavy strategic industries required large financial resources and advanced technology. The Zaibatsu as the only group capable of commanding the necessary capital and know-how became agents for the execution of the government's economic policies. Consequently with state aid and patronage they dominated the major industries and together with the government directed commercial and financial policies.

The merchant marine was one field where direct state subsidy was employed with great success to create one of the great industries of modern Japan. Aptitude in maritime affairs came naturally to an island people despite their former seclusion. The early growth of coastwise trade created an immediate demand for shipping facilities. Thereafter overseas shipping operations were steadily

extended with the needs of expanding foreign trade and military activity.

In some sectors it was necessary to import en masse what had been gradually developed elsewhere. Railroad systems and communication in general had to be undertaken on a large scale if they were to be of maximum usefulness. The extent of these undertakings and lack of private capital required state ownership and operation.

In modernizing methods of agricultural production there were raised a host of other problems such as a system of roads, securing and maintaining modern equipment, agricultural stations for testing and experimentation. These were problems which required large-scale planning and financing which only the government could supply.

Positive action along institutional lines were taken in the spread of the banking and credit system. By the founding of national banks with bond issues, by drawing the moneyed class into industrial investment, and by the mobilization of small savings in banks and postal savings accounts, the government avoided initial dependence on foreign capital.

Foreign capital later made an important contribution although it was never the prime mover nor the principal source of investment. Dependence upon foreign loans was

minimized by vigorous domestic activity aided by favorable circumstances in the world economy. The subsequent inflow of foreign capital at the end of the nineteenth century was a timely aid to industry and the armament program.

The Japanese economy was characterized by a high rate of savings and investment as compared with other Asiatic nations. A significant part of net annual product was withheld from consumption and applied to building up plant, equipment, and inventories. The advances in the cost of living tended to restrain consumption but allowed a moderate rise in real wages and the level of living. While only a part of the aggregate growth in income produced was available for raising living standards, there was a continuous increase in real wages.

The tendency toward inflation which usually accompanies economic development on a large scale and at a rapid pace was held within tolerable limits. The secular advance of wholesale prices was substantial but did not exceed 2.2 per cent a year during 1900-13. While there were recurrent booms and crises, there was no runaway inflation.⁴

The state from the beginning gave active assistance to business in search of trading opportunities. The policy

⁴Kuznets, op. cit., p. 211.

of multilateral, nondiscriminatory trade prevailed generally during the first half century of industrialization. As industries grew the nation became heavily dependent on materials and equipment purchased all over the world and paid for by exports to Asia and the West. Credit surpluses in one region financed deficits in another. Japan bought in the cheapest markets and sold wherever the best price was available. She did not fit the general classification of trading nations which were predominantly industrial or agricultural.

Within sixty years after the Restoration Japan had transformed herself into a modern industrial state equipped with the resources of applied science and technology capable of producing efficiently most types of manufactured products. She had developed a highly centralized civil and administrative system of government which was well suited to the country due to its relatively small area and homogeneity of the people.

Intense patriotism united the people in the conviction that preservation of their independence must be maintained at all cost. The unique quality of Japanese patriotism was not so much militaristic or imperialistic but strongly communal with unquestioning readiness to sacrifice everything for the common cause.

From the beginning the role of the government in economic affairs was an active one. The new leaders were national planners and builders on a comprehensive scale. They set up a series of national objectives and proceeded to develop the ways and means for reaching the ends in view. Their program was directed toward making the nation strong from a military point of view while at the same time providing material well-being on an expanding scale for a rapidly growing population.

More gradual than the social and political reforms were the economic developments that occurred. The completely demoralized currency system was reorganized and unified under the national government. A flexible and responsive banking system and credit structure were made available by government measures. A national postal service supplemented by a telegraph system was introduced and managed by the state. The program for the development of a national transportation system co-ordinated a national system of highways with railway construction. Shipping was promoted for the transport of coastwise and foreign trade.

Industrial plants based on Occidental models were set up by the government with a view to the stimulation of private enterprise. Introduction of Western methods was best achieved by centralizing the process in a few

large families with business experience. The importance of the Zaibatsu was in the great services they were able to render. In addition to the financial assistance rendered to the state, their political influence was great in their opposition to the militarists. On the whole their interest lay in economic expansion rather than territorial aggression.

Japan's special economic advantage was her abundant harvest of labor supply willing to work long hours and at low wages. To make the best possible use of available machinery, a program of education and training made skilled workers available to all departments of industry.

Next to agriculture, trade was by far the most important single economic activity in Japan whether measured by capital employed or the number of people engaged therein. The growth of internal trade and the development of commercial agencies and devices necessary to the conduct of foreign commerce on an extensive scale were instigated by the government. The opening of the country to foreign trade greatly widened the range of economic possibilities and the introduction of Occidental methods and techniques served to increase productive output.

The Oriental trade gave the maximum of reciprocal advantages to the countries concerned. Japan's ability to find employment for her increasing population depended to a great extent upon the expansion of markets for

manufactured products in the Far East. It was largely through industrialization and the expansion of foreign trade that the nation was able to support its great increase in population.

Japan was successful in winning recognition as a world power. She attained her goal as the dominant leader in the Far East. Her pattern of development and the rapidity and extent of her success in industrialization in the later stages was based on military aggression. As a defeated nation, the preeminence she enjoys today, is founded solely on the fact that China and other Asiatic nations have succumbed to Communism and Japan alone remains as the nation with the greatest potential as a line of defense for the West.

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