Meiji 4
Japanese Economic History

Zaibatsu

- “Money Cliques”
- Diversified business group in the modern sector exclusively owned by a single family or extended family, particularly if it owns banks and other financial institutions
- “Big Four” are Mitsubishi, Mitsui, Sumitomo and Yasuda
- Like “chaebol” (Hyundai, Samsung, Lotte) in Korea today

Zaibatsu

Key elements
- Financial element
  - Holding company
  - Bank
- Marketing element
  - Trading company
- Representative Firm in Each Industry
  - Not monopolists like US trusts

Zaibatsu Financial Structure
Zaibatsu

- Sumitomo and Mitsui date from Tokugawa Period
- Sumitomo (1600) began with copper mines
- Mitsui (1673) began as a dry goods shop
- Mitsubishi, Yasuda, Furukawa, Okura, Asano and Fujita date from 1880s
- Kuhara and Suzuki date from 1910

Zaibatsu

- In West, joint stock companies provide power behind development
- In Japan, joint stock companies were introduced in Meiji period and disseminated quickly, mobilized capital from public at large
- But Zaibatsus, family-owned closed systems, were driving force behind development in many industries

Zaibatsu

- “Distinctive, controversial, and indestructible”? – Ono and Shimada failed
- Not all big business were zaibatsu
  - Railroad, cotton spinning, electric power
  - Joint stock companies
- Not all zaibatsu were big
  - Range from small to enormous in every region of the country
  - Toyota, Bridgestone, Kikkoman were local zaibatsu

Zaibatsu

- Not all zaibatsu were successful
  - Ono and Shimada failed
  - But important qualitatively and quantitatively
  - In 1928 the top 7 zaibatsu account for 16.5% of total paid-in capital of joint stock companies in Japan
- No zaibatsu in leading sectors of Meiji industrialization
  - Railway and cotton spinning
  - Too capital intensive, left to joint stock companies
  - But zaibatsu owned shares
Zaibatsu Origins

- From 1868-1893 the founders of zaibatsu accumulate wealth
- Since zaibatsu are not joint stock companies, the founders need significant wealth
- Most gain wealth either as political merchants or in mining where they have monopoly power with strong barriers to entry
  - Political merchants – personal ties to gov officials
  - Mining – exclusive rights to mineral resources

Zaibatsu

1. Political merchants (“seisho”)
2. Mining enterprises (copper)
   - Sumitomo, Furukawa
3. Coal market (Asano)
4. Mitsui, Mitsubishi, Fujita gained initial capital as political merchants, and used it to acquire mines and made more profit (used 1 and 2)

Political Merchants ("Seisho")

- Tokugawa period
  - Samurai could not be directly involved in business activities
  - Entrusted purchase and sale of goods and handling of money to merchants
- Meiji period
  - Political leaders come from old samurai class
  - Continue to entrust commercial and financial matters to merchants
  - Before 1873, land tax is paid in kind (rice)
    - Merchants convert rice to money for government
  - After 1873, rice market is well developed only in Tokyo and Osaka
    - Merchants sell rice for farmers and pay taxes

Political Merchants

- These traders and financiers used ties to political figures to obtain government favors
- Gov provided subsidies, grants of monopolies, special privileges, favorable credit arrangements, sale of state enterprises
Political Merchants

- Mitsui, Yasuda – financiers licensed to handle national tax revenue
- Mitsubishi – special subsidies from gov for shipping operations
- Okura, Fujita – merchant enterprises that supplied goods and services required by Meiji government

Caveat
- Must pay kickback in return for special privileges
- If political patron falls from power, zaibatsu could fail
- Change in views or policies of government could cause business crisis
- Ono and Shimada are two zaibatsu which failed
- You need to build a fortune, then abandon reliance on gov patronage, switch off political merchant track
- Only then can you develop as zaibatsu

Zaibatsu

- 1894-1913
  - Zaibatsu diversify and take advantage of growing domestic and world markets
- 1881
  - Matsukata sells off state owned industrial plants
  - large, complex, unprofitable businesses
  - few entrepreneurs have money and courage to buy
- NOTE
  - Sumitomo, Yasuda did not buy any state enterprises
  - many firms that did buy did not become zaibatsu

