

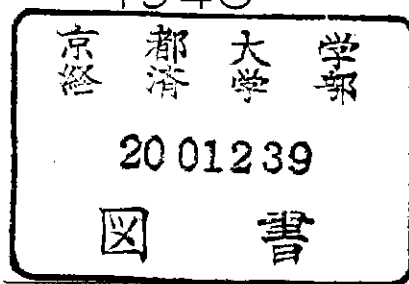
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THE DEVELOPMENT OF THE DOMESTIC MARKET IN THE EARLY YEARS OF MEIJI

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Some time ago, in an article entitled "An Outline of the Rise of Modern Capitalism in Japan",* I briefly reviewed the history of the establishment of Japanese capitalism, with special reference to the growth of various factors contributing to the formation of the capitalistic economy. In that article, little or no explanation was offered regarding the market, which constitutes the obvious pre-requisite for capitalistic production. In the present paper, therefore, I shall explain how the market, especially the domestic market, was formed, by way of supplementing the previous article.

1.

After the *Meiji* Restoration, many Government factories were established and a certain number of new private industries also saw the light of day. At this period, however, the market for the products of these Government and private factories were very limited. Manufactures were mostly absorbed by the Government or exported abroad. In the case of the Government factories, the output mostly consumed by the Government itself, the chief exceptions being cotton yarn and raw silk. Particularly limited in scope was the market for the munitions manufactured in these factories, as may easily be surmised. Nor was there much domestic demand for the goods produced by the private factories. For instance, the paper manufacturing industry owed its existence largely to the manufacture of special papers used in the preparation of title deeds and for post cards, at least down to 1877 or thereabouts, while the sulphuric acid industry exported most of its produce to China, though a certain quantity required by the Mint and by the Government Printing Office. As

* Kyoto Univ. Econ. Rev. Vol. XI. No. 1.

regards the match industry, in fairness it must be said that it owed its development to the Chinese market. As to the silk industry—which had already developed to the phase known as *Manufaktur*, or primitive mechanized production, in the closing days of the *Tokugawa* period, and which after the Restoration rapidly assumed the form of a factory industry—it is hardly necessary to say that it owed its progress to the stimulus of the foreign markets in Britain, France, United States of America and other countries. Although the domestic market for capitalistic commodities was thus very limited, in the early years of *Meiji*, it cannot be denied that it was gradually being expanded under conditions very different from those prevailing in the *Tokugawa* period.

2.

Among the factors which contributed to the development of the domestic market in the early years of the *Meiji* Era we may include the increase of population, the development of the means of transportation, the establishment of the currency system and certain changes in the mode of living. The population of the country, which was 33,000,000 in 1872, had increased to 39,000,000 by 1887, which meant an increase of about 18 per cent. in fifteen years. Such a high rate of increase was unknown throughout the *Tokugawa* period. That the development of the means of transportation played an important part in helping forward the expansion of the domestic market can be inferred from the following figures:—

Railways.

Years.	Total mileage.	Mileage per 100 square <i>ri</i> (one <i>ri</i> equals 2.44 miles)	Revenue from fares. (In ¥1,000)	Revenue from freights. (In ¥1,000)
1872	17.69	0.06	169	6
1877	64.66	0.21	779	129
1882	173.62	0.55	1,365	295
1887	624.32	2.44	1,794	727

Note. The figures are those for Government and private railways combined. No private railways existed before 1882.

Japanese Shipping.

Years.	Number of steamships.	Tonnage of steamships.	Number of sailing-ships.	Tonnage of sailing-ships.
1872	96	23,364 tons	35	8,322 tons
1877	183	49,105	75	13,648
1882	344	42,107	432	49,094
1887	486	72,322	798	60,975

Note. The figures concerning sailing-ships presumably refer only to the foreign types of sailing-vessels.

