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The Problem of the Modernization of Japan

Fatal Errors Newly Uncovered in Keynesian Theory

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THE PROBLEM OF THE MODERNIZATION OF JAPAN

By Yasuzō HORIE*

1. Japanese Studies in the United States

From the beginning of April through the end of June last year, I travelled around various parts of the United States and visited many universities. The common question asked me by many people whom I met there was, "Why and how did Japan alone emerge as a modernized and an industrialized country among the underdeveloped countries in East Asia, when it came into contact with western civilized countries in the middle of the nineteenth century? This question points up their wish to see if there is anything they can learn from the past experiences of Japan for the modernization of the South-Eastern Asiatic nations that are still lagging behind. With this purpose, the problem of the modernization of Japan has come to be taken up more actively since President Truman's Point Four Program. One of the principal subjects of Dr. W. W. Lockwood's "Economic Development of Japan, Growth and Structural Change, 1868-1938" which was published in the end of 1954 is to be found here, and the book is one of the most noteworthy examples of present Japanese studies in the United States.

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Japanese studies in the United States were not given any more importance than as a part of Asia or an appendix to Chinese studies before the war, but the situation has greatly changed since the war. The number of professors who teach the history of Japanese civilization exceeds probably that of professors who teach American history in Japan, and I have met many Ph.D. candidates who were studying some themes of Japanese history. It indicates that Japanese history has begun to be recognized for its individuality and also to be studied in its place in world history. Thus, one of the problems they have taken up was the one which was presented to me in a form of the question above-mentioned. Of course, the way in which the problem was put is very practical. Scholars investigate theoretically and historically while government officials examine from the viewpoint of policy making, and this is one of the characteristics of scholarly pursuits in the United States. So, I feel keenly that this American approach differs very much from the way we handle the problem of the modernization of Japan in our country. In Japan it is studied in comparison with the advanced nations in Europe and America while in the United States it is studied chiefly in comparison with the backward nations in South-East Asia. In Japan the aspects of backwardness: feudalism, absolutism and the like, are taken up as the main themes while in the United States the modernism itself is taken up as the main theme.

When I was asked the question, I could not evade it, saying "I don't know". However, I could not give any proper answer even to my satisfaction, much less that of any questioner. Since then, but without success, I have been trying hard to formulate an answer with which foreign scholars may be satisfied. What I am going to write here does not go a step farther than the answer I gave to Americans, and I sincerely ask the forgiveness of Prof. Nomura and my readers for taking precious space in this valuable collection of essays for such an imperfect one as mine.

2. Modernization and Nationalism

Should Japan have had to start her modernization only after the twentieth century began, no doubt she would have been obliged to nationalize her industry on a large scale, with much emphasis laid upon heavy and power industries just as the U.S.S.R. and its satellites did, so marvellous have been the technological and managerial advancements attained since the beginning of the twentieth century, particularly after

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1) The Japanese original of this article is appeared in the "Hokensetsu to Shihonnei" (Feudalism and Capitalism), 1956, which was dedicated to Dr. K. Nomura for the sixty-first anniversary of his birth.
World War I. One of the forces which made the adoption of this formula possible was in the countries where it was attempted the fervent racialism or nationalism and the strong national unity brought about under these standards, and this force was necessary to some extent in the case of modernization in the nineteenth century as well. As it is properly said that the modernization of Japan, and especially the capitalization of the economy, was mainly dependent upon the protection, guidance and upbringing of the government, it may not be denied that the nationalism symbolized by the modernization policy of the Meiji government played a great role in the modernization of Japan.

This has been expounded by many people, and I myself once stated regarding the economic policy in the early half of the Meiji period that it was systematized upon the pivot of the foreign trade policy aiming at the recovery of the balance of trade, that it was a system of national unity, and that it was a system of national power.\(^2\) We have to turn to the teachings of the scholars of Oriental history to find whether in the middle of the nineteenth century there was in other Eastern nations a kind of nationalism embodied in an economic policy which can be called Mercantilism or of what nature it was if it ever existed, but we may safely assume that it could not properly be called Mercantilism.

Now, the historical derivation of this nationalism and the course of its manifestation should be considered. I once observed that for the historical derivation of our nationalism, we need to look at the traditional family structure of our national life.\(^3\) As to the course of its manifestation, it is necessary to take a glance at the structure of feudal society in the Tokugawa period and the anti-foreign movement in the closing days of the shogunate.