- Zaibatsu start in one business, and move into range of varied operations
  - Banking, mining, trading, real estate, warehousing, shipping, civil engineering
- Zaibatsu were not monopolists
  - Several competitors (5-6) in each sector
  - Multi-market oligopoly
  - Lots of rivalry between different zaibatsu until 1930s
Mitsui Takatoshi

Mitsui Takatoshi established shops for dry goods in Kyoto (the old capital) and Edo (now Tokyo) in 1673 to sell high quality kimonos. Ten years later he and his sons established money changing shops which soon were carrying out exchange operations for the Tokugawa Shogunate. One operation Mitsui performed for the Shogunate was to convert taxes which were paid in rice into money available in Edo. Osaka was the principal commercial center of Japan at the time and Mitsui sold in Osaka the rice collected as taxes. Mitsui handled the transfer of funds from Osaka to Edo.

Mitsui (1930)

- 15% of total trade (exports, imports)
  - Mitsui Trading
- 14% of total tonnage of coal
  - Mitsui Mining
- 28% of all cash trusts
  - Mitsui Trust
- 100% of artificial indigo (blue dye)
- 20% of raw cotton imports
- 65% of total weight paper
- 29% of total department store floor space
  - Mitsukoshi

Mitsubishi

- 1st shipbuilding, aircraft, sheet glass, shipping, warehousing, non-life insurance
- 2nd coal mining, beer brewing
- 3rd pig iron, electric machinery, life insurance
- 4th trust business
Zaibatsu

- Commercial Code of 1893
  - All major zaibatsu shift to multi-subsidiary system
  - Establish modern corporate system
- WWI boom, post-war depression, slow growth → 1929
  - Fierce struggle to survive
  - Managerial ability is the deciding factor
- Rise of salaried manager
  - Initially ability and leadership of the founder is enough
  - With Meiji restoration
    - Changing business conditions
    - Increasing scale and complexity of operations
    - When founder passes on, need educated, salaried managers
  - Salaried managers eventually take control
    - Some conflict and struggle (Mitsui, Sumitomo)
    - Some adopted as sons, some married into family (Yasuda, Fujita, Furukawa, Okura)

Zaibatsu developed at different speeds using different roads. But successful because….

1. Limited number of entrepreneurs with capital and management skills
   - requires they operate in variety of business fields
2. Access to funds
3. Family recognizes need for educated and talented managers
   - management training
   - promotion in terms of merit rather than kinship
4. Government support
   - subsidies for selected projects
   - close relationship between gov bureaucrats and zaibatsu managers
   - absence of legislative constraints

CAVEAT: Zaibatsu had to make investments gov wanted

Zaibatsu

- 1930-1948
  - Depression, War, and Dissolution
  - Zaibatsu march toward their doom
- Post-war Keiretsu
  - Keiretsu are not owned exclusively by a single family
  - Mutual shareholding among constituent firms

 Approximately 20 Zaibatsu are the ancestors of the modern keiretsu

<table>
<thead>
<tr>
<th>Company</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsui</td>
<td>Mitsui (Sakura) Bank</td>
</tr>
<tr>
<td></td>
<td>Toyota</td>
</tr>
<tr>
<td>Mitsubishi</td>
<td>Mitsubishi Bank (Bank of Tokyo-Mitsubishi)</td>
</tr>
<tr>
<td></td>
<td>Mitsubishi Motors / Honda</td>
</tr>
<tr>
<td>Yasuda</td>
<td>Fuji (Fuyo, Yasuda) Bank</td>
</tr>
<tr>
<td></td>
<td>Nissan</td>
</tr>
<tr>
<td>Sumitomo</td>
<td>Sumitomo Bank</td>
</tr>
<tr>
<td></td>
<td>Mazda</td>
</tr>
<tr>
<td>Dai-Ichi*</td>
<td>DKB (Ichikan)</td>
</tr>
<tr>
<td></td>
<td>Isuzu</td>
</tr>
<tr>
<td>IB*</td>
<td>IBJ</td>
</tr>
<tr>
<td></td>
<td>Fuji Motors (Subaru)</td>
</tr>
</tbody>
</table>