Feudal restrictions on the circulation of commodities were removed in conjunction with the development of the means of transportation, when the customs barriers set up on the borders of each clan domain were done away with, simultaneously with the abolition of the clans and the establishment of the modern prefectures. The establishment of the new currency system served the same purpose. Under the new system the coins, paper money and clan notes of multifarious kinds, forms and denominations were supplanted by an uniform currency. Nor is there any doubt that the prompt circulation of large quantities of Government and National Bank notes, under the new currency system, did much to put the nation in possession of purchasing power, in spite of the fact that they were inconvertible. As to changes which were introduced into the mode of living, it may be mentioned that Western fashions were gradually adopted not only in the daily life of Government officials and urban inhabitants but even among the rural population. In this connection, Dr. P. Mayet, an official investigator in the service of the Department of Agriculture and Commerce, observes in his work, entitled "The impoverishment of the Japanese farming class and its cure" (in Japanese language), 1893, that the character of the farmer had evidently undergone a complete alteration. "The times have, indeed, radically changed. Japan has inaugurated intercourse with foreign countries. Many things have newly come into being, while not a few customs have fallen into desuetude. The lamp has supplanted

the paper-framed night light and the match has replaced the spill. Many people are now carrying cheap watches of American make at their waists. Countrymen who come to town are frequently seen wearing red blankets in place of straw coats. In the years when farmers' incomes were bigger than they are now," he says, "cheap umbrellas were in more demand among them than Japanese umbrellas of paper. Flannel and printed calico are in good request in the provinces, etc. etc."

The above is a description of the standards of living in the years following the period of inflation from 1878 to 1881 and is chiefly applicable to farmers living in suburban districts, nevertheless the passage throws considerable light on the changes which were taking place in the mode of living of the rural population as a whole.

3.

A question which deserves special attention in connection with the formation of the domestic market is the steps by which agricultural districts, embracing some 80 per cent. of the entire population of the country, and producing not only rice—a most important product of those days—but other goods in extensive demand as daily necessities, came to provide a market for capitalistic commodities.

In order to answer this question, the fact of the conversion of agricultural products into commodities must first be pointed out. Needless to say, rice is a staple agricultural product, and in the *Tokugawa* period it was already a commodity of the greatest importance; but it was converted into a commodity chiefly through the mediation of the *Shogunate* and the feudal lords. Consequently, it did not necessarily involve the formation of an extensive market. The situation underwent a complete change after the Restoration, however, and the fundamental cause for this radical change was the revision of the land tax. With the stabilization of the State revenue chiefly in view, the Government, while converting the *denso* (田租), a tax on harvest, to a

land tax, or an impost on profits, abolished the old system, under which farmers paid their tax in rice, and adopted the new system under which the tax was payable in cash. This revision had the effect of accelerating the process of the conversion of rice into a commodity and the expansion of the market, because it compelled the farmers to change their produce into money with which to pay their taxes.

Moreover, the Government had lifted the embargo on the exports of rice. Ever since the opening of Japanese ports to foreign trade, in the era of *Ansei*, the exports of rice had been prohibited with a view to checking a rise in the price of the cereal. In the sixth year of *Meiji* (1873), however, the Government lifted this embargo in order, on the one hand, to prevent the outflow of gold and silver from the country through an encouragement of the export trade, and, on the other, to increase the incomes of farmers by forcing up the price of rice; thereby enabling them to pay their land tax regularly. It even went a step further and remitted the export duty on rice. The embargo was reimposed in May of the following year because there had been a sharp rise in the price of rice due to the Saga Rebellion and the Formosan Expedition, but it was again lifted in March 1875. Whereas the rice policy of the *Tokugawa Shogunate* had been designed chiefly with a view to keeping price down, the policy adopted by the *Meiji* Government after the Restoration was intended to force it up. The main object of this policy was to protect the interests of the farmers on whom fell the chief burden of the land tax, in those days, the principal source of the ordinary revenue of the State, through an expansion of the production of rice coupled with an increase of the incomes of the agrarian communities themselves. The marketing of the rice by the producers coupled with the increased production of the cereal and the rise in price, rapidly brought farm economy into the realm of commodity economy.

