

POLITICS AND THE ECONOMY IN PRE-WAR JAPAN

Professor Richard J Smethurst, University of Pittsburgh

'Takahashi Korekiyo's Economic Policies in the Great Depression and their Meiji Roots'

p. 1

Professor Masataka Matsuura, Hokkaido University

'Analysing the Relationship between Business and Politics in Pre-War Japan: Some Thoughts on the *Zaikai*

p. 25

Discussion Paper
No. JS/00/381
February 2000

The Suntory Centre
Suntory and Toyota International Centres
for Economics and Related Disciplines
London School of Economics and Political
Science
Houghton Street
London WC2A 2AE
Tel.: 0171-405 7686

Preface

On 18 June 1999 a symposium was held at the Suntory Centre at which there were two speakers. One was Professor Richard J Smethurst, of the History Department, University of Pittsburgh, who was at the time visiting Clare Hall, Cambridge. Professor Smethurst has written widely on aspects of pre-World War II Japanese history, including two major monographs, *A Social History of Prewar Japanese Militarism* (University of California Press, Berkeley, CA, 1974) and *Agricultural Development and Tenancy Disputes in Japan, 1870-1940* (Princeton University Press, Princeton, NJ, 1986). He is currently working on a biography of Takahashi Korekiyo. The second speaker was Professor Masataka Matsuura of the Law Faculty at Hokkaido University, currently academic visitor in the International History Department at LSE. Professor Matsuura is the author of *Nitchū Sensō ki ni okeru Keizai to Seiji* (Economics and Politics during the Sino-Japanese War, 1937-1945) (Tokyo University Press, 1995). We are grateful to both authors for allowing us to reproduce their papers here.

Janet Hunter
February 2000

Abstracts

The paper by Richard J Smethurst discusses the influences that led to the economic policies pursued in the interwar period by Takahashi Korekiyo, who engineered Japan's recovery from the depression in the early 1930s, and is often thought of as the 'Keynes' of Japan. The paper traces the influence on Takahashi's thinking of his Western experiences and diverse bureaucratic career, but focusses in particular on the role of Takahashi's mentor, Maeda Masana.

The paper by Masataka Matsuura analyses the term *zaikai* as used in prewar Japan and its identity as a small network whose influence was distinct from that of the *zaibatsu*. The paper traces the membership and activities of this small group from the time of Shibusawa Eiichi through to the Second World War, and argues for the importance of the functions they discharged in the context of the developing Japanese economy.

Keywords: Japan; economic depression in early 1930s; Takahashi Korekiyo; Maeda Masana; *zaikai*; *zaibatsu*; Japanese economic development; Shibusawa Eiichi.

© by Richard J Smethurst and Masataka MATSUURA. All rights reserved.
Short sections of text, not to exceed two paragraphs, may be quoted without special permission, provided that full credit, including © notice, is given to the source.

Takahashi Korekiyo's Economic Policies in the Great Depression and Their Meiji Roots

Richard J Smethurst

Takahashi Korekiyo was one of Japan's greatest financial statesmen because as an economic thinker he was ahead of his times - in Japan, and worldwide as well. Takahashi, alone among Japanese financial leaders, understood well before he became finance minister in December 1931 during the depression, five important economic principles, which in combination were not held, as far as I know, by any other Japanese governmental financial leader before the post-World War II Keynesian revolution. These principles were: governments, by devaluing their currencies and deficit financing, can use monetary and fiscal policy to stimulate economic growth in times of recession; governments, by upwardly valuing their currencies and balancing or running a surplus in their current account budgets, can use monetary and fiscal policy to contract demand and fight inflation when economies overheat; market information is the key to economic growth; economic development should raise the standards of living of a nation's populace and not just make the state wealthy and powerful; and excessive military spending endangers the nation's economic health.

The primary purpose of this essay is to investigate how Takahashi learned this set of ideas long before they became commonplace. To be sure Takahashi spoke, read, and wrote English fluently and had a wide range of foreign acquaintances. But I shall argue that the primary

influences on his thinking were his own experiences in his fifty year bureaucratic career before the end of World War I, and in particular his associations with another official, Maeda Masana, who also figures prominently in this essay. Maeda understood intuitively in the 1880s not only the crucial importance of markets in disseminating information, but also the importance of insuring that 'rich country' (*fukoku*) meant rich people and that 'strong army' (*kyōhei*) did not get out of hand.

Takahashi served as prime minister, governor of the Bank of Japan, minister of agriculture and commerce, and between 1913 and 1936, seven times as minister of finance. Born in 1854, the year after Commodore Perry's black ships visited Japan, Takahashi played a crucial role in some of the central events of the Meiji, Taishō, and early Shōwa periods. In his teens, he interpreted for David Murray, the American educational advisor to the new Meiji government. In his twenties, he translated important English-language books on public health and economics. In his thirties, he wrote Japan's first and second sets of copyright and patent laws and oversaw the construction of the beautiful Bank of Japan building, where much of the research for this essay was done. In his forties and fifties, he became vice governor of the Bank of Japan, sold treasury bonds in the City of London to pay for the Russo-Japanese War, became president of the Yokohama Specie Bank, Japan's official import-export bank, governor of the Bank of Japan, and then in 1913, finance minister for the first time. In his sixties after the end of World War I, he helped bring parliamentary government to fruition during the Hara Cabinet and afterward, and as prime minister

in 1921-22, helped create a basis for stable relations with Britain and America through the Washington Treaty system. In his early seventies, he headed the Finance Ministry for six weeks to solve the Financial Crisis of 1927, and in his late seventies, he served as finance minister in three successive cabinets and engineered Japan's recovery from the World Depression.

It is for the last of these tasks that Takahashi, who is often called 'Japan's Keynes', is best known.¹ In the months after Takahashi became finance minister for the fifth time in December 1931, he followed the first of his five principles, that is, the Keynesian one, by introducing expansionary monetary and fiscal policies that primed the pump for economic expansion. In the monetary realm, Takahashi took Japan off the gold standard, ended the convertibility of paper money for gold, let the exchange rate float, lowered interest rates, and introduced legislation to raise the limit on the Bank of Japan's issuance of bank notes by over eight times. The concomitant drop in the value of the yen led to a boom in Japanese exports even while the rest of the world's trade contracted. In fact, the mid-1930s was one of the few times in the pre-war modern era when Japan had a favorable trade balance. In the summer of 1932, Takahashi also introduced a countercyclical fiscal policy. He increased government spending and made up the difference not by raising taxes, but by deficit financing - and deficit financing through selling low-interest government bonds directly to the Bank of Japan rather than on the open market. He thus avoided the potential problem of 'crowding out'. The government's spending increased money

in circulation and stimulated demand. Growing domestic demand together with expanding exports encouraged production and re-employment - more people had more money to spend - and Japan began to recover from the depression. Japan had a growth rate of 5.8 per cent per year from 1930 to 1938.

And Takahashi clearly understood the theory behind a spending policy during a severe recession, as the following quote from an article he wrote in November 1929 while his deflationist predecessor as finance minister, Inoue Junnosuke, was still in office, shows:

'If someone goes to a geisha house and calls a geisha, eats luxurious food, and spends 2,000 yen, we disapprove morally. But if we analyze how that money is used, we find that the part that paid for food helps support the chef's salary, and is used to pay for fish, meat, vegetables, and seasoning, or the costs of transporting it. The farmers, fishermen, and merchants who receive the money then buy clothes, food, and shelter. And the geisha uses the money she receives to buy food, clothes, cosmetics, and to pay taxes. If this hypothetical man does not go to a geisha house and saves his 2,000 yen, bank deposits will grow, but the efficacy of his money will be lessened.