The whole society of Japan in the Tokugawa period was unified, politically, in such a form that feudal lords, while basing themselves in their own domains and preserving their independence, still obeyed the edicts of the shogun. The shogun and feudal lords as well as most vassals had left behind them their primary role as large landowners, and particularly vassals came to assume the bureaucratic nature although they chiefly depended upon their stipend for their living. Economically, a nation-wide economy, including and transcending the local economy of the feudal lords, had already been established, centered in large com-

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2) "Foreign Trade Policy in the Early Meiji Era." (Kyoto Univ. Econ. Rev., Vol. XXII. No. 2.)
3) "The Life Structure of the Japanese People in its Historical Aspects." (op. cit., Vol. XXI. No. 1.)
mercial cities located in the shogun's domain, forming the economic foundation of the political structure. A political and economic structure of this type could be easily transformed into the unity of a modern state. If Japan had a social structure similar to that of the China or the India of the time, in which the ruling class was a rich, bureaucratic nobility with wealth from land or usury and a greater part of the people was poor and had no connection on a national scale with the rulers, nationalism would not have easily risen in our country. The study of Japanese classical literature (kokugaku) made its appearance as a criticism of the military government, but it must be recognized that the motivation for the acceptance of this ideological movement had been prepared within the feudalistic social structure itself.

The coming of Western civilized nations to Japan offered the greatest opportunity to the manifestation of nationalism, and soon Japan was to be unified as a modern state shaped by the Meiji Reform. The most effective slogan in overthrowing the shogunate government was anti-foreign (jōi), and the anti-shogunate forces fused together by this slogan came to occupy the central position in the Meiji government. This anti-foreignism was losing its essence at least in the two big clans of Satsuma and Chōshū after the Satsuma-English War in the third year of Bunkyu (1863) and the Shimonoseki Incident in the following year. In adopting the opening of the country as the national policy, the Meiji government followed the policy of the shogunate government. Now, the question remains, what happened to the anti-foreignism?

To conclude that the idea or the movement of enlightenment and civilization in the early years of Meiji is a progressive form of the anti-foreignism may be open to the criticism of pushing the argument to its extreme, but it is quite possible to find the idea of anti-foreignism in the motives which urged the Japanese to communicate with foreign countries and to introduce modern culture. Jō Niijima, a typical Japanese nationalist who became a Christian, observed that one who wants to resist alien ideas and religion should thrust himself into its bosom and make its weapon his own. Hiroyuki Kato argues in his “Dialogue About Trade” (Koeki Mondo) that if foreign countries intend to conquer Japan, Japan must all the more do its best in importing modern conveniences through trade and in producing them in Japan as well.

5) Meiji Bunka Zenshū (Collected Materials on the Cultural History in the Meiji Era), Bk. IX.
Of course, the meaning of the anti-foreignism after the Meiji Restoration was no longer in driving foreign enemies away, but in an effort to have equal strength with advanced foreign powers and to stand on an equal footing with them. Nevertheless, she was entirely different in her enthusiasm, for example, from China around the time of the T’ung-chih Restoration (1860s), when the Chinese reformers tried to introduce European civilization only on a convenience-profit basis. For this, of course, we have to take into consideration at the same time the imitative nature of the Japanese people to which I shall refer later, but still we must see that anti-foreign spirit in the special meaning already cited was a motive power of the modernization policy or movement and played a great role in bringing nationalism into effect.

3. Middle Class

The crux of the problem of modernization reduced itself to the problem of the modernization of the economy from a feudal one to a capitalistic one. Once taken up by Mr. Shisō Hattori, this problem was explained thus: the early realization of Japan’s modernization was made possible only because Japan in the closing days of the shogunate had arrived already at the stage of Manufaktur in the strict meaning of the term. Later an effort was made to find a bearer of industrial capital in the producing middle class as opposed to the commercial capitalist on the assumption that commercial capital has its own rule of being untransformable directly into industrial capital. Today, there appears a trend to go a step forward to find the central power of the Meiji Restoration as well as liberal popular rights movement in the gentry class, but at the same time it appears that the problem of the bearer of industrial capital is passing out of the memory of the world. It is perhaps justifiable to say that it appears that the treatment of the problems revolving about the Meiji Restoration have shifted from economic to political, and from modernization to feudalism. Nevertheless, we cannot conclude from this that the problem of economic modernization has already been solved.