In connection with the exports of agricultural products, some mention must be made of raw silk and tea. After the

Restoration, there was a further growth in the volume of the exports of these two commodities, with the result that the monetary incomes of farmers increased and the commodity market in rural districts was considerably expanded. I shall, however, refrain from any detailed explanation of this phase of the problem, as such conditions already obtained in the closing days of the *Tokugawa Shogunate* and immediately thereafter. It will suffice to point out here that, as the exports of silk increased, the reeling process became progressively more mechanized, which in turn tended to accelerate the transformation of farmers into mere producers of cocoons. At the same time farmers were stimulated to devote themselves still more vigorously to sericulture, as the demand for other subsidiary rural occupations declined; as will be noted later.

The decline of the handicraft industry among the farmers deserves special mention. This was most marked in connection with the cotton industry. The opening of Japanese ports to foreign trade towards the end of the *Tokugawa Shogunate* was followed by the import of cheap foreign cotton goods of good quality, and these imports witnessed a steady increase after the Restoration, so much so that they gradually attained a commanding position in Japan's import trade, as will be seen from the following figures:—

Years.	Average annual imports.		Percentage of these imports to total imports.		
	Cotton fabrics (In ¥1,000)	Cotton yarn. (In ¥1,000)	Cotton fabrics, (per cent.)	Cotton yarn. (per cent.)	Total (per cent.)
1868—1872	3,631	3,607	16.02	15.91	31.93
1873—1877	5,092	3,853	19.53	14.49	34.02
1878—1882	5,125	6,982	15.71	20.79	36.50
1883—1887	2,771	6,129	8.48	18.69	27.17

Such heavy imports of cotton goods pressed hard on the domestic Japanese cotton yarn industry, in which the spinning was carried out by farm families. The following

table gives a comparison of the prices of Japanese and foreign cotton yarn per 100 *kin* (100 lbs.) in the early years of *Meiji* :—

Years	1874	1875	1876	1877	1878
Japanese cotton yarn	¥42.70	43.54	40.79	40.41	45.00
Foreign cotton yarn	¥29.66	29.94	27.42	26.86	25.46

From the above comparison of prices it will be seen that it was absolutely impossible for Japanese cotton yarns to compete with imported cotton yarns. Although it appears that the weaving industry did not suffer so severe a blow as the spinning industry, it is easy to imagine the process by which the pressure of imported cotton yarns and the development of the weaving industry in urban districts gradually deprived Japanese farm families of this branch of the industry as well.

Among the various new industries which sprang up in this country after the Restoration, the Government extended special protection and encouragement to the mechanized cotton spinning industry, especially after 1878. Not only did the Government establish a "model" spinning factory, but it loaned spinning machines or the funds for the purchase of such machines to private interests. In taking these steps, the Government was prompted by the desire to check the import of cotton cloths and yarns. Due to this policy and to certain other factors favourable to the development of the cotton industry, cotton spinning made good progress in this period. The later eighties were especially noteworthy for the establishment of many large spinning firms. The vigorous growth of the cotton industry, however, proved just as severe a blow to the spinning and weaving which farmers had adopted as a subsidiary occupation, as the previous heavy importation of foreign cotton goods.

Accurate figures are not available regarding the amount of cotton goods produced by farmers, but the fact that this particular subsidiary occupation had practically disappeared

in rural districts by the outbreak of the Sino-Japanese War in 1894 shows at how rapid a pace the importation of foreign cotton goods and the development of the mechanized spinning industry in this country had deprived farmers of this important subsidiary industry. In short, the decline of the rural subsidiary cotton industry aided the formation of the market for the capitalistic spinning industry, quickened, in the first instance, by the importation of foreign goods and subsequently still further expedited by the development of the spinning industry in this country.