But he goes to a geisha house and his money is transferred to the hands of farmers, artisans, and fishermen. It goes in turn to various other producers and works twenty or thirty times over. From the individual's point of view, it would be good to save his 2,000 yen, but when seen from the vantage point of the national economy, because the money works twenty or thirty times over, spending is better.'²

In the final chapter of his life, in 1934-35, when Japan's economy expanded and neared full employment because of his stimulative efforts, inflation threatened; thus, Takahashi followed another of the five

principles: he attempted to introduce tight-money, balanced-budget policies. Takahashi, ever the flexible pragmatist, decided to reduce spending by making cuts in allocations to those areas which had expanded most rapidly in 1932-34, rural relief and the military. He managed to eliminate relief spending, but in spite of several highly publicized acrimonious debates with the army and navy ministers, debates that cost him his life during the February 26, 1936 coup d'état attempt, Takahashi could not do more than prevent the military budget from growing further in 1934-36.³

But as I stated above, my primary interest in studying Takahashi is in his education. How did the illegitimate child of a Kanō School *fusuma* painter in the bakufu's employ and a family maid become a sophisticated finance minister many years later? Takahashi in his autobiography does not mention going to school as a young child, even to a *terakoya*. At age ten, he was sent to Yokohama to study English with the wife of an American missionary, at age twelve he worked as an errand boy in Yokohama for the Scots banker A.A. Shand, at age thirteen he began a year-and-one-half stay in San Francisco where he unwittingly signed a contract for seven years service as a house boy, and at age fourteen he returned to Japan to teach English in a government school, the first step in a sixty-seven year official career.⁴

Takahashi developed his knowledge of politics, societies, economics and finance in a number of ways. He read English all of his adult life and was familiar with the works of important Western writers on these

subjects. For example, in his twenties he helped translate Alfred Marshall's *The Pure Theory of Foreign Trade*, and the famous postwar economist Ōuchi Hyōe has remarked on a photograph, taken in the last few months of Takahashi's life, that shows the octogenarian sitting in his garden reading Sidney and Beatrice Webb's book, *Soviet Communism: A New Civilization?*⁵ He had knowledgeable Japanese acquaintances, many of whom were or had been his subordinates, who spoke to him from time to time on political and economic matters. Men like Fukai Eigo, by 1935 governor of the Bank of Japan, and Tsushima Juichi, deputy minister of the Finance Ministry at the time of Takahashi's assassination in 1936, and economic journalists like Ishibashi Tanzan, a translator and advocate of Keynes' work, fit into this category. Takahashi, both in Japan and on long trips abroad in 1886, 1898, and 1904-7, built a network of British and American friends, men like Shand and the Jewish German-American financier, Jacob Schiff, to mention only two, and he carried on an active correspondence with them about subjects such as economic conditions in Japan and the West. The Takahashi papers in the National Diet Library in Tokyo contain letters in English to and from fifty different non-Japanese, including Schiff, his son Mortimer, Shand, J. W. Robertson-Scott, Nicholas Murray Butler, Ernest Cassel, Lord Revelstoke, Edmond de Rothschild, Herbert Croly and Benjamin Strong.⁶

But, most important, I would argue, the auto-didact Takahashi developed most of his ideas on the job as a 'policy apprentice' in the various government agencies in which he served. Unlike most civil

servants, Takahashi did not have a long career in only one part of the bureaucracy, but developed a broad knowledge of government, economics, and finance (and I might add, a large network of acquaintances) by moving from office to office. He was an English teacher at Daigaku Nankō, a forerunner of Tokyo University. He served as an interpreter in the Education Ministry. He spent almost a decade in the Agriculture and Commerce Ministry. He was the first director of Japan's Patent Bureau. He headed the Tokyo Agricultural College. He worked for twenty years in the Bank of Japan and the Yokohama Specie Bank - and he did all of this before he became finance minister for the first time at the age of fifty-eight in 1913, the first year of the Taishō era. While he served in these various agencies, Takahashi met a number of influential mentors: Mori Arinori, the Westernizer turned nationalist education minister, Guido Verbeck, the Dutch-American advisor to early Meiji leaders, Hara Takashi, the French-speaking diplomat who became Japan's first party prime minister, Matsukata Masayoshi, Japan's founding finance minister, and most important, I think, Maeda Masana, the man who introduced Takahashi to the third, fourth, and fifth of his principles, that is, the importance of market signals, of spreading the benefits of economic growth, and of limiting military spending.

Unlike Takahashi, Maeda had a superb late Tokugawa period education. Born the son of a Chinese-style doctor from Satsuma domain in 1850, four years before Takahashi, Maeda at the age of eight began Dutch and classical Chinese studies (because of the latter, he developed a prose writing style that is much more difficult to read than

that of the less well-educated Takahashi), and as a teenager assisted the officials who oversaw Satsuma's trade with the Ryukyus, studied English in Nagasaki, and in 1868 went to Shanghai to help publish a Japanese-English dictionary. As a samurai from Satsuma, he played a minor role in the defeat of the Tokugawa, and not surprisingly, came out of the Meiji Restoration as a fervent nationalist, but, unlike many of his comrades, also as a patriot who believed that Japan needed to learn everything it could from the Western powers. To participate in that learning, Maeda went to France in 1869 for eight years.⁷

Maeda went to France in awe of Western civilization - in fact, during his early days in Paris, he despaired whether Japan could ever catch up with the West. However, in his first year in Paris, he witnessed the fall of the city to the Prussians, and then the Paris Commune. These events convinced him that while Europe might be better than Japan in technology and material things, it had no spiritual advantage. He was liberated from his feeling of the 'overwhelming superiority' of Western culture by the poor morale of the French soldiers in their war against the Prussians and by the chaos of the following year. In the second half of his stay, Maeda studied with Eugene Tisserand (1830-1925), a high-ranking official in the French Ministry of Agriculture and Commerce, who taught the young Japanese the crucial role of the national government in helping farmers and entrepreneurs improve their agricultural and industrial productivity.

The highly self-confident - actually arrogant - Maeda returned to Japan in 1877 firmly committed to the centrality of agriculture and traditional industry in Japan's economic development. Accordingly, between 1877 and 1884 (it was during this time, in 1881, that Takahashi made his move from the Ministry of Education to Maeda's Ministry of Commerce and Agriculture to study copyright and patent laws), Maeda helped develop a program for the direct export of these products so that Japan did not have to use foreign merchants in the treaty ports as middlemen, set up a branch of the Mitsui Trading Company in Paris, and established a centre on the grounds of the former Satsuma estate in Mita for testing and disseminating improved plants, seeds, and farming methods. Maeda was also one of the architects of the mid-Meiji plan to increase agricultural productivity by using successful farmers as teachers to disseminate new farming techniques to less advanced cultivators. He encouraged farmers and small industrialists to exhibit their products in a variety of local, national, and international fairs and competitions both to spread new techniques and to sell products, and was the major mover behind Japan's exhibit of 40,000 sericultural and agricultural products, ceramics, textiles, and furniture at the Paris World's Fair of 1878. It was during this period of Maeda's career, in 1883-4, that Mori Arinori introduced Takahashi to Maeda.⁸

