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THE FORMATION OF THE JAPANESE ZAIBATSU — THE POLITICAL MERCHANT IN THE ORIGINAL ACCUMULATION OF CAPITAL

by

Tasuku Noguchi

The proper establishment of the zaibatsu occurred after World War I, but their origin was in the end of the Tokugawa period and in the Meiji reforms.

1. *A short description of each zaibatsu:*

1) *Mitsui* The period of origin was 1615–1623, as a combination of pawn-article shop and wine dealer (more details later).

2) *Mitsubishi* The origin was 1870 and the founder was Iwasaki Yataro, a lower bushi from Tosa Han. In the last years of Tokugawa he was responsible for the special trading corporation, the Nagabori Trading Corporation, managed by Tosa Han. Iwasaki managed this business in conjunction with a sea transportation business he founded and which he renamed the Tosa Kaisei Trading Corporation.

3) *Sumitomo* Founded in 1690, when Sumitomo Tomoyoshi discovered the Beshi Copper Mines. In conjunction he build many special manufacturers for the manufacture of copper goods. Very rapid growth. In addition, the next five Sumitomo managers were responsible for the Tachikawa copper mines owned by the Tokugawa government. Both were managed by Sumitomo and both were very successful. Sumitomo then entered into financial activity by forming a Heigo-gyo (total financial activity consisting of finance (Kuramoto), lending (Takeya), and deposits (Yosachi))—a financial activity characteristic of the Tokugawa period. This Heigo business is the origin of the Sumitomo banks, which were founded in 1894.

4) *Yasuda* Similar to the origin of Mitsubishi. Founded by Yasuda Zenjiro, a lower bushi, who managed an exchange service in 1864 in Osaka. In 1866 it was renamed the Yasuda Trading Shops. After the Reform these shops were responsible to the Meiji government for financial activity, for which the Third Wholesale Bank was formed. In 1880 Yasuda banks were

unified, and then these two banks, the Osaka Third Wholesale Bank and the Yasuda Bank, were combined to form the typical Yasuda bank. (Beginning in 1872 the wholesale banking system was introduced into Japan from America).

5) The *Daiichi* and *Furukawa* groups. Daiichi was formed in 1872, due to the introduction of the wholesale bank laws. It was the first commercial bank, and it organized a stock corporation. It was build by the Mitsui and Ono groups (gumi) through joint investment. In 1896 the Daiichi Wholesale Bank was changed into the First Commercial Bank.

The Furukawa industrial groups, Kawasaki, and Kuhara group were deeply connected with the Daiichi banks.¹⁾

Conclusion-The accumulation of capital after the Meiji Reform was achieved by a union of three elements- commercial and high-rent capital, the parasitic landlord, and speical manufactures. This trinity formed the economic base of the Meiji absolutist government. The founders of Mitsubishi, Sumitomo, and Yasuda were lower bushi, while the founder of Mitsui was a commercial capitalist, and all had a harmonious relationship with the Meiji government (in the form of partnership). Thus the original zaibatsu are called political merchants. For example, Mitsui always had contact with government in financial activities, and Mitsubishi's connection with the government resulted in a joint governmental sea transportation policy. It was a partnership resulting from governmental power and the subsequent privileges of the political merchants.

Comparison with the origin of the German interest groups- an essential similarity with some differences.

In Germany the main figure was the individual banker who managed commercial and transportation affairs, for instance in the Hansa cities after 1700. With the development in the 18th century these were dissolved by pawn issue. There were three exchange places (Frankfurt a M., Hamburg, and Berlin), mainly with trade in commodities and bills. Then there developed stock trading, an adaptation to the new tendency of the industrial revolution (the development of the textile industry and railroads, and the new stock corporation laws (1834-43). The individual banker was changing into the special type of banker, from commercial to industrial capital (the issue business was responsible for the stocks to finance industrial capital, with the resulting "creative profit" to the banker). In England the normal bank service and issue service were separate. This was not the case in Germany. It was the special character of the German

1) Each groups have a business history which was based by the banking history.

{ Mitsui headquarters history
 { Mitsubishi group history
 { Sumitomo bank history
 { Fuji bank history
 { Daiichi bank history

Bank that the two services were combined. (The Konto-Korrent Gesellschaft and the Wechsel-Diskont Gesellschaft were combined with Lambard Gesellschaft.)

There were three types of German banks which formed the original interest groups.

1) The Kölner type. The individual banker who, in addition, performed the function of industrial manager (combining financial and industrial capital). From below, without government assistance. An example is the Schaaffhausenscher Bankverein Köln, which supplied funds to enterprises ranging from textile to heavy industry. However, pressure was put on this Kölner type by Prussian absolutism.

2) The South German type. Formed by the Societe Generale de Credit Mobilier- a typical French Banking circle in conjunction with the Kölner groups. They formed the Bank für Handel und Industrie in Darmstadt and the Bank für Süd-Deutschland. But this new tendency was prevented by the Frankfurter Exchange, where we find the typical commercial bankers.

3) The East German type. Center in Berlin. Example is the Diskont Gesellschaft formed in 1857 in Berlin (similar to a credit union-Kreditgenossenschaft). But this development was prevented by Junker absolutism; therefore, the Kommandit Gesellschaft auf Aktien was formed in 1856. In addition there was formed the Berliner Handelsgesellschaft.²⁾

This was the origin of the German special banks and interest groups. The main tendency is from commercial to industrial capital, though this process is mediated by the compromises of the individual banker with the absolutistic government. In Japan we find always the combined character-the individual bank is always more deeply connected with the government than is the Case in Germany.