The above-mentioned developments led to a decline in cotton planting. This decline, however, was quickly checked by the Government which, in an effort to secure self-sufficiency in raw cotton, gave the cotton growers the necessary guidance in the matter of improving seeds and ginning processes. It also held a Cotton and Sugar Exhibition in 1880 by way of stimulating progress in the cotton growing and the sugar manufacturing industries. This policy of encouragement met with a favourable response from the farmers and there was yearly increase in the output of raw cotton until, in 1887, the area under cotton cultivation reached 88,000 *cho* (one *cho* being 2.45 acres), and the total cotton production amounted to 39,928,000 lbs. Later, however, as the Japanese spinning industry, which had made rapid progress in the meantime, began to make more extensive use of Chinese raw cotton, the domestic cultivation of cotton gradually declined. Describing the circumstances which caused the farmers to abandon the cultivation of the cotton crop, "An Inquiry Concerning Raw Cotton," compiled by the Agricultural Affairs Bureau of the Department of Agriculture and Commerce, makes the following observation:—

"With the progress of the Japanese spinning industry, there was a steady increase in the imports of foreign raw cotton. As Japanese raw cotton was far inferior to imported raw cotton in quality, its cultivation was exposed to serious risks, especially because its price did not rise proportionately to the advance in the prices of other commodities and also in wages, with the result that growers could no longer hope to make up for a decline

in output in lean years by higher prices, which was possible when there had been no importation of foreign raw cotton. On the other hand, as the cultivation of sweet potatoes, upland rice and vegetables had become more profitable than before, due to the increase of population and an improvement in the general condition of living, farmers began to give up the cotton crop in favour of other more profitable crops. This tendency became especially marked after 1887."

The heavy imports of sugar also, a commodity which held a position next in importance to cotton goods in Japan's import trade in the early years of *Meiji*, dealt a severe blow to the Japanese sugar industry. For example, the sugar manufacturing industry of the province of *Sanuki, Shikoku*, which at one time prospered to such an extent that it was regarded as the most profitable subsidiary occupation of the local farmers, went into decline after 1878—1879. Furthermore, a rapid increase in the imports of petroleum, mainly used for lighting purposes in those days, caused a diminution in the demand for candles and rape-seed oil which had heretofore been widely used for this purpose. All this, no doubt, affected farm economy seriously. As the number of newspapers and magazines published in this country increased after the Saigo Rebellion, the demand for paper grew, stimulating the development of the mechanized paper manufacturing industry in this country. The development of this industry, needless to say, wrought havoc among the farmers who had been carrying on a primitive form of paper making as a subsidiary occupation.

Another fact which deserves mention in connection with the decline in farmers' subsidiary occupations is that coincident with the reform of the land system, a clear line of distinction was drawn between Government-owned and private forest lands, so that the utilization of forests by farmers was ruthlessly curtailed. Under the *Tokugawa Shogunate*, farmers were allowed to utilize the forests owned by the *Shogunate* and clans either on the payment of small tolls or without any compensation at all. On the abolition of clans, however, these forests passed into the ownership of the Government. All other forests which had formerly been

freely used by private individuals were now also incorporated among the Government-owned forest lands, irrespective of past usage, unless conclusive evidence could be produced to establish private ownership. In this way, farmers were deprived of the usufruct of fairly extensive areas of forest lands. Needless to say, the utilization of forests was one of the essential factors in maintaining farm economy on a basis of self-sufficiency. For example, the grass growing in forest areas and the fallen leaves from the forests supplied fodder for cattle and contributed to the farmers' supply of fertilizer, while wood and dead branches were their fuel. Implements used for productive work and utensils for daily use also made chiefly of wood. The farmers who had been deprived of their main sources for these supplies perforce became purchasers in the market. This circumstance still further contributed to the gradual transformation of farm economy into commodity economy. It is true that a few kinds of fertilizer applied to agricultural production, such as that made from dried sardines, were already in the market in the *Tokugawa* period, so that it may not be quite correct to say that the loss of the usufruct of forests on the part of farmers led directly to the speedy formation of the domestic market. When it is remembered, however, that the oil manufacturing industry, which had as a subsidiary the manufacture of fertilizers such as superphosphate and oil-cake, was initiated about 1887, it may not be altogether improper to conclude that the farmers' loss of the usufruct referred to, coupled with the progress of scientific farming, helped to contribute to the creation of a domestic market for the oil-manufacturing industry.