Maeda affected Takahashi's education in a number of ways. Maeda's intense nationalism impressed Takahashi. As Takahashi wrote years later, 'After two days of talking with Maeda, I realized that my concept of the state was shallow. The state was not something separate from the

self. The state and the self were the same thing'.⁹ Maeda's state-assisted approach to economic development influenced Takahashi's commitment to the use of macroeconomic policy to stimulate or slow the economy. Both men, although strong nationalists, feared army and navy influence in government and opposed excessive military spending. Maeda, in his policy proposals, gave highest priority to agriculture and traditional industry, secondary importance to public and heavy industrial enterprises, and ranked military and construction spending as least important. Takahashi, as the dean of historians of Taishō democracy, Shinobu Seizaburō, has written, was committed to the 'bourgeois' value of political party control over the military. Both emphasized fundamentals, that is, the need for formulating policy initiatives only after carrying out basic research into existing conditions. Maeda wrote about 'questioning things,' and Takahashi bored his listeners all the rest of his life by his continual incantation of the need to get down to basics. To put it in his words, 'I constantly say "fundamentals, fundamentals," (*konpon, konpon*) and during the Hara cabinet years, I was told, "You always say fundamentals and nation." This began after I met Maeda in the Ministry of Agriculture and Commerce. Today, when a problem arises, I do not look for temporary solutions. We must investigate what caused the problem. I learned this years ago when we created Maeda's *Kōgyō ikensho*'.¹⁰ Both men wanted the general populace to share in the benefits of economic growth. Maeda, as we shall see, harshly criticized finance minister Matsukata because his deflationary policies in the early 1880s impoverished the countryside; Takahashi wrote during the depression in the 1930s, 'Production in the broadest sense means all

the people are working. It is good when everybody is working and making an income without wasteful government spending. There is no other way than full employment'.¹¹ And finally, although both men believed in development driven by governmental programs, they also believed that local officials and producers had better information about the allocation of resources than did bureaucrats in Tokyo. This influence, their commitment to market information, is one of the points I want to emphasize today.¹²

Takahashi had frequent and intense contact with Maeda in 1884-5, the period in which Maeda researched, edited, and wrote his famous industrial survey and developmental proposal, *Opinions on Promoting Industry (Kōgyō iken)*. In January 1884 Maeda presented to Saigō Tsugumichi, the minister of Agriculture and Commerce, a proposal for the formulation of an industrial development plan based on a detailed understanding of current local conditions, that is, fundamentals. Saigō approved, and Maeda and his team of 40-50 men in the Fourth Section of the ministry worked day and night to turn out by August an eighteen volume interim report. This effort took place in the midst of finance minister Matsukata's campaign for frugality in government. He ordered each ministry to dismiss some of its bureaucrats. Maeda gathered those in his ministry slated for dismissal into the fourth section, in Japanese *shika*, as his *Kōgyō iken* team, and had his ministry save money by eliminating horses and carriages for its members instead. The joke at the Commerce and Agriculture Ministry at the time was, '*Nōshōmushō*

uma o haishite, shika o oki, 'the ministry eliminated horses and set up deer,' a homonym for fourth section, Maeda's team.¹³

The interim draft of *Kōgyō iken* was a detailed presentation of the actual conditions of regional industry and agriculture - one which Maeda planned to update every few years - and a proposal to enrich the country by stimulating them. Since Maeda's goal was economic development through emphasis on agriculture and traditional industry, not through heavy, transplant industry and military power, *Kōgyō iken* included elements subversive to the mainstream views of the most powerful governmental officials of the day. Maeda believed that one could not bring about economic development without raising the standards of living of the average Japanese. He was more interested in 'enriching the country' than in 'building a strong army' and gave military spending a low priority. He criticized finance minister Matsukata's deflationary policies because of their adverse impact on rural society - as Maeda wrote in *Kōgyō iken*, 'Matsukata's ideas are fundamentally upside down'. He opposed the government's favoritism to the 'privileged class of politico-commercial capitalists' like the Iwasakis and Mitsuis at the expense of the countryside. And important for our discussion, he believed that Japan's industrial development must come from below. Maeda was committed to industrial development that was generated at the grass-roots level.¹⁴

Maeda's proposal for an industrial bank showed his commitment to local decision-making most clearly. As Takahashi, Maeda's spokesman

during the industrial bank debate of 1885, wrote: 'The Finance Ministry's proposal called for establishing a central bank first and then local branches. It wanted to relieve the government of the cost of contributing 800 thousand yen per year for public works by shifting the burden to the industrial bank. But our ministry's proposal was for setting up local branches first and the central bank later. Prefectural banks would be set up only after prefectures had made various preparations such as establishing agricultural testing stations, agricultural cooperative associations, circuit teachers, and other organs of agricultural improvement. When the prefectural bank had raised one million yen locally (from private sources), the government would contribute a matching amount. Only when a number of local banks were in operation, would a central financial organ be set up'.¹⁵

Matsukata and the Finance Ministry, with the support of the home minister, general Yamagata Aritomo, and the army, wanted a centralized industrial bank to shift off budget expensive public works spending, much of which was for the military. Maeda, Takahashi and the Agriculture and Commerce Ministry wanted to create decentralized banks for rural economic development, to create rural wealth, and believed that local people, who knew local products, conditions, and markets better than central bureaucrats did, should make lending decisions locally. Matsukata wanted the bank to lend money with land as security; Maeda feared this would deepen the rural depression of the 1880s. Matsukata planned to lend for large-scale, government-sponsored projects at the prefectural and county level; Maeda's primary

loan recipients would be *gōnō*, that is, prosperous farmers, and local village and town-level, small-scale entrepreneurs to stimulate productivity and exports in products such as raw silk, tea, and sugar. Maeda was a transcendentalist who opposed political parties until the end of his life, but at the same time he had a firm commitment to the importance of local decision making by farmers and rural entrepreneurs. This latter belief had a strong influence on Takahashi.¹⁶

Although Maeda and Takahashi had many supporters for their developmental proposal, they faced a number of obstacles and finally met crushing defeat in 1884-5. (Those scholars who emphasize the importance of Maeda as an industrial planner, must remember that he was a failed industrial planner.) The Finance Ministry, driven by Matsukata's frugality and commitment to the development of heavy transplant industry, pressured for the recall of all of the copies of the 'Interim Report' in the fall of 1884 and forced its complete revision, so that when the final version, the 30-volume *Kōgyō iken*, was published in December 1884, its teeth had been pulled. It was more of a survey of existing conditions than a proposal for future policy. In fact, Matsukata was so successful in suppressing the 'Interim Report' that scholars did not know of its existence until 1969, when Ariizumi Sadao, an archivist/historian working on the Maeda papers at the National Diet Library, published a seminal article comparing the two versions. The *sanji-in*, the principal deliberative organ of government before the establishment of the cabinet system in late 1885, debated the conflicting proposals for an industrial bank throughout much of that year, but could

not reach a conclusion. Finally, to end the debate, Matsukata withdrew the Finance Ministry's proposal, effectively killing the chances for any industrial bank in 1885. (This did not happen until 1897.) Within months, most of Maeda's staff were sacked, Takahashi was sent to Europe to study patent and copyright laws, and Maeda, as Mikuriya Takashi tells us, was made the scapegoat and furloughed - that is, he received a salary, but had no duties. Although Maeda returned briefly to the Agriculture and Commerce Ministry in 1888-90, his career as an important public official ended with the defeat of his *Kōgyō iken* plan in 1885. Maeda spent most of his life until his death in 1921 deeply embittered. Only Takahashi of all the members of Maeda's group went on to have a significant career in the civil service.¹⁷

Yet Maeda's ideas lived on, at least partly because of their influence on Takahashi, in a number of ways. Throughout his career, Takahashi questioned the efficacy of army and navy involvement in the formulation of foreign policy and of excessive military spending: in 1912-13 he fought the army's plan for two new divisions, in 1915 he opposed the Ōkuma government's Twenty-One Demands to China, in 1920 he called for the abolition of the army and navy general staffs, in 1921-22 his cabinet negotiated limits on naval armaments at the Washington Conference, and in the later 1920s, he opposed his own Seiyūkai party's support for aggressive adventurism in China. In the early 1930s, he was one of the few party politicians to publicly confront the demagogic army minister, Araki Sadao, and he repeatedly told the army and navy that defense spending that went beyond Japan's fiscal capacity created only

an illusion of security. While serving as finance minister in the Hara Cabinet and then as prime minister in 1918-1922, Takahashi tried to decentralize power over and decisionmaking about education, public works and health by transferring their administration and control of the land tax to localities, that is, to levels of government closer to the users. His effort failed when Matsukata, still committed to top-down government at the end of his life, refused to allow the devolution of the land tax, one of the achievements of his youth.¹⁸ And finally, Takahashi was following in Maeda's footsteps when he ended rural relief efforts and advocated rural self-help in 1935.