2. *The Development of Mitsui as a Political Merchant :*

The Mitsui Bussan (Trading Corporation), the Mitsui Bank, and the Mitsui Mining Industries were always connected with the Meiji government (for instance, the special factories of the government were taken over by Mitsui).

Near the end of the Tokugawa period the Mitsui family abandoned its former close relation with the Tokugawa government and financial backed the opposition movement. In the Tokugawa period Mitsui managed exchange and clothing shops, but after the Meiji reform the Mitsui family received very profitable position due to its support of the opposition movement. In 1868 Mitsui was ordered to become director of the governmental exchange bureau accountants. After the monetary reform of 1871 the Mitsui family built up the Mitsui groups. The Meiji government had received much money in gold and silver form, and had to exchange the old money forms into a unified monetary system—the Mitsui groups in proposing this exchange and played an important role in this process.

2) Eiji Ono "The historical establishments of German financial capital," pp.12~35.

Five examples of this pattern of relationship between Mitsui and the government.

1) The Accounting Fund of the Meiji government—To establish the Meiji financial fund on the security of the chiso revenue, the government issued bonds with interest of 12%, which were bought by gono parasitic landlord. Mitsui joined in the levy (enlistment) of these bonds.

2) Special Money (Dajokansatsu) intended for the creation of a fund for the encouragement of industry by the government. It was unchangeable money issued by the government. Mitsui assisted in this issue.

3) The Meiji government formed a special trading office (Zushoshi) in 1869. This office was then transformed into an exchange corporation for finance and a Trading corporation for Marketing. Mitsui was a partner in this process of transformation and received a good deal of funds for this role.

4) The Meiji government continued from Tokugawa silver lending exchange. Mitsui suggests that this exchange role be used for finance, and gets privileges in this operation of official funds.

5) The Meiji government issued a special exchangeable stock for the finance ministry and for the development of industry fund. The Mitsui groups joined in this issue and got 20% of the total issue, which went to Mitsui's own operational funds.

These political privileges are the basis of the rapid growth of Mitsui's capital.

The Establishment of the Mitsui Bank:

The first bank was the Daiichi Wholesale Bank, formed in 1872 by the Mitsui and Ono groups. Mitsui was unable to develop this bank further into the Mitsui bank because of the wholesale bank law. Mitsui decentralized its clothing department, and strengthened its "official fund treatment" in relation to each particular ministry (ministry funds deposited with Mitsui groups). Mitsui also expanded this relation to the funds of each particular prefecture, with the hope of forming the Mitsui bank. 1876 the Mitsui groups were changed into the Mitsui Bank.³⁾

The resulting Mitsui Bank was the second largest bank in Japan (after the Fifteenth Wholesale Bank). Two characteristics of the Bank.

1) 40-50% of its total deposits were occupied by governmental deposits (order deposits-goyoyokin). It was basically a lending bank, with only a lending fund (very little discount exchange activity). This was a typical characteristic of the Mitsui Bank.

2) A special characteristic was peasant lending by means of "documentary bill treatment for tax fund." With the monetarization of the chiso the peasants were forced to pay their taxes in money, which was lent to them by Mitsui Bank. The result was the peasant lending system of the Mitsui Banks.

So, on the one hand, the dissolution by polarization of the peasantry was

3) "The eighty years history of Mitsui Bank," p. 78.

prevented by the high land tax and the peasant ground rent to the parasitic landlord. On the other hand, the monetarization of the chiso and the peasant lending system of the Mitsui banks stimulated the commodization of the marketing system. It promoted the dissolution by polarization of the farmer strata (in contrast to the situation in Germany, where the dissolution of the peasantry West of the Elbe was prevented East of the Elbe by the position of the Junkers).

The Establishment of the Mitsui Bussan:

In 1874 97% of total exports and 94% of total imports were handled by foreign merchants. The Ono and Shimada groups went bankrupt due to the pressure of the foreign merchants. The Meiji government needed to reconstruct the trading corporations. So the Mitsui groups formed a new "total trading corporation" (Bussan) in 1876.⁴⁾ 42% of the total trading volume of rice was in Mitsui hands, and 52% of the total trading volume of paper, tea, and silk were in their hands. Mitsui also possessed the sales rights of the output of the Miike Coal Corporation owned by the government (which later became part of the Mitsui Mining Industries)-Mitsui received a profit of 2.5% of the total export volume charged as its fee.

Also, the government provided the Mitsui Bussan with a great deal of lending funds. For one-half of the usual interest rate, the government lent funds to Mitsui, which Mitsui then gave out as loans. The Miike Coal Corporation was changed into the Mitsui Mining Corporation, to which was then added the new Mitsui Sea Transportation Corp.

3. *The Function of Mitsubishi as a Political Merchant*

Mitsubishi was formed at the end of the Tokugawa period by Iwasaki Yataro, a lower bushi from Tosa Han. Ships were lent to Iwasaki by Tosa Han, and these formed the core of what developed into the Mitsubishi Trading Corporation (with centers in Osaka, Tokyo, Tosa, and Kyushu). The business concentrated on sea transportation, but Mitsubishi also was engaged in the coal industry. Under the Gapon principle (mergers among individual compaines, the first step toward the stock corporation) the various businesses of Mitsubishi were merged to form the Mitsubishi Shipping Corporation (M.S.C.).⁵⁾

The M.S.C. managed the military sea transportation system in conjunction with the Meiji government in Japan's expedition against Taiwan.