In short, the marketing of rice, the principal agricultural product, by the producers and the increase in the exports of raw silk and tea had the effect of providing farmers with purchasing power. On the other hand, the decline of certain types of subsidiary occupation, handicraft work in particular, and the loss of the usufruct of forest lands wrought havoc with a farm economy based on self-sufficiency and reduced

the rural population to the position of purchasers in the domestic market. This, combined with the other factors already mentioned, caused farm economy to become enmeshed in the toils of currency economy and commodity economy to an extent incomparably greater than in the previous age. In this sense, the formation and expansion of the domestic market may be said to have been accelerated. It was about the year 1887, when the financial world structure had reached stability on the completion of the adjustment of paper money that this state of affairs manifested itself most markedly. It is interesting to note that this tendency synchronizes with a period of rapid development in Japanese capitalistic industry.

4.

So far, I have described the circumstances under which the domestic market was established in the formative period of Japanese capitalism, viz., up to the year 1887 or thereabouts. It is not correct to assume, however, that the foundations of a market extensive enough to ensure the future development of our capitalistic industry were then completely laid. Indeed, it is on record that when a panic overtook the Japanese industrial world in 1890, the spinning industry had to seek a new market in China to tide over the crisis. That is to say, although the domestic market had developed a good deal, it was still not large enough. Some further observations on this point may not be out of order.

To begin with, in consequence of the revision of the land tax provision, a new situation developed in which rice was put on the market by the producers themselves. However, as their tax assessment absorbed a large portion of the proceeds, agriculture in the hands of individual farmers being on a small scale, they were left with no substantial purchasing power. Moreover, as the land tax had to be paid between November and April of the following year, which roughly coincided with the marketing season for new rice, and also because the means of transportation and financing

were still comparatively undeveloped, farmers had to sell their rice at a certain disadvantage; this circumstance operating to reduce still further their purchasing power. To quote from the "History of the Regulation of the Price of Rice in the *Meiji* Era":—

"Whereas the Government derived much benefit from the new system under which the land tax was collected in cash—because it not only enabled the Government to make sure of its revenue but it reduced the expenses involved in the collection of the tax—it added to the inconveniences and risks of the tax payers generally, because they had to exchange their produce into money in paying their tax. Farmers obviously experienced considerable difficulty as they had to sell their produce in the districts where it was produced, seeing that neither the means of transportation nor banking organs were as yet adequately developed. Under such circumstances they naturally could not get good prices for their produce. To make matters worse, the date for the payment of the land tax, which closely followed the harvest season, synchronized with the time for the settlement of all outstanding accounts among the people. Even where they did not so synchronize, farmers still had to sell their produce at a great disadvantage. They could put up with these disadvantages, if the price of rice remained sufficiently high, but they suffered incalculable losses when the price was low, whatever the reason. To pay a fixed amount of tax in cash even when the price of rice was low was, for all practical purposes, tantamount to paying a higher tax. The grievances which they felt in such adverse circumstances were probably particularly acute in the years immediately following the alteration of the method of tax payment. It is also understandable why the *Meiji* Government was bitterly charged with extortion by these aggrieved farmers."

As will be seen from the above quotation, various disadvantages attendant on the sale of rice were not so keenly felt when the price of rice was high. In the period of inflation covering the four years following the Saigo Rebellion (1877), not only did a high price of rice fully compensate farmers for these disadvantages but they were even able to acquire substantial purchasing power, which in turn enabled them to elevate their standards of living. When, however, there ensued a disastrous fall in the price of rice subsequent to the year 1881, in consequence of the adjustment of paper money, all the unfavourable factors conspired to make the lot of the agrarian communities particularly hard.