* Existed in prewar period but were not zaibatsu
Banking

- Domestic Banking Institutions – shaped in line with Matsukata Plan 1882
- Strategic “specialized banks”
  - Public or quasi-public in terms of ownership and control
  - Bank of Japan (central bank)
  - Yokohama Specie Bank (for financing foreign trade)
  - Bank to mobilize savings of the poor (postal savings system and savings banks)
  - Bank to make long-term loans to industry and agriculture on security of immovable property (hypothec bank)
  - Bank to make long term loans on security of moveable property

“Ordinary Banks”

- Privately controlled commercial or savings banks
- Zaibatsu banks were large and strong, others were weak
- Numerous because legally required capitalization was relatively low

Banking Relationships

- Until equity market develops, saver-lenders and business borrowers must come together through banks
  - Commercial banks acquire high proportion of illiquid assets
  - So they risk insolvency in hard times unless government bails them out
- Quasi-public special banks and large zaibatsu banks were extremely susceptible to political influence from government
  - Would extend credit to government when needed
  - Would lend to strategic enterprises which government was interested in

Bank of Japan

- Bank of Japan has surprisingly little influence on ordinary banks
- Central banks usually control money supply with three tools
  - 1) Discount Rate
  - 2) Reserve Requirement
  - 3) Open Market Operations
- All 3 methods fail to develop
Bank of Japan

1. Ordinary banks did not borrow from central bank in ordinary times
   - in emergencies, government compelled BOJ to make advances to banks
   - BOJ did not use discount rate to influence banker’s decisions on credit
2. No minimum reserve requirement before 1957
   - Larger banks held deposits at BOJ, but only for clearing purposes
3. Open market operations dictated by Treasury needs, not credit control considerations

Bank of Japan

• Slender connections between BOJ and ordinary banks
• Large zaibatsu banks had financial resources to remain independent of BOJ and pursue an autonomous policy

Pre-War Japan

Japanese Economic History
### Prewar Growth

#### 1885–1940 Components of GNP

<table>
<thead>
<tr>
<th>Component</th>
<th>1885-1940</th>
<th>1885-1915</th>
<th>1915-1940</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP</td>
<td>3.1%</td>
<td>2.7%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Consumption</td>
<td>2.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>6-7%</td>
<td>(except war years, 14% in 1905, 11% after 1930)</td>
<td></td>
</tr>
<tr>
<td>Capital formation</td>
<td>12% → 20%</td>
<td>Increasingly government investment in roads, ports &amp; railroads (19% of investment → 45%)</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>6-7% (1885) 15-20% after 1910</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>same</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### 1885–1940 Growth rates of GNP

<table>
<thead>
<tr>
<th>Year Range</th>
<th>GNP</th>
<th>Consumption</th>
<th>Gov Consumption</th>
<th>Investment</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1885–1940</td>
<td>3.1%</td>
<td>2.5%</td>
<td>4.3%</td>
<td>4.5% → 1930</td>
<td>9.5%</td>
<td>7.6%</td>
</tr>
<tr>
<td>1885–1915</td>
<td>2.7%</td>
<td>3.1%</td>
<td>4.5%</td>
<td>10.6% after 1930</td>
<td>5.4%</td>
<td></td>
</tr>
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<td>5.4%</td>
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#### Prewar Growth

- High and stable growth rates
  - Some fluctuations, but rarely negative growth from 1888-1940
- Growth Periods
  - 1894-1900
    - 1894 – Sino Japanese War, control Taiwan
    - Matsukata deflation brings monetary situation under control
    - Modern industry becomes fairly well established
    - Makes money on war with China
    - Gold standard adopted (1897)
    - Capitalist economy takes shape
Prewar Growth

• 1904-1910
  – 1904-05 Russo-Japanese War
  – Control of Korea and Manchuria
  – Agricultural employment stops growing
  – Industry growth takes over
  – Eve of heavy industrialization
    • Electric power, chemicals, metals, machinery