There existed another shipping company in Japan at this time which was owned by the Meiji government, but it did not have as much business as the M.S.C., which was active in both military and civilian sea transportation. Therefore, the Meiji government lent to the M.S.C. ships from the governmental

4) "The short history of Mitsui Bussan," p. 15.

5) "The seventy years history of Nihonyusen" (M.P.C.).

company, with the result that the M.S.C. became the largest shipping corporation, with 36 ships and 23,000 tons.

The M.S.C. opened up its Shanghai Sea Route in order to drive out the P&O Lines (English) and the Pacific Shipping Co. (U.S.) from this route. Although there was heavy competition in this route, the Japanese government wanted to gain a foothold in the traffic with China, so it backed financially the M.S.C. in its competition with the P&O and Pacific Shipping (both private companies without government backing). This is a typical example of the capital alliance between government and private enterprise in Japan.

The M.S.C. was also the active transportation agent in the military logistics connected with the Seinan War, Satsuma Rebellion, a military action against the old parasitic landlord by the semifeudal government. With the victory of the government the M.S.C. grew more rapidly, due to the aid and protection it received from the government.

Similar to Mitsui, the M.S.C. achieved high profits from governmental funds. There were two types of governmental protection:

- 1) Direct Subsidies
- 2) Long and short-term credits from the government

The M.S.C. opened up both *external* and *internal* sea routes in its role as political merchant. Internally it expanded its Exchange Shops (Tokyo-Hokkaido, -Kyushu, -Okinawa, and -Ogasawara). Thus the M.S.C. performed two roles: On the one hand it held a monopoly position in sea routes, and, on the other hand, it formed a total market by means of its role as the connecting link between local and central markets. Due to its monopoly of this crucial mediating function the M.S.C. was able to control these markets. Thus from its original sea transportation business the M.S.C. expanded into financial activity, beginning in the 1870's to deal with documental bills, sea insurance, warehouse services, and exchange service, whereby it took on a double business function, in sea transportation and finance. The result was four sources of profit for the M.S.C., which were all closely connected with one another:

- 1) Transportation Fees
- 2) Discount Fees on Documental Bills
- 3) Insurance Fees
- 4) Warehouse Fees

Okuma, minister of finance under Okubo, was the chief agent for helping the rise of the M.S.C. through governmental funds. Thus his dismissal from the Meiji government was a crisis for Mitsubishi. Thereafter, the Meiji government desired that Mitsui compete with Mitsubishi, with the result that a half-official, half-private semi-governmental corporation was formed, which provided the M.S.C. with heavy competition. In 1885 the two competing corporations were merged to form the Japan Shipping Corporation, with the result that the M.S.C. lost for a short time its monopoly control of sea transportation. But by means of stock acquisition leading to stock control the M.S.C. gained control of this new

corporation.

Both Mitsui and Mitsubishi were built up as political merchants in the form of commercial and high-rent capital and with lower bushi as the agents. They were aided by the intervention of governmental activity from above in the accumulation of capital. The Meiji government had a typical absolutist character, but so the political merchants as a result of their alliance with the government, with the consequence that the political merchant had two characteristics—an absolutist character and that of the typical commercial and high-rent capital.

Distinction between Mitsui and Mitsubishi:

Mitsui began in marketing and finance (merchant and high-rent capital), and then developed into industrial capital.

Mitsubishi began in the sea transportation business (industrial capital in that it was an extension of the production process), and then expanded into finance.

At first Mitsui was the larger of the two, but after World War II Mitsubishi grew bigger.

Both acquired much profit through the system of *guaranteed profit*, the secret of which was financial protection from the government. Also, both possessed much land, and therefore received the ground fees therefrom. And, through financial and sea transportation activity, both were able to gain a foothold in and exploit many different production spheres.

The Disposal of Government Enterprises to Mitsui, Mitsubishi, et al. in the Subsequent Accumulation of Capital: Condition of Disposal:

1) The government wanted to relieve itself of those enterprises which had a deficit in order to correct its investment fund.

2) The government wanted to make the conditions of disposal easier for those who acquired the deficit enterprises, so that not only those with deficits but also those with profits were disposed of and transformed into civilian management enterprises.

3) The government wanted to concentrate its enterprises in the hands of the political merchants. Thus its profitable mining corporations were divested to Mitsui and Mitsubishi, although they were very profitable.

4) In this and other transactions the government extended to Mitsui, Mitsubishi, Furukawa, Asano (later Fuji) long-term credit.⁶⁾

The typical process was thus the following: Chiso to the government, which could thereby acquire governmental enterprises; these had deficits and were therefore disposed to the interest groups, but the terms and conditions of disposal guaranteed high profits.

Distinction between Mitsui and Mitsubishi in disposals and development.

6) T. Noguchi "The Japanese capitalistic business history," pp. 74~76.

Mitsui: The Miike Mining Company, the Shimachi weaving factory, and the Tomioka silk factory were typical governmental enterprises which went to Mitsui. Miike Mining was especially profitable, and later developed into the Mitsui Mining Industry.

Mitsubishi: At first sea transportation, with the character of industrial capital, but Mitsubishi wanted also to expand into mining. Thus Mitsubishi acquired in 1896 the Takashima Mining Company (coal) (later became the Mitsubishi Mining Corp.), and the Sado (gold) and Ikuno (coal) mining enterprises.⁷⁾ Takashima was disposed by the government to Goto, but he was a relative of Mitsubishi. At first it had only a deficit, so that Goto wanted to sell it. Mitsubishi sought it from him because it wanted to form the Mitsubishi Mining Corporation. More important, however, was the acquisition in 1887 of the Nagasaki Shipbuilding Corp., which was expanded into the Mitsubishi Heavy Industries.