Economic historians have advanced several explanations for Takahashi's decision to end rural relief efforts after fiscal year 1934. The most far-fetched is that Takahashi as a representative of the finance capitalist class was simply following his class instincts and had no sympathy for the plight of the rural poor. But on reading Takahashi's speeches, interviews, and articles from this period, one finds many assertions of support for the countryside. A few scholars, and particularly one of Takahashi's early biographers, Imamura Takeo, have argued only a little more plausibly, that the ageing Takahashi was a 'robot' of fiscally conservative finance ministry subordinates, who had opposed his spending policies from 1932 and finally forced him to undertake retrenchment in 1935. But there are weaknesses with this argument too. Takahashi emphasized and reemphasized between 1932 and 1935 that his stimulative, countercyclical policies were temporary, and that once the economy had recovered from the depression (which it

had by 1935), he would bring government spending back into balance with income and lessen the government's role in the economy. Moreover, the primary sources for the 'robot' view are the postwar reminiscences of a few of Takahashi's prewar finance ministry subordinates. Some of these accounts have the unpleasant aroma of wartime officials reinventing themselves after the war. Kaya Okinori, for example, who identified himself as one of the fiscal conservatives who manipulated Takahashi, served as prime minister Konoe Fumimaro's finance minister when Japan invaded China in the summer of 1937. Not only did he give the military in 1937 and 1938 appropriations far larger than Takahashi had ever dreamed of, but he also supported Japan's war of aggression on the mainland and cooperated closely with General Ishiwara Kanji in planning a total war economic structure, that is, a wartime command economy that ignored market information altogether.¹⁹

Still other historians have argued, more persuasively, that Takahashi saw the necessity of eliminating Japan's budget deficit in the mid-1930s and pared where he could. Since army and navy opposition made cutting military spending politically difficult, especially in an era when young officers were assassinating officials and businessmen, Takahashi could eliminate relief expenditures more easily than he could military spending.²⁰ Takahashi, who almost uniquely among officials and politicians courageously opposed increases in military spending in the mid-1930s, is a case in point - young army officers brutally murdered him in 1936. And I should add here, Takahashi understood the risks

when he confronted the army. When Takahashi undertook retrenchment in the final year-and-one-half of his life, he told an acquaintance, 'If I were younger and could serve the emperor in the future, I would worry about the (young officers), but at my age I have no future. I have to do my service now. I entered the government again (in November 1934) thinking that this is my last chance to serve. I am prepared to die now'.²¹

But it is another reason, Takahashi's belief that efforts at rural recovery engineered by central bureaucrats would not succeed - that success depended on a knowledge of local conditions, crops, and markets, which varied from region to region - which I think is most important. As Takahashi wrote at the time, 'because each farmer and the situation in each farm village differs, it would be wrong to impose a comprehensive relief program'.²² 'Each region has its unique disease. We must begin by investigating these sicknesses and applying the correct cures. If we scatter money uniformly from the centre to the regions, we cannot eliminate the diseases'.²³ Since national officials could not understand what was needed at the grassroots level, Takahashi believed, the government should increase the authority of regional organizations and officials, strengthen their fiscal power, give them the resources to make low-interest loans, and then rely on them to help farmers and local industry. Takahashi learned from Maeda and his 1884-5 proposal for prefectural banks that the government could best stimulate regional economic growth by allowing local entrepreneurs and officials to make decisions about which crops to grow, which goods to produce, and how to allocate their resources, based on their own reading of local, national,

and even international market conditions - in other words, based on 'fundamentals'. Accordingly, after rural Japan began to recover from the worst of the depression in 1934-35, Takahashi returned to an advocacy of rural economic development through decentralized decision-making and attentiveness to grassroots market information.²⁴

Historians have been critical of Takahashi because the rural rehabilitation movement of the 1930s, of which he was a prime mover, supported owner-tenant farmers, owner-farmers and small-scale landlords rather than the hardcore rural poor, and because its structure of village-level organs became one of the pillars of Japanese fascism in the wartime years.²⁵ To me, neither criticism of Takahashi is fair. Maeda recognized, quite progressively for the 1880s, that this rural middle-class, not the larger landlords who dominated village life in the mid-Meiji period, was the key to rural economic development, and by the time Takahashi advocated rural self-help in the 1930s these people had replaced the richer landlords as the political and economic leaders of their villages. By urging a policy that relied on these yeoman farmers, Takahashi recognized the realities of village life. One cannot blame Takahashi because the rural rehabilitation movement, based originally on his commitment to Maeda's concept of development from below, became a bureaucratically controlled, authoritarian movement after his death. He was, after all, as several Japanese writers have emphasized, 'the last barrier to militarism'.²⁶

Conclusion: Takahashi's self-help ideas did not develop from a finance capitalist mentality or a bureaucratic way of thinking or because he was a robot of his subordinates or only from his need to cut government spending in 1934-36. Takahashi had a theoretical commitment to decentralized decisionmaking, to a reliance on market forces, one which he developed under the influence of Maeda Masana in the 1880s. This is the key to understanding his decision to cut rural relief spending and advocate rural self-help after Japan began to recover from the depths of the depression in 1935. This, together with his views that government must use monetary and fiscal policy both to grow and to stabilize the economy, that economic growth should benefit all Japanese, not just state power and the *zaibatsu* elite, and that military spending should be kept within affordable limits, were legacies of his Meiji period education as a policy apprentice.

Endnotes

¹ There are a dozen biographies of Takahashi. The most recent, Kitawaki Yōko, *Kan o ooite kotosadamaru: Takahashi Korekiyo to sono jidai* (Only after Closing the Coffin is One's Value Fully Appreciated: Takahashi Korekiyo and His Times), Tokyo, Tōyō keizai shinpōsha, was published on April 15, 1999, since I arrived at Cambridge. I have relied primarily on three: Gotō Shin'ichi, *Takahashi Korekiyo: Nihon no Keinzu* (Takahashi Korekiyo: Japan's Keynes), Tokyo, Nihon keizai shinbunsha, 1977; Imamura Takeo, *Hyōden Takahashi Korekiyo* (A Critical Biography of Takahashi Korekiyo), Tokyo, Jiji tsūshinsha, 1948, republished in 1958, and again in 1985 as part of a series entitled *Nihon saishō retsuden* (Biographies of Successive Prime Ministers); Ōshima Kiyoshi, *Takahashi Korekiyo: zaiseika no sukina shōgai* (Takahashi Korekiyo: The Life of a Colorful Financier), Tokyo, Chūkōsha, 1969. For a brief description in English of Takahashi's life, see Richard J. Smethurst, 'The Self-Taught Bureaucrat: Takahashi Korekiyo and Economic Policy during the Great Depression', in John Singleton, ed., *Learning in Likely Places: Varieties of Apprenticeship in Japan*, Cambridge, Cambridge University Press, 1998, 226-238. The idea for this essay came from an article by Fujita Yasukazu, 'Takahashi zaisei keizai shisō kenkyū yosetsu' (An Outline of the Economic Ideas behind Takahashi's Fiscal Policy), *Keizai ronsō* (Treatises on Economics), 144-2 (1989), 74-93.

