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## CONTENTS

- The Role of the *Ie* (家—House)  
in the Economic Modernization  
of Japan** *Yasuzo HORIE* 1
- The Characteristics of  
Labour-Management Relations  
in Japan and Their Historical  
Formation (2)** *Eitaro KISHIMOTO* 17
- Social Overhead Capital and  
Public Finance** *Jun IKEGAMI* 39
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**THE ROLE OF THE *IE* (家—HOUSE)  
IN THE ECONOMIC MODERNIZATION OF JAPAN**

*By* Yasuzo HORIE \*

**I Origins of the Corporate Form of Business**

Professor Harbison begins his chapter on management in Japan as follows :<sup>1)</sup>

The prime movers in Japan's industrialization were neither a rising middle class as in the West nor a group of revolutionary intellectuals as in the Soviet Union. They sprang from a dynastic elite which first was dependent on the leadership and later the strong backing and all-out protection of the state. Modern Japanese industrialism clearly bears the imprint of this ancestry. The management of large enterprise is still based upon feudalistic paternalism, and the social stratification of the managerial hierarchy and the labor force is as rigid as any in the world ..... Managerial concepts and practices, which are rapidly becoming obsolete in the Western capitalist countries, still appears to be effective. Indeed, one is tempted to conclude that the traditional Japanese culture, instead of being swept aside by industrialism, has assimilated it. Modern machinery and processes have become the instruments rather than the destroyers of a traditional social order. Here may be one explanation, at least, for rapidity and relative ease of Japan's partial but spectacular transformation from an agrarian to an industrial economy.

Further on he continues :

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1) Harbison, F. and C. A. Myers, *Management in the Industrial World*, N. Y., 1959, pp. 249ff.

..... Obviously, it is *organization* and *management*, rather than abundance of raw materials or capital, which have been major determinants and have enabled Japan to rise above the world's underdeveloped countries. ...., her successful economic growth is singularly attributable to a remarkable development of human resources in general and high-talent manpower in particular."

In the same chapter the author deals with the system of lifetime employment and the loyalty of the employee managers and technicians to their master's house.

These passages cited above, though they are based largely upon the excellent works of Professor Lockwood<sup>2)</sup> and Professor Abegglen<sup>3)</sup>, seem to be to the point in emphasizing some characteristics of business administration on the path of the economic modernization of Japan. I should say at once that we are given profitable suggestions by those passages and an important view point in studying the modernization of the Japanese economy. That is to say, Professor Harbison maintains that the traditional way of thinking, human relations, and administrative organizations in the business enterprises of old Japan, far from being swept away by the influx of Western knowledge and technical know-how since the Meiji Restoration, utilized the latter in extending and amplifying themselves. In short, the author sees the main feature of the economic modernization of Japan in the self-expansion of traditional thinking and practices.

To be specific, take the example of the development of the corporate form of business enterprise. The idea of the "company" was first introduced into Japan around of the time of the Meiji Restoration (1868). Under the deliberate plan of the Meiji government to encourage and to bring up the corporate form of business, it was quickly adopted by the people and has become wide spread in every field of business since 1877.

Why was the development of the corporation so rapid in Japan? Is it because the Japanese had greater organizational ability than was normally believed? Had there been prepared in Japan any genial soil in which the company form of business should develop? These are I think some of the basic issues to be considered by anyone who is interested in the modernization of the Japanese economy.

The joint-stock company — the kind of corporation the pioneers of the Meiji sought to introduce into Japan — had been first organized in Europe in the sixteenth century and had been growing since then, reaching maturity by the beginning of the nineteenth century. The origins of the initial joint-stock companies were from various sources<sup>4)</sup>. From the guilds

2) Lockwood, W. W., *Economic Development of Japan*, Princeton, 1954, Chaps. 4 & 5.

3) Abegglen, J. C., *The Japanese Factory*, N. Y., 1958.

4) Johnson, E. A. J. and H. E. Krooss, *The Origins and Development of the American Economy*, N. Y., 1953, pp. 42-44.

of the medieval ages they took the idea of perpetual succession or the idea of immortal entity in law separate from the mortal men who created them. From the regulated companies they took the forms of government, and from the *commenda* the idea of separation between ownership and management. Furthermore, the idea of a joint-stock company came partly from the guilds and the regulated companies, but more noticeably from the *societas* which was an extended modification of the *commenda*. It might be pointed out in this connection that the principle of limited liability of share-holders, which is one of the most important elements of the joint-stock company, was established only after the practice of paid-up shares had been adopted. So the characteristics of the early joint-stock companies were the idea of perpetual succession, joint-stock, and separation of management from ownership of the business enterprise.

Getting back to pre-Meiji Japan, though there had been associations of craftsmen and merchants called *kabunakama*, they had, unlike the guilds of medieval Europe, almost no financial resources for promoting the welfare of their members. Again, there could be found in those days no such associations as the regulated company, each member of which carried out his own trade by means of common assets (like a ship) and under the common administration of a governor or a treasurer. In Europe, there had developed a type of corporate business organization, generally called *partnership*, since the middle ages, which comprised at least two members, an active partner and a financing partner (like *commenda*), or, in which the active partner also joined, as he stood, the financing partner (like the *societas*). The partnership, having its origin in medieval Italy, developed widely through Europe in the beginning of the modern age. For example, England at the time of the Industrial Revolution might be said to belong to the age of partnership from the view point of business history. What had been the situation in pre-Meiji Japan?