Both sought to expand their capital by logical extension along related industries. Thus Mitsubishi expanded from industrial to finance capital, and combined sea transportation, shipbuilding, and mining, which were organically related in terms of the technical aspects of the production process.

However, the government did not want to dispose of its heavy precision machinery, telephone and telegraph, and railroads. These were maintained as government enterprises for military reasons, and formed the core of the defense industry.⁸⁾ Most of the large private enterprises belonged to Mitsui and Mitsubishi, which were called "total groups", but their weak point was the lack of the heavy precision tool industry.

4. *Individual Character of the Interest Groups*

The Case of Mitsui was formed at the end of the Tokugawa and the beginning of Meiji as a combination of commercial and high-rent capital. Subsequent expansion into financial capital. The great changes in the economy of this period were reflected in the changes in the internal organization of the Mitsui enterprises, which consisted of three parts:

- 1) The headquarters (Honten), which managed the clothing shops. At the end of the Tokugawa it was plagued by the lack of buying (procurement) funds.
- 2) The exchange shops. Since there were loans to both the various governments and to private business, the exchange shops were plagued with the difficulty of redeeming its loans.
- 3) The Goyojo, a special service banking system, containing much frozen credit.

7) M. Kobayashi "The process of disposal and the entrepreneur activity," Wayo Joshidai Kohō 8: p. 4.

8) M. Yamada "The Analysis of Japanese Capitalism," pp. 69~70.

These three spheres were controlled by the chief directorate (Oo-moto-kata), which had connections with all three parts. But at the end of the Tokugawa it lacked accumulated funds due to many outlays and expenditures, and this lack of funds led to a deadlock in the expansion of the group. A great influence in this lack of accumulated funds was the resistance of the peasant struggle (the yonaoshi).

In the beginning of the Meiji period the chief directorate (Oo-moto-kata) became subordinate within the Mitsui groups (a subsidiary role in relations to Mitsui Bussan and Bank). But by 1872 the Oo-moto-kata was able to regain its former role, and became the chief directorate with Mitsui Bussan and Bank subordinate to it.⁹⁾ Thus Mitsui became a semi-feudal interest group, due to the function of the Oo-moto-kata. This aspect will be discussed in the next sentence, where we will explain the structure of the Oo-moto-kata. In this lecture we will conclude with a discussion of the three-fold structure under the Oo-moto-kata.

- 1) The Honten had the monopoly in the disposition of silk, in the purchase of raw silk and finished silk fabrics and their sale. This was the beginning of the Mitsukoshi Department Store.
- 2) The exchange shops performed exchanges not only for wholesale merchants, but also provided investments in special manufactures and for domestic managers.

At the end of the Tokugawa period these two accounted for over 50% of the total trading volume of Mitsui. They had a pre-capitalist character.

- 3) The Goyojo had a feudalistic character, for it supplied funds to the Daimyo, the Hatamoto, etc. It also lent funds to the Mitsui family, which were very large. At the end of the Tokugawa this part accounted for about 50% of the total volume of business of Mitsui.

Only the exchange shop was actually profitable, so it lent funds to the Oo-moto-kata, which in turn lent funds to the other two branches, an extremely abnormal process whereby the Oo-moto-kata lost its normal function. This process was necessary because of the corrupt character of the Tokugawa government, which did not repay much of its loans from Mitsui, causing a heavy burden on Mitsui finances.

Since the Oo-moto-kata lost its normal function, a change in its organizational structure was necessary, which will be dealt with in the next.

9) K. Shibagaki: "The Analysis of Japanese financial capital," pp. 104~106.

5. *The History of the Mitsui Family and the Structure of the Oo-moto-kata and its Transformation*

The Mitsui Oo-moto-kata was established in 1710 (Hoe 7). In the beginning it was the special structure which unified the business and family system of Mitsui. The council system was the top management organ which managed the inherited fortune of Mitsui (consisted of some Mitsui family members and top directors met two or three times a year). The Monthly meetings (tsukinami yoriai) were top management and lower directors. The Oo-moto-kata (OMK) was placed over the three branches of Mitsui (the honten, the exchange shops, and the Matsuzaka shops).

The Financial aspects of this management system: The OMK supplied finances to each of the three shops in the form of Self-Funding Capital (Motodatekin) and the Brought-Forward Fund (Kurikaikin) which is today called Kurikoshikin, and is essentially a re-investment fund). The return flow of finances from the shops to the OMK took the form of the Successful Contribution Fund (Koonookin)-this was derived from the profit dividends of each shop, with the remaining profit accumulating within each shop. And every three years each shop makes an account of this accumulation fund and divided it among management as a bonus, with the remainder being returned to the OMK.

This structure of the OMK was changed in 1774 (Ane 7). Change in the previous centralized function of the OMK to a form of centralized decentralization by which an equity system was introduced for each shop, creating its semi-independence from the former OMK, and consequently from the Mitsui family. All the property was divided among the three shops, and each had its own accounting system. The board of the Mitsui family took its salary from the profits of each shop.