² Takahashi Korekiyo, *Zuisōroku* (Reminiscences), Tokyo, Chikura shobō, 1936, 247-8.

³ See Imamura, *Hyōden Takahashi*, 218-24, for a description of Takahashi's confrontation with the army and navy ministers in November 1935. The conflict culminated on November 29-30 with a twenty-hour long cabinet meeting that ended at seven in the morning. On his return home, Takahashi's secretaries had to carry the eighty-one year old finance minister from the car to his bedroom.

⁴ The only source for Takahashi's youth and a good source for his middle years is *Takahashi Korekiyo jiden* (The Autobiography of Takahashi Korekiyo) which covers the first fifty years of his life. The autobiography, which Takahashi dictated in the last years of his life, was first published by Chikura shobō shortly after his death in 1936 and has

been republished twice since, in paperback in the Chuk• bunko, 480 (Tokyo, 1976), and more recently in simplified and abridged form in Chikyujin Library, 32, (Tokyo, Sh•gakkan, 1998).

⁵ Gotō, *Takahashi*, 184.

⁶ After Takahashi's death, a Tokyo publisher, Chikura shobō, published two books of his writings: *Takahashi Korekiyo keizairon* (The Economic Writings of Takahashi Korekiyo), Tokyo, 1936, and *Zuisōroku*, as well as his autobiography. Tōnan shoin published another volume of essays, *Kokusaku unyō no sho* (Writings on Carrying out National Policy), Tokyo, 1936.

⁷ The best source for Maeda's life is Soda Osamu, *Maeda Masana*, Tokyo, Yoshikawa kōbunkan, 1973.

⁸ Umemura Mataji and Nakamura Takafusa, *Matsukata zaisei to shokusan kōgyō seisaku* (Matsukata's Fiscal Policy and Proposals to Encourage Industry), Tokyo, Tokyo daigaku shuppankai, 1983, 245-7; Ōshima Kiyoshi, Katō Toshihiko and Ōuchi Tsutomu, *Jinbutsu-Nihon shihonshugi 2: shokusan kōgyō* (People-Japanese Capitalism 2: The Encouragement of Industry), Tokyo, Tokyo daigaku shuppankai, 1974, 278-87.

⁹ *Takahashi jiden* (1976), Volume I, 193.

¹⁰ *Takahashi jiden*, Volume I, 196-7.

¹¹ *Zuisōroku*, 398.

¹² Soda, *Maeda Masana*, 86, 96, 98, 106-9; Shinobu Seizaburō, *Taishō demokurashiishi* (The History of Taishō Democracy), Tokyo, Nihon hyōronka, 1958, Volume 2, 601; Sydney Crawcour, 'Industrialization and Technological Change, 1885-1920', in *The Cambridge History of Japan*, Volume 6, *The Twentieth Century*, 418; Ōshima, et al., *Shokusan kōgyō*, 291-3, 315-6.

¹³ *Takahashi jiden*, Volume I, 194.

¹⁴ Ariizumi Sadao, 'Kōgyō iken no seiritu' (The Realization of Opinions on Promoting Industry), *Shigaku zasshi*, 78-10 (1969), 17; Umemura and Nakamura, *Shokusan kōgyō seisaku*, 249; Ōshima, et al., *Shokusan kōgyō*, 294, 316; Soda, *Maeda*, 91-3, 123. For a discussion in English of Maeda and *Kōgyō iken*, see Sydney Crawcour, 'Kōgyō iken: Maeda Masana and His View of Meiji Economic Development', *Journal of Japanese Studies*, 23-1 (1997), 69-104.

¹⁵ *Takahashi jiden*, Volume I, 197-8.

¹⁶ Umemura and Nakamura, *Shokusan kōgyō seisaku*, 248; Ōshima, et al., *Shokusan kōgyō*, 296.

¹⁷ Umemura and Nakamura, *Shokusan kōgyō seisaku*, 249-51; Ōshima, et al., *Shokusan kōgyō*, 295, 299; Soda, *Maeda*, 94; Mikuriya Takashi, *Meiji kokka keisei to chihō keiei: 1881-1890* (The Formation of the Meiji State and Regional Administration: 1881-1890), Tokyo, Tokyo daigaku shuppankai, 1980, 121. Umemura and Nakamura, on pages 260-1, and Mikuriya present a number of reasons for Maeda's failure. These include his overbearing personality and the concomitant enmity he created for himself within his own ministry, the demands of the army for public works infrastructure and heavy industrial development, competition between General Yamagata's Home Ministry, Matsukata's Finance Ministry, and the Agriculture and Commerce Ministry for control over local government, and the ongoing power struggle between officials from Chōshū and Satsuma, the two pre-Restoration domains that provided most of the Meiji government's leadership.

¹⁸ Ōshima, *Takahashi*, 82; Imamura, *Hyōden Takahashi*, 114-6.

¹⁹ Imamura, *Hyōden Takahashi*, 187-8, 191; 204-14; Nihon ginkō, *Nihon ginkō hyakunenshi* (The One Hundred Year History of the Bank of Japan), Volume 4 (Tokyo, 1984), 52-3.

²⁰ Imamura, *Hyōden Takahashi*, 50.

²¹ Imamura, *Hyōden Takahashi*, 235.

²² *Nihon nōgyō nenpō* (Japanese Agricultural Annual), Volume 4, 118, quoted in Fujita, 'Takahashi zaisei', 93.

²³ *Zuisōroku*, 422.

²⁴ Imamura, *Hyōden Takahashi*, 47-52; *Zuisōroku*, 410-2.

²⁵ Imamura, *Hyōden Takahashi*, 45-47.

²⁶ Ōtani Ken, *•kura daijin no shōwashi - Kenryokusha no jinbutsu shōwashi* (A History of Finance Ministers in the Shōwa Period: Shōwa History as Seen through People in Authority) Tokyo, Bijinesusha, 1986.

Analysing the Relationship between Business and Politics in Pre-War Japan: Some Thoughts on the *Zaikai*¹

Masataka Matsuura

How should we analyse the relationship between business and politics? This may be a classic and universal issue for the social sciences. There are many possible ways to proceed, for example, by using the idea of class, or the idea of the 'power elite' introduced by C Wright Mills, or in Japan the notion of *zaibatsu*, as in the Mitsui or Sumitomo *zaibatsu*. Today, however, I would like to suggest the usefulness of the idea of *zaikai* (literally financial world) to describe the relationship between business and politics in Japan. There are three questions which I want to deal with. The first is, what is *zaikai*? I use the word both in an original way and from a historical perspective. I want to explain why I use the word, and how it is different from *zaibatsu*. For those of you who may not know, *zaibatsu* is found these days in the OED (second edition) and the definition reads: 'In Japan, a large capitalist organisation, usually based on a single family having controlling interests in a variety of companies, of a type that existed before the war of 1939-45; since 1947, a cartel or conglomerate. Also, the member of such an enterprise.' The second question I want to address is, is the *zaibatsu* a phenomenon unique to Japan? On this point I would like to hear some suggestions about Britain or other countries from you afterwards. The third question I want to address today is, how was the *zaibatsu* formed and what was it like?