The writer lacks the conviction required to hand down a judgement as to whether commercial capital has its own rule of being untransformable directly into industrial capital or whether the bearer of modern industry should necessarily be found in the yeoman or gentry. But in thinking of where the industrial capitalist actually came from, the existence of the middle class endowed with business spirit in its broad sense is more important than whether he was a merchant or a farmer. To put it the other

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way around, in those countries where there existed no such middle class (Oriental countries are the classic types), that is, in those countries which retained a national structure of an ancient type until recent times and whose population was divided into two separate classes, the rich patricians and the poor plebeians, the capitalistic system has been most difficult to establish with their own capital. As an important condition for the establishment of a capitalistic system, the factor of the stability of the political and social order must be taken into consideration. This is because the system requires the long-term fixation of capital. The factor of stability determines whether people prefer holding wealth, on the one hand, in money form or in the form of jewels and precious metals or wasting their wealth unproductively, or, on the other hand, investing that wealth willingly in fixed productive equipment.

In discussing the Tokugawa period, it is often said that the discrepancy between the rich and the poor augmented as time went on. The limitation of population, peasant uprising in rural districts and the wrecking agitations in urban districts are seized upon as manifestations of a widening gap. But on the other hand, such statements indicating that tile roofing was replacing straw thatching and deplored the fact that peasants were beginning to use paper cords instead of straws for tying the hair are often found in the economic literature of those times. Also, the proportion of tenant farmers was much higher in the Meiji period than in the late Tokugawa. To see whether the discrepancy between the rich and the poor grew so much that the feudal society could no longer be supported, we have to examine the distribution of income and its trends in the Tokugawa period, but it is no easy task. It might be suggested here that the consciousness of a low standard of living was more a source of discontent than an actual decrease in the standard of living of the lower classes. We can say that the separation of the two classes was probably not as great as in China or in India, and that the wealth was not concentrated in the hands of the rulers. The financial indigence of the shogunate government and feudal lords testifies to this.

It was the merchants who accumulated wealth and grasped economic power. Some of them established relations of mutual interest with political powers as purveyors or financial agents. Usually the merchant was regarded as a necessary evil. Those of them who accumulated enormous wealth had often their wealth confiscated on some pretext or other. Despite this, the feudal social structure could not have been maintained without the merchant class, where the money economy had advanced to the point that commercial goods were circulating throughout the country. Here is the
very special characteristic of the feudal society of the Tokugawa period. And the rise of the merchant class in such a form meant the advent of the bourgeoisie. Even among well-to-do farmers, there appeared some who should be counted in this group.

The capital accumulated by these early capitalists was not necessarily invested totally in modern type of industries immediately after the Meiji Restoration much less so in the Tokugawa Period, but it played an important role as an accumulation of capital essential for the modernization of the economy.

After the Meiji Restoration, a new factor was added to this. That was the delivery of capitalized pension bonds and hereditary pension bonds to the former court nobility, feudal lords and samurai in indemnification for the stipend to be received by them in the future. These would primarily be assigned for consumption, but the national government not only encouraged their use to set up business enterprises, but also provided a clever system to guide them in the direction of capital investment. That was the revision of the National Bank Act in the ninth year of Meiji (1876), a measure corresponding to the enactment of the Hereditary Pension Bonds Floatation Act. Of the more than forty-two million yen of total shares of the one hundred and fifty three new national banks, the holdings of the peerage (mostly former daimyo) and samurai amounted to seventy six per cent. This shows what an important role capital given out in the form of bonds played in the establishment of modern banks. Not only that, its contribution to productive capital must have been greater since a bank reserve for payment rate of 100 per cent is unthinkable, and no consumption loans were made.

Thus, in the course of the disposition of the stipend system, a new middle class composed of originally privileged classes was created. Particularly they wanted to choose those fields that the old merchants left untouched if they had to plunge into the economic world. It is the manifestation of this tendency that in the early years of Meiji those who launched out into modern industrial enterprises, adopted a new form of enterprise (the company system) and set their hearts on acquiring Western learning and practical science were mostly samurai.