Input/output calculation of the OMK for the periods 1737-39 and 1739-50:

- 1) There was a two-fold increase of total property of the Mitsui groups in these two periods.
- 2) The Ordered Fund (Goyokin) from the Tokugawa government and each daimyo and the Procurement Fund (Chotatsukin) from the same bodies constituted 25.5% of the total output of Mitsui group capital (these were nominally loans from Mitsui to these agencies, but in essence they were confiscated funds).
- 3) The money given to the Mitsui family by the OMK, which took the form of Mitsui family debt to the OMK, constituted 10% of the total output.
- 4) Cash and the Special Reserve Fund (Anagurakin) constituted 18.6% of the total output of the Mitsui groups.

Given this very heavy burden on the OMK it was very difficult for the OMK to maintain its position as centralizing agent within the Mitsui groups. The result was that the centralized structure was changed to the equity system

(centralized decentralization).

Near the end of the Tokugawa period the OMK recovered its former centralized function:

- 1) How did it recover?
- 2) How did the Successful Contribution Fund (Koonookin) differ in the late Tokugawa period from the period before 1774?
- 3) What was the relation of the OMK to the three shops, especially to the exchange shops?

Restoration of the centralized function of the OMK.¹⁰⁾ The equity system was not very successful because the relations between the three shops and the OMK was not very good (contradiction between centralization and decentralization). The business of the exchange shops had become very successful, so that its self-calculation in matters of finance became more important and it acquired an independent character. The result was its resistance to the control of the OMK. But the OMK and the Honten resisted this tendency and strove for the restoration of the centralized function of the OMK to its former superior position within the management structure over the independence of the exchange shops. This restoration was achieved in 1797. But the resulting economic relation between the OMK/Honten and the Exchange Shops was characteristic of the relation in the first period. The Exchange Shops contributed to the OMK only the regular volume of the Successful Contribution Fund (Koonookin), while an extraordinary fund and the profits were accumulated within the Exchange Shops, nominally as a special reserve fund, but essentially as independent profit accumulation. Therefore, the OMK was restored to its former position, but financially the Exchange Shops remained superior. The accumulation of the Exchange Shops, in the form of the secret reserve fund (Mitsudate), the reserve silver fund, and the Anagurakin (the special reserve fund) were used not only for the expansion of management but also for the relatively independent direction of the Exchange Shops from the control of the OMK. The result was that the OMK could not achieve its unified function within the Mitsui groups.

In addition, *the growing economic crisis of the Honten* was putting the OMK in a dangerous position, for it had to supply the lacking funds to the Honten. The Two Sources of the lending fund from the OMK to the Honten:

- 1) The Kurikaikin from the exchange shops to the OMK, & then to the Honten.
- 2) The Mitsudate and reserve silver fund of the Exchange Shops to the OMK, & then to the Honten through the OMK.

In general at the end of the Tokugawa period *the position of High-rent capital* was very difficult with respect to the commercial and financial process. This was due to the opposition of the peasant movement and of the lower bushi. These

10) S. Matsumoto "The historical process of economic concentration at the end of Tokugawa and Meiji Reform" *Rekishikenkyu*, Vol. 329, 1967, 10.

are the political reasons for the growing financial stagnation of the Mitsui groups as a whole which threatened the management rolls of the Honten, the Exchange Shops, and the Matsuzaka shops.

In addition, however, there was the particular economic crisis of the Honten, due to the financial difficulties of one of its branches, the *Yokohama Shops*, which were dependent upon the Honten for their financial resources.¹¹⁾

- a) The Yokohama Shops experienced increasing stagnated funds. Their loans to local merchants and local producers (eg. in silk) in the form of *Ukigashi* (a floating lending fund which was voluntary and not fixed) were increasingly defaulted. This was an old commercial lending system characteristic of the former commercial capital.
- b) In addition, the Yokohama Shops bought and sold commodities, and this form of speculation brought losses in the period of economic disruption in late Tokugawa.

These losses were reflected in the increasing difficulty of Honten finances, which in turn hurt the financial situation of the OMK.

The OMK could not continue to endure this financial burden. So the OMK was forced to change its control method. So it introduced the method of amortization per year, that is, losses were depreciated per year and not all at once, so that the losses were spread over a larger period of time. But this was not enough. The control function of the OMK could not be content for long since even the Exchange Shops lacked funds in this period, with the result that the OMK lacked funds. So the management structure was again reorganized, whereby each of the three shops became responsible for its own debts and losses (a form of decentralization). The result of this reorganization, however, was that each shop was unable to contribute the regular volume of the Successful Contribution Fund (*Koonookin*). So in 1871 The OMK had to be completely changed:

—The Tokyo OMK was established in addition to the former Kyoto OMK.

The Tokyo OMK became superior to the Kyoto OMK and became the special controlling system of the Mitsui groups.

—The Exchange Shops were transformed into the Mitsui Gumi (Mitsui Group) and the Mitsui Bank. These two controlled the Tokyo OMK. This was the origin of the holding corporation of the Mitsui concern. These two formed the super-top of Mitsui.¹²⁾

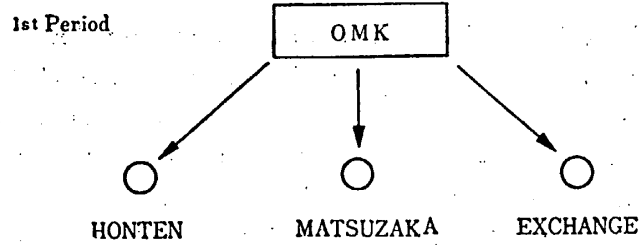
The Special Character of Industrial Capital Development in the Meiji Period.