Let us start with the first question, what is meant by *zaikai*? *Zaikai* means a very narrow business circle of the élité connected to political power. The

meaning of *zaikai* changed over time. Before 1945 *zaikai* covered a very wide range of meanings. It was used to mean not only an industrial or business circle but sometimes even more broadly, to refer to the whole economy. When the Second World War ended, however, it came to refer specifically to a narrow business élite connected to political power. Japanese people have come to realise the existence of connections between political power and business, and have generally seen this in *zaibatsu*. However, in my opinion, this is not *zaibatsu* but *zaikai*, which began to grow after the Russo-Japanese War and became firmly established around the First World War. Since 1945, *zaikai* has changed to mean only gatherings of business pressure groups, because the strong power core group which developed after the First World War perished after the Second World War. Today I would like to define as *zaikai* the core group in the business society which lasted between the two World Wars.

For a long time *zaibatsu* has been taken as the key concept for analysing the relationship between politics and the economy in Japan. People believed that there was an ‘inappropriate relationship’ between *zaibatsu* and political parties and government in pre-war Japan. At this time there was a two-party system, based on the Seiyūkai party, and the Kenseikai party, which later became the Minseitō. It is often said, even now, that the Mitsui *zaibatsu* controlled the Seiyūkai and the Mitsubishi *zaibatsu* controlled the Kenseikai, and that they took turns dominating politics. The most often cited individual examples of this are the Prime Minister Katō Takakakira (1924-26), who was the leader of Kenseikai, and his Foreign Minister Shidehara Kijūrō (1924-27, 29-31), who later became prime minister 1945-46. Both their wives were daughters of Iwasaki Yatarō, who

founded the Mitsubishi *zaibatsu*. It is true that the *zaibatsu* supplied human resources and funds to the parties, but such an image of politics is too simplified. In the past, explanations have stressed the economic power of the *zaibatsu* and infer from this that they must also have controlled politics. It is true that *zaibatsu* had real structural power and that ordinary people were in awe of it. This, however, ignores the question of actual political processes and the flow of political history. In fact, most big *zaibatsu* forbade their members to have any connection with politics. They gave parties donations for campaign funds, but in most cases, direct political reward in return was unnecessary. So then, is *zaikai* different from *zaibatsu*? My answer is, yes, totally different. *Zaibatsu* is a very important factor in explaining the *zaikai*, but the former is not the same thing as the latter. So, how does *zaikai* differ from *zaibatsu*?

Firstly, the *zaikai* is a political variable with which we can analyse the relationship between the business world and politics. *Zaibatsu* is only an economic variable and as such cannot be used to explain the process of politics. Secondly, the *zaikai* maintained political connections with ‘the state’, political parties and politicians for the express purpose of influencing politics. However, in most cases it remained invisible to ordinary people. It had neither formal nor legal existence. So, most people imagined that the visible *zaibatsu* had all the political power that the business world was capable of possessing. However, this was not the case. Thirdly, the *zaikai* was a limited network of the business elite, most of whom can be called *zaikai sewagyō*, which might be translated into English as ‘economic system facilitator (or coordinator)’. This is very important. The *zaikai* was a network of *zaikai sewagyō* who tried to maintain the economic system and

to reform it through their efforts. *Sewagyō* means the business of providing *sewa* (help, assistance) and *sewa* is the key concept in explaining the nature of the *zaikai*, one that may be unique to Japanese society. Thus the true difference is in my opinion, that the *zaikai* was composed of *zaikai sewagyō*, but in most cases leader of *zaibatsu* were not *zaikai sewagyō*. For example, from my perspective, Dan Takuma, who was famous leader of the Mitsui *zaibatsu*, was not a *zaikai sewagyō*, and maintained a firm policy of not intervening in politics. The leading business man Mutō Sanji, who bitterly attacked *zaikai sewagyō* members, defended him. Dan was respected in the business world, not because he was *zaikai sewagyō*, but because he was an excellent leader of the big Mitsui *zaibatsu*. He never participated in the *zaikai sewagyō* network.

Now, let us move on to the second problem, namely is such a *zaikai* unique to Japan? It is often said that the *zaikai* is a very special style of political power wielded by elite business circles particular to Japan, that the *zaikai* is unique to Japanese society, and that the word *zaikai* cannot be translated accurately into other languages. I am not familiar with the power style of business elites in other countries, but my feeling is that phenomena such as the *zaikai* may be rather common in many countries, although each country may have its own particular style whereby the business world influences political power, and every society is unique.

The *zaikai* in Japan mirrors three aspects of Japanese society. Firstly, there is the cultural aspect. *Zaikai* meetings were often held in a private room in a kind of high-class restaurant, known as a *ryōtei*. The private room could hold up to around ten people. Its limited space is important. The

meetings were mostly held in these *ryōtei*, but sometimes at a private mansion. *Zaikai* meetings were mostly dinners followed by a speech and discussion, but sometimes they took the form of a tea ceremony. Occasionally they might be organised around a private antique exhibition. Both the tea ceremony and antique collecting are customs which require participants to be wealthy, and can be closely identified with the Japanese cultural background. Perhaps the British business elite use tea, fish and chips and chocolate bars at the famous 'gentleman's club' for the same purpose!

Secondly, the *zaikai* was based on the way that people relate to each other, termed in Japanese *sewa*. It is difficult to explain the implications of *sewa*. It means firstly care, help, assistance, aid, and charity; and secondly, good offices, recommendation. A *zaikai sewagyō* would have many different roles as an intermediary, mediator, agent, caretaker, manager, and producer, in the Japanese economic system or Japanese capitalism.

Thirdly, the particular process of economic and political development in Japan was an important factor in shaping the *zaikai*. I would not wish to say that there is only a single-tracked path of development, but rather that Japan sought to follow the path of the West and tried to catch up with it. The Meiji government could build concrete infrastructure and import machines and engineers, but did not have the resources to create intangible systems like the networks needed to run and maintain a business society. This will become clearer when we examine the role played by the individual *zaikai sewagyō*.

Who, then, were the *zaikai sewagyō*? From here we shall deal with the third main problem, that is, how did the *zaikai* start and what forms did it take? The first individual to be known for *sewagyō* was Shibusawa Eiichi (1840-1931), who was the son of a rich farmer and became a samurai retainer of the Tokugawa Shogunate. After the Meiji Restoration he was employed by the new government. When he was a farmer, Shibusawa had once tried to be an anti-Western terrorist and to set fire to Western people's accommodation in Yokohama to kill all the Western people there. However, after that he was employed by the Tokugawa Shogunate and was sent to an international exhibition in Paris as an attendant of the Shogun's brother. He learnt about the Western economic system for a year in Europe and then returned to Japan, where he worked to set up the new economic system in Meiji Japan. He played an important role in introducing such new ideas as the company, the bank, insurance, and so on. It is not difficult to imagine how hard and how important it was to introduce such brand new ideas to traditional Japan. Shibusawa not only encouraged private merchants and rich people to create and invest in new companies and banks, but he himself also put his money into such new enterprises.