Concerning the purchasing power possessed by farmers

in this period, Dr. P. Mayet calculates that the annual income per family of the farmers, who constituted nearly half the population of Japan, namely, about 20,000,000 people, comprising some 4,000,000 households, averaged between ¥ 30 and ¥ 40. Even if the income from their subsidiary occupations was added, he says, the average annual income per family lay between ¥ 44 and ¥ 62 for tenant farmers and between ¥ 54 and ¥ 59 for yeomen farmers already burdened with debt.

Secondly, it should be pointed out that class differentiation, in the sense of the creation of a proletarian labouring class in agrarian districts, developed only by slow degrees. This is ascribable to the fact that agricultural management in this country is on a small scale, due to certain peculiarities in regard to the nature of the crops grown, the methods of cultivation employed and certain topographical condition; and consequently the growth of this type of class differentiation cannot be regarded as a phenomenon peculiar to the formative period of capitalistic economy. Nevertheless the phenomenon was sufficiently noteworthy, because throughout their formative period the mechanized industries had not yet become so fully developed as to absorb the agricultural proletarians. In the period of inflation to which reference has already been made, part of the surplus income of farmers was devoted to the elevation of their standards of living, part was diverted to banking and other urban industries and the balance was employed to increasing their holdings of arable land. Some went to the length of borrowing money in order to purchase new land. There was, at this time, quite a mania for the acquisition of more arable land. Under these circumstances, when once depression set in in the deflation period that followed, the merger and concentration of rice lands took place on a large scale, with the result that the number of big landlords and the number of indigent farmers witnessed a marked increase. The concentration of land in the hands of big landlords did not, however, mean the development of capitalistic management in agriculture.

Further, as the capitalistic industries themselves were still in an undeveloped state, as already noted, most farmers who had lost their lands remained in the villages as tenant farmers.

Whereas wage-earning labourers, who possess neither the sources of livelihood nor the means of production, spend their earnings on capitalistic commodities, tenant farmers who possess some of the sources of livelihood and certain productive media and who, besides, carry on various kinds of subsidiary industry, spend comparatively little in the purchase of commodities, especially as they get along with very little in the way of money. This circumstance also tended to impede the formation and expansion of the domestic market in the early years of *Meiji*.

5.

To sum up, the development of the domestic market for capitalized commodities was accelerated by the reform of the tax system, the decline of rural subsidiary occupations and certain other circumstances which developed subsequent to the Restoration. On the other hand, however, there existed other circumstances which tended to retard the development of purchasing power among the farmers. These circumstances did not, of course, entirely check the development of the domestic market, as can easily be inferred from the fact that the country's population, which was stationary in the *Tokugawa* period, showed a tendency to increase after the Restoration. If farmers increased their incomes to any appreciable extent so that they could purchase capitalistic commodities and elevate their standards of living throughout the period under review, this must be presumed to be due to the progress made in sericulture and in the cultivation of tea plants, vegetables, etc. In fact, the farmers in those days devoted great energy to these subsidiary occupations. From the citation made from "An Inquiry Concerning Raw Cotton" it will be seen how farmers came to prefer the cultivation of vegetables to the planting of cotton. Farmers in

those days could not earn enough to live on through the pursuit of their chief agricultural function. They were obliged to engage in some form of subsidiary industry as well.

The formation of the domestic market was stimulated in the manner described in the early years of *Meiji*, but as there also existed certain obstacles which interfered with its full development, it may be said that the domestic market was not yet extensive enough to keep abreast of the progress of capitalistic production. It was natural, in these circumstances, that capitalistic industrialists should begin to direct their attention to the development of foreign markets. The efforts to open up new markets abroad were not altogether lacking before 1887, but it was after that year, which witnessed such rapid progress among the capitalistic industries, that really earnest efforts were put forth in this direction.