1890–1900: After the accumulation of capital due to the Matsukata financial policy there occurred the establishment of many Japanese enterprises—railroad corporations, the cotton and spinning industry, mining, etc., which all took the

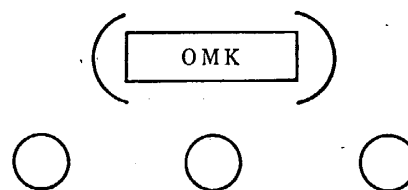
11) S. Matsumoto "The existence forms of Mitsui Oo-moto kata at the end of Tokugawa and Meiji Reform" Mitsui Bunko Ronso, pp. 13~14.

12) S. Matsumoto "The existence form of Mitsui Oo-moto kata at the end of Tokugawa and Meiji Reform," pp. 15~16.

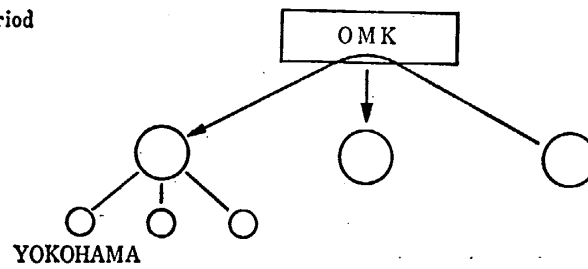
The Goyojo (order house) was formed



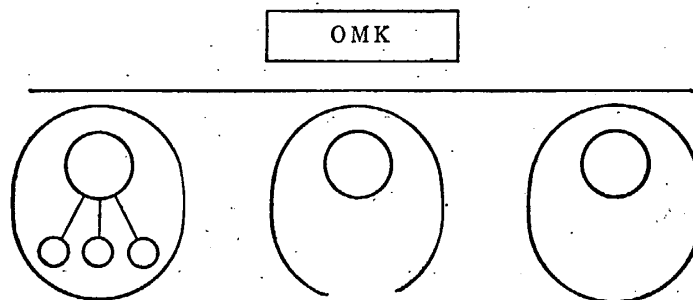
2nd Period



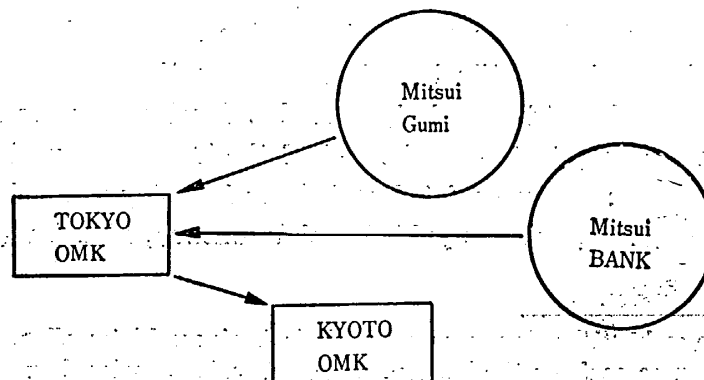
3rd Period



4th Period



5th Period



form of stock corporations. This was the establishment of the Japanese reproduction structure.

The establishment of railroad corporations was promoted from above (through government funds and government guaranteed investments). The Tokyo-Yokohama line, the Tokyo-Aomori line, and the Ryōmo line (Takasaki-Oyama) provide a strong contrast to the English example of establishing Railroads. In England the railroads were formed by textile industry capitalists who invested their accumulated funds in railroads. In Japan this was done by the government and the parasitic landlord/special manufacturer jointly, leading to the formation of private companies.¹³⁾ The Japanese cotton and spinning industry was also formed and then supported by the government, as the government model factories were transformed into private industry. At first this change of management was not very successful, but then the Osaka Spinning Corporation became very successful (managed by the local merchants and aristocracy of Osaka). Subsequently, in the period of 1886-1890, many large spinning corporations were built up, and may be viewed as a symbol of the Japanese Industrial Revolution.

In 1890 occurred the first capitalist panic, in the spinning industry. Internationally, however, the years 1890-1900 were the period of the formation of the monopolistic period (for instance, in the US and England), and after 1903 this monopolistic period was firmly established. In Japan, however, at this time industrial capitalism was only first being established, with the result that there existed *a very large gap between Japanese Industrial Capitalism and World Monopoly Capitalism*.¹⁴⁾ This gap had a great influence upon the Japanese reproduction structure. The reason for this gap is the role of the parasitic landlord system and Japanese absolutistic capitalism.

The development of Japanese capitalism was from the beginning forced from above, to which was now added the force needed to narrow this gap between Japanese capitalism and the more advanced international capitalism. But this gap was not so easy to overcome.

1) The special character of the gap, 2) the special imbalance of Japan's trade structure, 3) the establishment and history of the cotton and spinning industry (transformation of political merchant into special industrial capitalist).

Supplement to the paper on the Japanese cotton spinning and silk spooling industries, since that paper deals with foreign trade as the determining factor in the formation of the textile industry. A corrective supplement is needed since both the external *and* internal sides of this development are important.

Special manufacturing at the end of the Tokugawa period:

Cottons: There existed a clothing industry producing special Japanese goods, such as yuki (special kimono), nishijin (special kyoto cloth-

13) T. Noguchi "The Japanese capitalistic business history," p. 85.

14) The gap come from the backward system which consisted on parasitic landlord and precommercial capitalism.

ing), and Kiryu (from the Ashikaga area). This clothing industry, based in Kansai near Kyoto and in the northern districts of Tokyo, became the base of the cotton spinning industry in Meiji.

Silks: The special silk manufacture in Suwa and Gumma became the base for the development of the silk spooling industry in Meiji.

