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A Short Economic History of Modern Japan

G. C. ALLEN



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ECONOMICS: AN INTRODUCTION

15-15 WALTER BIRMINGHAM

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Economic problems confront everyone and as interest in economics is more widespread today than ever it has been, yet the technique of thinking, which is the essential equipment of the economist, is mastered by few. It is the aim of this book to bring that technique within the reach of any intelligent person who is anxious not simply to be given the solutions, but to draw correct conclusions for himself when faced by the complexities of present and future economic situations. This introduction to the science opens the way to further reading and study, but many readers will find that despite its brevity and apparent simplicity, *Economics: An Introduction* has unexpectedly given them a firm grasp of the methods of economic analysis achieved by others only after laborious attention to text-books of much greater weight and length.

In this new edition statistics have been brought up to date but otherwise the highly successful presentation in the original *Introduction to Economics* remains virtually unaltered.

PRICING AND EQUILIBRIUM

ERICH SCHNEIDER

Translated by E. Bennathan

Allen and Unwin have already announced an English version by Mr Kurt Klappholz of Volume Three of Professor Schneider's famous *Introduction to Economics* under the title *Money, Income and Employment*. Volume Two has already appeared in English under the title *Pricing and Equilibrium*, translated by Professor T. W. Hutchison from the first German edition.

His version has been out of print for some years and Mr Bennathan's new edition is based on the greatly enlarged sixth German edition. This volume analyses the economic planning of households and firms, i.e. their economic dispositions. Using partial equilibrium analysis, it describes the equilibria corresponding to various dispositions and the effects of changes in dispositions, ending with an exposition of the problem of general micro-economic equilibrium in a stationary economy.

The book is already known as a remarkably effective piece of teaching—a particularly successful exposition for students. It will be welcomed in this enlarged and improved version.

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A SHORT ECONOMIC HISTORY
OF MODERN JAPAN

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A SHORT ECONOMIC
HISTORY OF
MODERN JAPAN

1867-1937

*With a Supplementary Chapter on
Economic Recovery and Expansion
1945-1960*

by

G. C. ALLEN

*Professor of Political Economy
in the University of London*

LONDON

GEORGE ALLEN & UNWIN

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PREFACE

This book is a result of a study of Japan's economic affairs that has extended over a considerable period. The study began during my residence in the country between 1922 and 1925, and much of the material that forms the basis of the later chapters was collected during a second visit paid to Japan in 1936 for the purpose of investigating economic conditions at first hand. I began to write the book early in 1939, but the outbreak of the war compelled me to lay it aside for five years, and at the same time deprived me of access to some of the primary sources on which I should have liked to draw. The book was completed on the eve of Japan's surrender.

I have tried to describe the process of economic development in Japan between the time when she first entered upon her career of Westernization and the beginning of the war with China in 1937. I have written in the belief that an appreciation of this process of development is necessary both to an understanding of recent events in the Far East and also to the formulation of a wise economic policy towards Japan now that she has been defeated. But the book is intended to provide a background of knowledge rather than suggestions for policy or speculation about what is to come. The main emphasis throughout has been on industrial and financial development and on economic policy, although the study has not been confined to those fields. It is hoped that economists and others who concern themselves with economic affairs and policy will find some general interest in tracing the evolution of a modern industrial system within a society so differently constituted from that of Western nations.

So far as possible, I have supported general statements by statistical evidence; but in order to avoid cumbering the text with tables and to provide the means of convenient reference, I have relegated most of the figures to a statistical appendix. I have included a bibliography which, though by no means complete, indicates some of the main printed sources that I have found useful and also offers suggestions for further study.

I am greatly indebted to my wife for help in preparing the book for publication.

G. C. ALLEN

August 1945



PREFACE TO REVISED EDITION

In preparing the present edition for publication I have benefited by the extensive research into Japan's modern economic history that has been carried out since the book first appeared (in 1946). I have thought it necessary to make a considerable number of detailed amendments and additions to the original text, but I have tried to introduce these changes without disturbing the former structure of the book or its scale. The chief new feature is a long supplementary chapter on Japan's economic recovery after the Second World War and her subsequent progress. I have also revised the statistical appendix and the bibliography.

UNIVERSITY COLLEGE, LONDON

September 1961

G.C.A.

By the Same Author

MODERN JAPAN AND ITS PROBLEMS

- JAPAN, THE HUNGRY GUEST
(George Allen & Unwin Ltd)

BRITISH INDUSTRIES AND THEIR ORGANISATION
(Longmans, Green & Co. Ltd)

THE INDUSTRIAL DEVELOPMENT OF JAPAN AND MANCHUKUO. 1930-1940
(in collaboration with E. B. Schumpeter, M. S. Gordon and
E. F. Penrose)
(Macmillan & Co. Ltd)

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DEVELOPMENT: CHINA AND JAPAN
(in collaboration with Audrey G. Donnithorne)
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JAPAN'S ECONOMIC RECOVERY
(Oxford University Press)

THE STRUCTURE OF INDUSTRY IN BRITAIN
A STUDY IN ECONOMIC CHANGE
(Longmans, Green & Co. Ltd)