Of course, there appeared many people among the merchants and farmers who aspired to invest in modern industries. Especially farmers participated in modern industries by investing in shares or in some other forms as the market economy of the agricultural industry was greatly promoted by the revision of the land tax and the opportunities of gain were increased on the whole by the progress of the silkreeling industry. We cannot deny
that governmental protection and guidance played a great role in modernizing the Japanese economy, but we must attach much importance as well to the fact that there were many among the people who shouldered the "entrepreneurial responsibility". It is Prof. Lockwood above referred to who emphasizes very strongly the role of the latter, and I cannot but agree with his view.

4. Opportunities of Investment

Among the opportunities of investment for this middle class, the first was the modernization policy of the national government. The government set an example by managing factories and mines under its control, it imported machines and sold as well as lent them, and thereby encouraged private investment, and, as in the revision of national bank system referred to above, it induced non-governmental investment by changes in system. I think this point needs no elaboration. To effect this modernization policy, the government sometimes introduced foreign capital as a source of funds (as was the case with the construction of railroads), but most of the funds were raised within the country: for example, it made outlays out of the tax revenues or floated industrial loans. It was significant that they absorbed the funds which otherwise would probably have gone into consumption and directed them into modern industry in an intensive manner. For the first ten years of Meiji when the land tax revenue was not satisfactory, the government dared to issue large quantities of inconvertible notes for investment in new industries.

The issuance of inconvertible notes is an unavoidable measure at a stage of poor capital accumulation and cannot be called a sound policy. However, in the early years of Meiji, the issuance by the national government of a colossal sum of inconvertible notes for various purposes resulted in the unintentional encouragement of investment of non-governmental capital in industry. This created a second opportunity of investment, effected through paper-money inflation. The inflationary tendency in the early years of Meiji increased gradually at first, but started to rise rapidly from the tenth year of Meiji (1877), with the Saigo Rebellion marking the turning point. It was caused by the war expenditure, and was accelerated by the rapid proliferation of the national banks and their creation of credit. Prices jumped and imports increased. The supply of goods and money were in a state of unbalance, consumption was relatively restrained (forced saving) and the proportion which could go into investment was relatively increased. Actually in rural districts, which were affected most favorably in this inflationary period, consumption became brisk, and at the same
time investment in land in the form of expanding arable holdings became active. Being influenced by rural prosperity, investment in production became vigorous in urban districts, too. The point I want to take up here is the effect of the inflation upon the modernization of the economy. And this is not confined to the inflationary period when inconvertible notes were issued. In the process of completion of the redemption of the paper currency began in 1881, the economic world experienced for a few years a serious deflation. But, during about ten years thereafter till the time of the Shino-Japanese War, Japanese economy was continuously in a kind of inflationary condition, in which its modernization was placed on a secure foundation. The cause of the inflationary condition was a gradual fall in the value of silver, which was accompanied by a favorable balance of trade for successive years. That is, the favorable balance of trade was accompanied, in turn, by an inflow of gold and silver or an increased issue of bank notes equivalent to the excess of exports.

It is true, as we have seen, that in the period of paper currency inflation, the revision of the land tax and an increase in cash income of farmers due to higher prices took place. Also, the spurt in industrial investment after the redemption of the paper currency was accelerated by an increase in savings, a fall in money rates and other favorable factors brought about by the deflation. And we must attach importance to the fact that, on the whole, an increase in prospective yield due to market expansion induced investment. However, the Japanese economy, originally hindered by poor capital accumulation and an extremely narrow market, rapidly strode forward on the road to modernization. This was almost without depending upon foreign capital in the first half of Meiji. Does not the question of how this was done require an empirical study of the effect of the inflation which was making itself felt throughout the period?

5. Rational Spirit and Imitative Attitude

For this inflation effect to be realized, a large middle class becomes a necessary premise. There is another requirement, however; a rational spirit must be developing among the middle class. In our country, peace was maintained under the feudalistic social order for two centuries and a half in the Tokugawa period. Although the market was limited within the confines of the country, a rational spirit developed in the process of the growth of the money economy. Speaking of the money economy copper coins were the principal money in China until the Ch'ing dynasty while gold and silver coins had become the principal money in our country. Here we find already a problem which requires a comparative study. Also, credit
transactions had a considerable development in our country. Particularly in Osaka, the commercial center of those days, it was not uncommon for merchants to maintain current accounts with exchange brokers, and the transactions among merchants were mostly carried out with bills. Bills of exchange were often used for transactions between distant places, remarkably so in the dealings between Edo and Osaka.