In the period 1882–1896 both industries developed. The development of both was *relatively* independent from the Japanese Zaibatsu (contrary to the “absolute independence” claimed for these industries by the rono school).

In 1896: 76 cotton spinning corporations existed.

259 silk spooling corporations

109 clothing industry corporations

The differences among these three branches of the textile industry are the following: After 1896 the structure of the cotton spinning industry advanced to that of industrial capitalism. The silk spooling industry remained characterized by special manufacture. The clothing industry was characterized partially by special manufacture, partially by small industry (that is, production by domestic handwork or primitive machines in a system called chinbata, whereby a tonya gives out material and tools to small workshops, which in turn deliver their production to the tonya).¹⁵⁾

This configuration of three branches within the textile industry with three different structures continues today in Japan.

Cotton Spinning industry (1891–1897): In 1891 the production volume surpassed the volume of imports into Japan, so the structure of the Japanese cotton spinning industry had reached the stage of industrial capitalism, but only within the domestic market. By 1897 the formation of an export industry was achieved when the export volume surpassed the import volume. Cotton flowers, which provided the material for this industry, and which were formerly produced within each province within Japan, were replaced by imported cotton flowers in the 1890's.

Thus, the cotton industry developed towards industrial capitalism, but essentially there were many internal weaknesses. For instance, the foreign market for the cotton industry was not world-wide, but was rather limited to East and South-East Asia. And the foreign market in this area required the military action of the Sino-Japanese War. Structurally, there were two main weak points of this industry:

- 1) Many of the cotton spinning machines had to be imported from England (the machine industry of Japan at that time accounted for only 10% of total production), and therefore this industry lacked an independent character.
- 2) Another weak point was the fact that the cotton industry was dependent

15) M. Fujie “The staple industries in the development of Japanese capitalism,” pp. 1~4.

upon the foreign market, since production for the domestic market was restricted by the narrowness of this market caused by the low level of wages.

This export oriented character was actually characteristic of both the cotton and the silk industries. This one-sidedness, this lack of a domestic market was the Achilles heel for both industries.

Both were a typical reflection of the beginning of Japanese capitalism in the Meiji period.

It is very important that in the beginning the origin of the Zaibatsu was not in this industry. This was due to the export orientation of this industry, which made it rather unsafe for investments due to the many fluctuations and resulting speculation. The Zaibatsu preferred mines.

Cotton spinning was characterized by its independent character from the beginning. This is especially found in the Kansai group, which was oriented to the China market because the core of this group was the cotton industry. It was the cotton textile capitalists, Sumitomo, and Sanwa, which combined to form the Kansai group, in distinction to the Tokyo group, with which there was conflict.

The changing process of industrial capital of each interest group. For the period 1890–1900 the change was from the political merchant (characterized by commerce and high rent capital) to the new industrial and banking capital.

Mitsui—had a generally conservative character, in keeping with the nature of commercial and high-rent capital. Therefore it experienced no rapid growth after the Restoration. In fact, the Mitsui bank had very difficult times, since it made many loans to commercial capitalists and the central and local governments. Therefore the Mitsui Congress wanted a new manager from outside the company (a very unusual move). They invited Mr. Nakamigawa, who was president of the Sanyo railroad in Kansai, where he was very successful, and who was a student of Fukuzawa Yukichi.

The *First Reform* of Nakamigawa entailed the transition from a commercial to an industrial policy. Nakamigawa was very progressive in a capitalist sense, and his drastic policy of capitalism was resisted within Mitsui by the more conservative elements. The industrial policy which was adopted consisted of the following elements:

1. The Mitsui bank—adjustment of the money-losing properties.
2. Adoption of unlimited partnership in the Mitsui groups, which was a new corporate form. Unlimited partnership was first applied to the bank, and then expanded to the other parts of the Mitsui group.
3. 11 branches of the Mitsui bank were closed (33–22), in the adoption of the policy of preferred (élite) branches. The limitation of the volume of deposits by the policy of preferred deposits. Adoption of selected trading between the bank and commercial capital. Limitation of the commercial bank to short-run credit (thereby maintaining high liquidity, which was important), which led to commercial profit. The result was

a typical commercial bank.

The *Second Reform*, of the marketing process, involving the Mitsuibussan. Previous to Nakamigawa the marketing process of Mitsuibussan had been characterized by speculative buying and selling. He put an end to this, and adopted the commission sale (modernization of the marketing system). The result was a transformation from the old commercial and high-rent to modern commercial capital, involving both foreign and domestic trading, within the framework of industrial capital.

The *Third Reform*, of the mining industry through a new policy of industrialization. Nakamigawa thought that for the interest groups the industrial sector was more important than the banking and trading sectors. He therefore adopted a policy of industrialization by which he accepted many government enterprises, for instance the Tomioka silk mill, Shimmachi silk thread manufacture, Maebashi cotton spinning mill. He also acquired the private firm of Tanaka Electric Manufacture, which later became Toshiba. Mitsui already had holdings within the sphere of light industry, and the acquisition of government enterprises merely added to the Mitsui holdings of light industry. But the Tanaka firm dealt with untraditional products, and therefore its nature is important in Nakamigawa's policy of industrialization. Mitsui also bought the Kanebo cotton spinning firm (the largest of its kind), which was incorporated by a relative corporation of Mitsui. The Oji paper firm was bought. And there was also the Mitsui Mining Corporation.

These are the three most important aspects of the reforms which Nakamigawa undertook at Mitsui. They had a typical capitalist character, but he was limited by the Mitsui congress, which imposed a limitation on the acquisition of heavy industry (very impt.). There arose antagonism between Nakamigawa and the other directors, who did not fully accept his industrial policy, and therefore he was forced to retire.