After working as a bureaucrat to establish a new system of currency and finance, Shibusawa resigned because of a political conflict and became a private entrepreneur. During his life he established five hundred companies and banks, and also many business associations such as the Japan Chamber of Commerce, the Bank Assembly (*Ginkō Shūkeijo*), the Tokyo Stock Exchange, and the Tokyo Commercial Inquiry Agency (*Tokyo Kōshinjo*). When the first economic crisis struck Japanese capitalism in 1890, and during similar crises after the Sino-Japanese War of 1894-95

and the Russo-Japanese War of 1904-05, Shibusawa acted as a mediator between the government, the Bank of Japan and other business interests in order to find a way of protecting the economic system. He was also involved in mediating various types of conflicts in companies, like labour disputes, internal troubles with executives, takeovers, mergers, and bad debts, and helping reorganise and restructure them. This kind of mediation activity was one of the main task of the *zaikai sewagyō*, because the Japanese economic system was immature, anxious to catch up with Western countries, and the Japanese state did not have the power to mediate in the private business world. At first Shibusawa worked as an architect on the Japanese economic system, presenting a blueprint and setting up the system, but later he worked as one of the original *zaikai sewagyō*, maintaining and coordinating that system. He wielded political power as a representative of both the banking sector and the industrial sector in the first stage of the development of modern Japan. This double role was possible because Japanese industry was underdeveloped.

Shibusawa prepared for retirement around the time of the First World War, and he worked with and nurtured the second generation of *zaikai sewagyō*. This second group is represented by Wada Toyoji, Inoue Junnosuke, and Gō Seinosuke. Wada Toyoji (1864-1924), graduated from Keiō University, then went to America to do business for six years. After that he worked with the Kanebō Spinning Company and moved to the Fuji Spinning Company in 1901. There he restructured the company and made his name as a good manager. From then on, that is, after the Russo-Japanese War, he started to work as a *zaikai sewagyō*, because other businessmen brought many management and business problems to him. It was after the First World

War that his activities became prominent, because at this time a sustained recession occurred; many companies faced management crises and the government established many economic councils to try and address the problems. Wada reorganised many companies, worked as a committee member on many governmental councils, and took the initiative in establishing new business associations.

Inoue Junnosuke (1869-1932) was the son of a poor sake brewer, but managed to enter the Bank of Japan. There, owing to some luck and his own efforts, he eventually became the first president of the bank who had worked there his whole career. During the depression after the First World War and as president of the bank, he made available a lot of funds to save other banks and companies. Before Inoue's presidency the bank had followed a retrenchment policy, but he changed this policy, to give the Bank of Japan the means to supply funds not only for commercial finance but also directly to industries. Assisting the business community in this way, Inoue acquired a strong influence over banks and industries, to the extent that his strong political influence was bitterly criticized by Mutō Sanji, the president of the Kanebō Spinning Company. Mutō claimed that though Inoue was the president of the Bank of Japan, he had an inappropriate relationship with at least one private businessman, to whom he gave dubious funds. According to Mutō, the presidents of both the Bank of England and the Federal Reserve (in the US) were required to remain aloof from the private business world. He therefore attacked Inoue on the grounds that the president of the Bank of Japan should not be involved with private businessmen, and should not act as a *zaikai* member.

Inoue later became Finance Minister of the Yamamoto Cabinet in September 1923, but he resigned along with the cabinet three months later and became fully involved in the business of *zaikai sewagyō*. Every day thirty or forty clients would visit him to consult him about business or management matters, and he assisted in a lot of big company mergers, amalgamations and reorganisations. When the Financial Crisis occurred in 1927, he again became president of the Bank of Japan under the Tanaka Seiyūkai cabinet, and worked with Finance Minister Takahashi Korekiyo to settle the economic crisis. He consulted with the big five banks, reorganised many weak banks and established a 'bridge bank', called the Shōwa Bank, to liquidate bad loans. This new scheme to settle the crisis in the financial system in fact became a model for the contemporary 'bridge banks' used today. Inoue stressed the importance of cooperation between banks, of the stability of the financial system, warned against excessive competition, and supported the existence of an interest rate agreement between banks. He criticized the political parties, especially the Seiyūkai, for intervening in bank finances and this became a major reason for his eventual resignation. After that he became a party politician, joining the Minseitō, and as Finance Minister again from 1929 he carried through the return to the gold standard.

G• Seinosuke (1865-1942) started his *zaikai sewagyō* career around 1895, with his reputation based on his success in restructuring a transportation company. He became the top *zaikai sewagyō* when Inoue was assassinated in 1932. He was the son of Japan's first Deputy Minister of Finance, but he was disowned because of his exceedingly evil deeds in his boyhood, and was sent to Heidelberg to study for his doctorate. After

obtaining his degree he returned to Japan and started a business. It was during his presidency of the Tokyo Stock Exchange (1911-24) that he gained a reputation as a *zaikai sewagyō*. He made efforts to correct the public evaluation of stock markets, changing investment through this means from a form of gambling to an essential component of capitalism. After the First World War Gō used his political power and connections to the bureaucracy and politicians to defend the market against widespread panic. A member of his staff, Kawai Yoshinari, suggested a plan for stabilizing the market by cooperation between a syndicate of banks and the Bank of Japan. This scheme has been used several times since the Second World War, notably in the Yamaichi crisis in 1965 and also in the current economic crisis. Gō also achieved some successful results as a *zaikai sewagyō*, including reorganization, mergers and mediating with other *zaikai sewagyō*. Important cases in which he was involved included the merger of the Nihon Yūsen (Japan Mail Steamship Company) and Toyō Kisen (Oriental Steamship Company) in 1926, the establishment of the Electric Power Union (*Denryoku Renmei*) and the control over the supply of electricity in 1932, and the big merger of steel makers into Nihon Seitetsu (Japan Steel) in 1934.

Shibusawa and the second generation of *zaikai sewagyō*, Wada, Inoue and Gō, had many points in common. Firstly, they had considerable financial assets, connections with the big *zaibatsu*, and access to financial institutions such as the Bank of Japan and the Japan Industrial Bank. Pre-war Japan was an economically more unequal society than it is now, and business was based more on the responsibility of the individual. If a company went bankrupt, executives had to give up their private assets to

cover its debts. In these circumstances, *zaikai sewagyō* who had information on things such as funds, human resources, and business opportunities, as well as connections to *zaibatsu*, bureaucracy and politicians, were needed to settle economic crises and management crises within companies. However, none of these men was a member of a *zaibatsu*, and they were proud of that fact. Inoue praised Shibusawa as a force for checking the power of the Mitsui and Mitsubishi *zaibatsu*, and he himself tried to do the same. Also, all of these *zaikai sewagyō* had knowledge of the society and economic systems of the West. All of them had experience of study or work in Europe or America, and this was a rare thing in pre-war Japan. Japan felt she had to catch up with Western countries, so information about Western societies was needed. Finally, these men were all committed to the idea of *sewa*, that is, providing care or service for other people. They worked for their clients and it was through this means that they acquired their reputation and networks. Except for Inoue, who switched into politics, all had their own networks of people who respected and worked for them. Shibusawa had the *Ryūmon kai*, Wada had the *Kamome kai*, and Gō had the *Banchō kai*.

In the 1930s Gō was joined by Ikeda Shigeaki (1867-1950) and Yūki Toyotarō (1877-1951) to form the third wave of *zaikai sewagyō*. Ikeda was the son of a middle-ranking samurai in Yonezawa and graduated from Harvard University. After returning to Japan he joined the Mitsui Bank, and from 1904 he worked as the key manager of the bank. As a key person in the Mitsui Bank, he promoted cooperation between private banks. Initially, the area of bank finance was competitive and free from state intervention, but after the First World War the competition for bank accounts became

very intense because of the expansion of the economy. Ikeda took the initiative in seeking to regulate interest rates for private banks with the help of the Ministry of Finance and the Bank of Japan. Other bankers had previously reached similar agreements, but Ikeda Shigeaki was the first to ensure that all parties honoured them. Ikeda was also the president of the Tokyo Clearing House (*Tokyo Tegata Kōkanjo*) from 1923. During the financial disturbances after the First World War, especially during the Financial Crisis in 1927, he used his strong leadership to maintain and strengthen the cooperation between banks. For that reason he acquired strong influence over banks and in the manufacturing sector. He established the Industry Research Association (*Sangyō Chōsa Kyōkai*) in 1930 with a view to rationalizing industry and establishing bank syndicates in order to decide where investment funds should be concentrated. This was the start of the cooperative investment system which was to continue, along with the main bank system, after the Second World War. Ikeda was also able to bring trust banks and insurance companies as well as commercial banks within the remit of these systems. In this way he was able to establish influence over these sectors, too.