CONTENTS

| CHAPTER | PAGE |
|--|------|
| Preface | 7 |
| ✓ I. The Disintegration of the Old Régime ✓ 0 | 13 |
| ✓ II. Reconstruction, 1868-81 ✓ 0 | 30 |
| ✓ III. Financial Foundations, 1881-1914 ✓ | 47 |
| ✓ IV. Agriculture, Raw Silk and the Textile Industries, 1881-1914 | 61 |
| ✓ V. The Heavy Industries, Shipping and Foreign Trade, 1881-1914 | 79 |
| ✓ VI. The First World War and the Post-War Decade | 97 |
| ✓ VII. Industry and Agriculture, 1914-32 | 112 |
| ✓ VIII. Economic Policy and the <i>Zaibatsu</i> , 1914-32 ✓ 0 | 127 |
| 0 ✓ IX. Reflation and Preparation for War, 1932-37 ✓ | 136 |
| X. Industrial Developments after the World Depression, 1932-37 | 144 |
| XI. Summary and Conclusions | 161 |
| <i>Supplementary Chapter. Economic Recovery and Expansion, 1945-1960</i> | 170 |
| APPENDICES | |
| A. Glossary | 192 |
| B. Statistical Tables | 194 |
| C. Bibliography | 225 |
| INDEX | 233 |



CHAPTER I

THE DISINTEGRATION OF THE OLD RÉGIME

The rise of Japan to the position of a Great Power ranks along with the reconstruction of Germany as the most significant of the political changes of the fifty years before 1914. To many Westerners the Japanese achievement, in the economic as well as in the political sphere, seemed so astounding as to defy rational explanation. Some of them were at times inclined to acquiesce in the views of those Japanese who sought the clue to their new-found glory in the realms of mysticism, while others attributed Japan's advance to a series of lucky accidents and prophesied that time would presently reveal an essential mediocrity. In the economic sphere especially, forecasts of imminent disaster and decay have been numerous and impressive at every stage of her modern history, and it was not until she plunged into war with the United States and the British Empire that a shrewder estimate of her strength became common in the West.

Some acquaintance with Japanese history during the Tokugawa era is necessary for an understanding of the circumstances that made possible the country's transformation after 1867 and her more recent progress. The popular conception of a people living for centuries under a system of picturesque feudalism and suddenly awakened to practical ambitions by the guns of foreign warships is far from the truth. The Japanese did not suddenly acquire that energy and restless ambition which have so disturbed the Western nations. Throughout their history they have shown a gift for rapidly assimilating new ideas and practices, a boldness in executing large projects and, above all, a trained and frequently exercised capacity for organization.¹ Furthermore, modern Japan inherited from her past certain political and economic institutions that could be easily adapted to serving the nation in its new rôle. Her social organization, rooted in a special kind of family system, and the long centuries of feudal discipline, helped to produce a capacity for extreme self-abnegation on the part of individuals and an aptitude for corporate effort which served the country well in a time of rapid social and economic change; and the institution of an Imperial House which mythology invested with divine attributes provided a focus for patriotic fervour. Japan

¹ Cf. J. Murdoch, *A History of Japan*, Vol. I, pp. 1-30.

entered upon her course as a Great Power with an inheritance of political ideals and emotional dispositions well-fitted to supply driving force and unifying power in the task of nation-building.

These factors, though they cannot be neglected in an account of Japan's economic progress, belong rather to the sphere of political history, and it is upon others that we must dwell here. It has been customary for some foreign writers to refer to the primitive nature of Japan's economy before 1867, and to treat the Tokugawa period as though it were an era of almost complete stagnation. Recent work by Japanese and Western scholars, however, goes to show that in the seventeenth, eighteenth and early nineteenth centuries important industrial and commercial developments took place, and that the break between the old and the new Japan was much less sharp than has hitherto been supposed in the West. We shall begin with a brief description of the outstanding characteristics of the political, economic and social condition of the Tokugawa era and then examine the process of disintegration which ultimately led to the changes of the Restoration.

✓ The outcome of the prolonged civil wars of the sixteenth century had been the establishment of the House of Tokugawa as Shogun, or secular rulers of Japan. The Shogun in theory owed allegiance to the Emperor, whose family from time immemorial had been the *de jure* head of the State. During the Tokugawa era, however, the practice of acknowledging this allegiance lapsed; and the Emperor lived in seclusion at Kyōto, surrounded by his Court and playing no part in the government of the country. Indeed, foreigners who came to Japan in the seventeenth and eighteenth centuries commonly regarded the Shogun as the real head of the State. The form of government instituted by the Tokugawas was a military dictatorship, known as *Bakufu*. The Shogun, together with the various branches of the Tokugawa family and its immediate vassals, owned between a quarter and a fifth of the agricultural land of the country, and derived the major part of his revenues from that source. The rest of the country was held by lords, or *daimyo*, who enjoyed a considerable degree of autonomy in the administration of their territories (*han*), and over whom central control was exercised chiefly through the requirement of the *sankin kotai*. This meant that each important *daimyo* was obliged to spend several months every year at Yedo (Tokyo), the seat of the Shogunate, and to leave hostages there when he returned to his fief.¹ The retainers of the lords and Shogun formed an 'estate' known as *samurai*. This class appears originally to have consisted of farmers who had the right of carrying arms, and who, in time of war, were called upon to serve their lord. With the alteration in the methods of warfare during the sixteenth century they had

¹ *Sankin kotai* may be translated 'alternate attendance'.