• 1910
  – Annex Korea
  – Major colonial power in Asia

Prewar Growth

• 1913-1920
  – Major World War I boom
  – Japanese exports grow to fill void
  – Balance of payments improve

• Taisho Period (1912-1926)
  – Relative political stability and democracy

• Slow Growth 1920s (slight recovery in mid-decade)
  – Great Kantō earthquake 1923
  – Price level rose relative to US and UK
    • Pursued deflationary policies to push price level down
  – World depression in agriculture 1927
  – Financial crisis, banks go under 1927
  – Depression was earlier in Japan

Prewar Growth

• Showa Period (1926-1989)

• 1931-1940
  – Great Depression less severe in Japan relative to US
    • 1929 was not peak of business cycle
    • Strong Keynesian fiscal expansion 1931
    • Devaluation of yen 1931 (abandoned gold standard)
    • Military expenditures rise after 1933

Prewar Growth

• Western powers raise tariffs to secure markets
• Japan increased dependence on Asian countries with military expansion
• 1937 – second China War
• 1939/1940 – Peak of prewar economic development
  – Growth of wartime chemical and heavy industrialization
• 1941 – Pacific War
  – Captures Vietnam from French
  – US imposes oil embargo and economic sanctions
  – Japan wages war on Indonesia for oil supplies
  – Japan bombs Pearl Harbor
Japanese Empire 1943

Labor Markets

• Postwar stereotypes
  – Diligent workers
  – Lifetime jobs
  – Seniority wages (pay based on age)
  – Company family
  – Training carried out by firms
  – Commitment made at end of high school

Labor Market

• Meiji workers
  – Don't like to take orders
  – Not committed to their jobs
  – “hard drinking, fighting, gambling type with no care for saving for the future”
  – No discipline
  – High mobility

Labor Markets

• Lax attitudes about hours, rules, and holidays
  – Official hours are dawn to dusk, but some workers come and go as they please
  – Call an unofficial holiday, and take day off
• High mobility
  – 80% of workers in one large factory had less than 5 years tenure
  – 50% of workers left every year
  – Some companies withheld apprentice pay, but they still left
Labor Market

- No long term relationships
  - Exception: Skilled workers in guilds stayed with one master
    - Apprentice (10 years)
    - Journeyman
    - Master
  - After Meiji Restoration, old customs destroyed
    - People ran to the highest wage
    - Very mobile and independent

- Agriculture
  - Labor was mostly employed by day or season
  - Long-run agricultural relations that had existed died out during this period

- Industrial wage labor was rare
  - Used “putting out system” where work was done at piece rates
  - Also used day rates after a one week testing period
  - Similar system in construction (and this continues today)

- Factories employed workers on a very short term basis
  - In heavy industries over 80% left within five years
  - Sake: workers were employed by season and paid by the day
  - During prewar period Japanese labor market was characterized by a highly elastic supply of unskilled workers
  - Little dedication to company

Training

- During the Tokugawa period there was an apprentice system
- This system eventually became the Oyakata system (subcontracting system)
  - Employers would hire foremen who would hire and pay workers
  - Made hiring decisions and conducted training
  - Companies would employ oyakata through competitive bidding
  - Began to die out in 1900s

- After 1900
  - Supply of labor skilled in modern production is limited
    - Few trained in government plants → private plants
  - Demand for skilled labor
    - Initially just a few firms, but demand grew quickly
  - Demand exceed supply of skilled labor
  - Workers leave for higher wages
    - Viewed frequent job switching as necessary for advancement in pay or skill
  - Other firms can poach your skilled workers
Training

• Firms need a stable and skilled labor force for modern industry
• Surplus of unskilled workers
• Firms hire young, unskilled workers
  – They train them on the job, and pay seniority wages to keep them
  – Creates long-term relationship with employees
• Ex: Mitsui
  –Handled large sums of public funds
  – Needed people with specific skills, honesty, and discretion
  – Establishes long-term relationship with employees