Nakamigawa also had a policy of reforming the organizational structure of the Mitsui group. In 1893 the Mitsui Moto-kata was revived by Nakamigawa, but in a new form:

MITSUI FAMILY CONGRESS=This body decided family policy, but also matters of business and personnel of the Mitsui groups. Given the family nature of this body it was half feudal, providing structural limits to an otherwise capitalist enterprise.

MITSUI MOTO-KATA =Within this management body were affiliated the many corporations of the Mitsui groups. The Mitsui banking corp., Mitsui Bussan, Mitsui Mining corp. (unlimited partnerships) of the Mitsui Clothing Dept. (became Mitsukoshi), Mitsui Dept. of Real

Estate, the Industrial Dept. (consisting of many relative corporations).

Thus it was a modernizing reform of the Moto-kata, but it retained a half-feudal character because of the control of the Mitsui family congress. One also finds a half-feudal character in the Dept. of Real Estate.¹⁶⁾

Yasuda (now the Fuji Bank). Its transformation was similar to the Mitsui group in general, but the details were different:

In the period of industrial capital, *Yasuda* and Mitsui supported the formation of the Japanese bank. *Yasuda* then became the agent of the Japanese Bank, for which it received various delegated powers, responsibility for foreign exchange, responsibility for bond issues, etc., while the Mitsui bank was kept to its role of supporting the Japanese bank only.

The *Yasuda* bank was a typical commercial bank and was characterized by a policy of "many branchism," by which it established many branches throughout the country,¹⁷⁾ in contrast to the Mitsui policy of limited branches.

In 1890 there occurred the first panic, during which many wholesale banks went bankrupt. These private and wholesale banks were merged into the *Yasuda* Bank. Until 1890 that Japanese wholesale banks were entirely state banks, at which time, however, almost all of the wholesale banks were changed into private wholesale banks. In 1900 the city of Osaka wanted to make a bond issue to build the Osaka seaport. Due to a panic the bond issue could not be sold. The *Yasuda* Bank accepted this bond issue, in return for which it received control of the official fund of Osaka city. Later the *Yasuda* Bank obtained the same control of the official fund of Tokyo city.

The *Yasuda* Bank was thus characterized by many branches and many mergers, by a concentration policy which entailed the merger of commercial, local, and wholesale banks. Today the role of banking constitutes just over 50% of the activity of the *Yasuda* groups. In 1890, however, *Yasuda* concentrated exclusively on banking capital, after which it gradually acquired industrial concerns.

Mitsubishi—*Mitsubishi* began from a base of industrial capital, with the *Mitsubishi* Sea Transport Corp., which later became the Japan Sea Transport Corp. This was the start of *Mitsubishi* industrial capital.

The second phase of industrial expansion began with the Nagasaki Ship Building Corporation in 1888. This undertaking stagnated for a time until the enactment of the Law to Encourage Shipping and the Sino-Japanese War, which led to increased activity for the firm and greater profits. Subsequently the Nagasaki works were expanded three times, and the Kobe Shipbuilding works were established. The third phase of *Mitsubishi's* growth is found in the establishment in 1888 of the Mining Dept. by the *Mitsubishi* Holding Corporation. In 1894

16) N. Nakai "The headquarter (honsha) history of Mitsui," *Jokan*, p. 337.

17) Edited T. Noguchi "Japanese City Bank," p. 62.

the name of the latter was changed to the Mitsubishi Limited Partnership,¹⁸⁾ which consisted of two parts, the mining dept. and the business department. The Mining Dept. consisted of the Takashima mining (coal), and various gold, silver, and copper corporations. Mitsui restricted itself to coal mining, while Mitsubishi accepted mines above and beyond coal from the government. The Business Dept. of Mitsubishi dealt with the mining products of the Mitsubishi mines. This was later changed into the Mitsubishi Trading Corporation (shoji).

In 1895 the Mitsubishi Limited Partnership built a Banking Dept., rounding out the industrial capital character of Mitsubishi. Within this Banking Dept. there were connected the Tokyo Marine Insurance Corporation, the Meiji Life Insurance Corporation, the Tokyo Warehouse. Mitsubishi also owns the land before the Tokyo railroad station.

Mitsubishi has a more organized character, by which direct control of the Mitsubishi groups is exercised by the Limited Partnership. By this mechanism the Iwasaki family exerts control, in conjunction with the director of the Mitsubishi Limited Partnership. Essentially there is family control, but formally it has the juridical character of a limited partnership.

Sumitomo—The beginning of Sumitomo is to be found in copper mining capital. It also had the "Heigo business (literally, "parallel business"), which dealt with the issue of bonds and stocks. It was this part of Sumitomo which experienced growth after the Sino-Japanese War, which had introduced a boom in which factories were built, state banks were changed to private banks, and generally there was an increased necessity of industrial credit. The Sumitomo honten (main office) managed the two parts of the Sumitomo groups, the copper mining department and the banking department.¹⁹⁾

Sumitomo is a typical industrial capital undertaking in Japan. Its beginning was in copper, with expansion into a steel factory and the coal industry, leading to the formation of its banking department—the typical industrial course from industrial to banking capital (similar to Krupp and DuPont). Today, Sumitomo is active in the chemical and metal industry.

18) Edited T. Noguchi "Japanese City Bank," p. 167.

19) Edited T. Noguchi "Japanese City Bank," p. 122.