Yūki Toyotarō graduated from Tokyo Imperial University and then entered the Bank of Japan. He was sent by the bank to America to study for two years, and later became a branch manager in Osaka. He subsequently resigned from the Bank of Japan and became vice president of Yasuda Bank with a remit to restructure it. In 1930 he was appointed president of the Japan Industrial Bank by Finance Minister Inoue Junnosuke. There he worked in conjunction with Finance Minister Inoue to advance rescue loans

to a number of industries. These tremendous loans established his reputation as *zaikai sewagyō*.

Inoue stopped working as *zaikai sewagyō* to become a politician, but was assassinated shortly afterwards. It was after this that the third wave, Gō, Ikeda and Yūki, came to the fore as *zaikai sewagyō*. Inoue, Ikeda and Yūki were bankers, and Inoue and Yūki were also involved in the finances of the nation. This mirrors the importance of bankers and the national finances after the First World War and especially in the 1930s.

Finally then, how was the *zaikai* organised into a formal network of *zaikai sewagyō*? Before the First World War Shibusawa was able to cover all the sectors and areas of the economy as a *zaikai sewagyō*, but after the war, such work became impossible. With the war, industry had developed tremendously, and in 1917 the *Nihon Kōgyō Kurabu* (the Japan Industry Club) was established as a gentleman's club for large industry. It is often said that this club was ruled by the *zaibatsu*, because its presidents and the chairman of the board of directors, like Dan Takuma, were from the *zaibatsu*. In fact, however, the real power was held by Wada, Gō and their colleagues, who worked as managing directors. As for the banking sector, it was Ikeda and Inoue who had influence over it. At that time the Japanese business world was comprised of three 'islands': the banking sector, the industrial manufacturing sector, and the small and medium-scale enterprises sector. The last of these three was represented by the Chamber of Commerce, which was controlled mainly by Fujiyama Raita.

In 1917 a very important club was established in the form of the *Yōka-kai* (the Eighth Club), so known because its meetings were held on the 8th day of every month. The club's membership was limited to only 10 people, and these included Gō, Inoue, Wada, Ikeda, Fujiyama and a few others from banks and industries. This club appears to have lasted for 28 years, until the end of the Second World War, and meetings were held continuously throughout this time! Because of the people involved, and the length of time over which the club continued to operate, a formidable power was maintained. Every meeting had only one guest, who was usually an important politician, and the group would then discuss the important topics of the day. The club embraced representatives of the three sectors mentioned above, and it was here that important missions were born, like the Business Mission to Europe and America in 1921-22, and important institutions like the *Nihon Keizai Renmeikai* (the Japan Business League), which was established by the three sectors in 1922.

The organisation and unification of the *zaikai* was completed when Gō was elected president of the Tokyo Chamber of Commerce in 1930 and president of the Japan Business League in 1932. The *zaikai sewagyō* had constructed networks through their *sewagyō* business, and these formal institutions were the result. With the completion of such organisations they started a political campaign for industrial rationalization and economic control based on self regulation. This marked an institutionalization of the *sewagyō* business, that is, mergers and rationalization with the help of the state. They often took as their models H C Hoover in America, and W Rathenau and W V Möllendorff in Germany. This may be considered as their brand of 'progressivism', modelled on that of America. The group

managed to have Nakajima Kumakichi, who was an associate of Gō, appointed to the Saitō cabinet as the Minister of Commerce and Industry in 1932, and brought about the unification of the steel industry by establishing Japan Steel in 1934. Nakajima also tried to mediate a union between the political parties to check the power of the military. At this point, their opponent Mutō Sanji, who believed in a liberal economy, took the view that the *zaikai* was a conspiracy against sound politics and economics. He started an anti-*zaikai* campaign in the newspaper he owned, and bitterly attacked Gō's *Banchōkai* for many things, including bribery. The Prosecutor's Office, which was then very politicized, sympathized with Mutō's bribery allegations and prosecuted many innocent businessmen, such as Nakajima, as well as bureaucrats. This is the famous 'Teijin Scandal' which brought about the fall of the Saitō cabinet.

Even after that, the members of the *zaikai* continued to try and realise their ideas. In order to do so Yūki became the president of the Bank of Japan and Ikeda served as the Minister of Finance. These roles were later reversed. They insisted on economic cooperation with China to check the military and try to avoid war with China. After the Sino-Japanese War broke out, they tried to cooperate with Britain to stop the war and to reorganise the economy of Shanghai as a centre for international business. As for strengthening the war economy, they tried to achieve this through self regulation.²

However, as the war continued and the bureaucratic influence became stronger, the *zaikai* network was thought to be unnecessary, and the state bureaucracy and the military decided to control industry directly. Therefore,

although some schemes and a few successors, like Kobayashi Ataru and Nakayama Sohei, did survive, the *zaikai* perished with the Second World War. Today the word *zaikai* still exists, but its influence and power has largely diminished. In this sense, my wife keeps telling me, it is not unlike men in contemporary Japan.

Endnotes

1. This paper draws on a number of my earlier works. Any interested reader who wishes to refer in more detail to the issues and individuals discussed here should refer to one or more of the following:
 - i. ‘Nitchū Sensō Shūshū Kōsō to Kachū Tsūka Kōsaku’ (Visions of the Settlement of the Sino-Japanese War, and the Currency Question in Central China), *Kokusai Seiji*, vol.97 (May 1991)
 - ii. *Nitchū Sensō Ki ni okeru Keizai to Seiji* (Economics and Politics during the Sino-Japanese War, 1937-1945) (Tokyo University Press, 1995)
 - iii. ‘Teijin Jiken Kō’ (A Study of the Teijin Scandal), in Nihon Seiji Gakkai (ed.), *Nenpō Seijigaku 1995* (Iwanami Shoten, 1995)
 - iv. “‘Zaikai Sewagyō’ to Keizai Shisutemu no Kiki’ (“*Zaikai sewagyō*” and the Crisis of the Economic System) in Tamura Toshiyuki (ed.), *Hokudai Hōgakubu Raiburarii 3: Jōhō Chitsujo, Nettowaaku* (Hokkaido University Press, 1999)
 - v. ‘Saikō Nitchū Sensō Zenya – Chūgoku Heisei Kaikaku to Kodama Hōchūdan o Megutte’ (Rethinking the Eve of the Sino-Japanese War – On Chinese Currency Reform and the Kodama Mission to China), *Kokusai Seiji*, vol.122 (September 1999)
 - vi. ‘Takahashi Korekiyo to ‘Kyōkoku Itchi’ Naikaku – Seitō Naikaku Hōkaigo no Seiji Keizai’ (Takahashi Korekiyo and the ‘National Unity’ Cabinet – Political Economy after the Breakdown of the Party System) in Kitaoka Shinichi & Mikuriya Takashi (eds.), *Title to be confirmed* (forthcoming, Tokyo University Press)
2. I will be discussing some of these issues at another workshop at LSE.