Under such circumstances, a rational spirit already had developed in the Tokugawa period. As Dr. Nomura says, "A long continuance of peace fostered internal trade, and as early as about the time of Kannon (around the middle of the 17th century) the idea that 'in human affairs, it is a world of money' began to appear very strongly. The tendency of valuing everything in gold and silver became much stronger in the latter half of the period. It is obvious that this helped to develop the idea of reckoning by numbers." Here, the word "rational" is used to mean such tendencies as counting, valuing everything in money or other worldly considerations. It could be compared to the rationalism of pre-puritanism. The development of such an idea, however, has been an essential factor in the history of capitalism in any country. For instance, the general tendency in Europe in the latter half of the mediaeval ages for feudal lords and farmers as well to consider land or agricultural industry as a source of money gain rather than a source of provisions must be taken as an essential factor for the development of capitalism there.

In the case of our country, particular attention must be paid to the fact that in the Tokugawa period, especially in its latter half, monopolization of local products or other measures appropriate to a money economy were adopted for the reestablishment of the feudal economy of the clans, and many samurai participated in that program. Among them were upper and lower samurai as well who handled the finances of daimyō. In carrying out this program, they had inevitably to enter into very close relations with merchants in the castle-towns or in commercial centers. The amalgamation of social status of samurai and merchants was not attributable to the matrimonial alliances between members of the two classes alone. Rather, it is more important in considering the modernization of Japan that, although it no doubt had limits, a mercenary spirit or rationalism in the sense of dealing with the money economy was fostered among samurai.

Confucianism as well as the movement in Japanese classical literature studies (kokugaku) showed their rational side, and the foundation for accepting Western learning or ideas based upon modern rationalism was being

7) Meiji Bunka-shi (Cultural History of Meiji), Bk. V., pp. 455, 462.
gradually solidified. Western learning which had been introduced steadily since the removal of the embargo upon foreign books by Yoshimune (8th Shogun, 1715–1745) suddenly became very popular in the closing days of the shogunate. The Foreign Book Study Center (Bansho Shirabe-sho) was opened by the Bakufu in the second year of Ansei (1855), and the study of Western learning and technical knowledge became very active among feudal clans, too. Depending solely upon translations, in several of the clans, they even succeeded, for example, in constructing steam engines.

Among the brains of the new Meiji government, people from powerful feudal clans who were more or less awakened to rationalism were predominant. Among lower government officials, former retainers of the shogunate who had studied at the Foreign Book Study Center were included and did unobtrusive but useful jobs. There is no need to enter into details about the leading roles played by intellectuals of this kind either in the realm of ideas or in business circles in the non-governmental world. The method adopted for modernization was the imitation of European modern civilization based upon rationalism, including the transplantation of foreign technical knowledge and practice.

6. Conclusion

This short paper has been a rough sketch of the modernization of
Japan, with emphasis on important factors for the development of a capitalist economy from a feudal economy. Among them we have taken up anew some points which are by now hackneyed and unnoticed: nationalism, rational spirit and imitative attitude toward foreign culture. We have done this because we believe that in considering the modernization of Japan in comparison with other backward nations, these things must be taken up by all means, and that the development of a capitalist economy as a historical fact cannot be explained fully within the single frame of economy or social classes, or by laws of progress.

From this viewpoint, it becomes more important for the study of the modernization of Japan to look into the Tokugawa period, particularly the modernizing tendency in that period, because in the comparative study of modernization with advanced nations, not to speak of the comparative study with backward nations, it is most important to study comparatively the social structure of the pre-modern stage. We usually call the age or stage preceding capitalism the feudal age. However, it is open to question whether the Eastern nations in the middle of the nineteenth century lived in a feudal age, or an age which had at least a feudal social structure of the same quality as the feudal society of Europe or Japan. Also, there is no reason to believe that the feudal system of the Tokugawa period and that of Europe in the mediaeval ages were the same.

Besides, we have touched hypothetically on the effect of inflation upon the development of modern industries in the first half of Meiji. A factual examination is required to see whether it is correct or not, but the reason why we have made such a hypothesis is our belief that to see the development of capitalist economy, it is necessary to make use of modern economic theory. From this viewpoint, in discussing the Tokugawa period, it may also be necessary, if we admit that the period was immediately followed by the capitalist age of Meiji, to reexamine whether it was an age when the discrepancy between the rich and the poor or the gap between the intellectuals and the ignorant was increasing.