Professor Kanno has shown three examples of partnership in his study of the origins of the company form of business in Japan<sup>5)</sup>, and Professor Egashira has found, beside those three, more than a dozen<sup>6)</sup>. But, it must be noted that all of these examples were of Omi (now Shiga Prefecture) merchants; moreover, all cases, except one, found by Prof. Egashira were partnerships organized around the branch shops of the House of Nakai, one of the biggest Omi merchants in the Tokugawa period. It is quite interesting that many examples of partnership were found. The fact, however, that all of them belonged to the merchants of one area, Omi, does

5) Kanno, W., *Nippon Kaisha-kigyō Haseishi no Kenkyū* (Studies in the Development of the Company Form of Enterprise in Japan), Tokyo, 1931, pp. 22ff.

6) Egashira, T., *Omi Shōnin* (Omi Merchants), Tokyo, 1959, pp. 128ff.

not by itself prove or disprove the wide existence in Japan of the same type of business organization. Accordingly, it will be adequate, to my mind, to seek for something other than partnership in the case of Japan.

By the other thing is meant here the *ie* (house or household) with its house business and house assets.

The *ie* was long the nucleus of the traditional social order of Japan; and, at the same time, it was a perpetual entity independent of the members who constituted it; it had also the element of common stock, though quite different in construction from that of a company; it had also the element of personal separation of management from ownership in carrying out the house business. In short, the *ie* had some of the important elements which were characteristic of the joint-stock company. In fact, there were many cases of commercial households with prosperous occupations and big fortunes, which fit themselves out as corporations. More cases were of the dressing of the house business in the clothes of the corporate form of business.

## II The *Ie* as an Independent and Perpetual Personality

The *ie* in the Japanese context meant more than just a dwelling together of parents, children and any other persons closely related. It was an entity in and by itself and was perpetuated by one generation after another. It was placed over and above the individuals who composed it. It had near absolute control over them and encompassed them in its irresistible influence. Viewed differently, the members of a Japanese family were united through and governed by the tradition of the *ie* they belonged to. Loyalty and subordination to the *ie* was the first commandment for all of its members. It was thought without many doubts that the individuals should sacrifice themselves, if necessary, for the perpetuity and prosperity of the *ie*.

In other words, the head of the *ie* (house head 家長) was not simply the head of a family (family head) but was thought to be the symbol of the *ie* or as the personification of ancestral deities; family members, therefore, were not to be subordinate to the mere family head but were thought to be so to the *ie* which was embodied in the house head. Even the house head himself lived not for his own sake but for the sake of the *ie*. Thus, he was nothing but a champion of a relay race, so to speak, whose duty was to hand over the baton of the *ie* from generation to generation. Whence, all members of a family, including the house head, had lost themselves in the *ie*, the result being the disappearance of individualities<sup>7)</sup>.

7) Horie, Y. "Life Structure of the Japanese People from the Historical Point of View", *Kyoto University Economic Review*, Vol. 21, No. 1, 1951.

A family system of a similar type may not have been unique to Japan. Western and Oriental societies must have undergone a similar phase of development, except that in Japan the process was never weakened but was re-inforced with the times. Especially, under the influence of Confucian thoughts and the policy of the Shogunate government, the tradition of the *ie* was so re-inforced, both in idea and practice, as to become typical of the Japanese people.

"Tradition" bears often a deep colour of "conservatism." But, it is not necessarily so. On the contrary, historians will often find a scene where "tradition" plays the role of promoter of progress. The author wants to take some examples, fixing his eyes first upon the idea of the perpetual independent personaliy of the *ie*, an important factor of the corporate form of business in general.

The House of Mitsui, which was the core of the famous Mitsui *zaibatsu*, was founded by Mitsui Hachirobei Takatoshi<sup>8)</sup> who made his fortune in money exchange and drapery. When he died in 1694, he left a will declaring that his property should not be divided among his children but kept as a common property, and that the house business he had started should be carried on as a joint enterprise of his descendants. The foundation of the House of Mitsui was thus laid. That is, it soon became a corporate house composed of eleven households, of which six were established by the six sons of Takatoshi and the remaining five were established by adopted male heirs married to female descendants of Takatoshi. Each house which belonged to the former was called *honke* (本家—main house), and each of the latter five was called *renke* (連家—quasi-main house)<sup>9)</sup>.

The year 1710 saw the establishment in the House of Mitsui of the headquarters of the house business called *ōmotokata* (大元方), which was thought to be the real basis of the House. *Omotokata* consisted personally of the heads of the eleven houses above stated, and the conferences there were presided by *oyabun* (親分—the boss) who was elected alternately from among the main house heads. *Oyabun* was thought to be the general head of all the Mitsui houses and every member belonging to the House of Mitsui was expected to be filial and loyal to him as if he were his real parent.

The House Code of 1720, which was written and modeled after the will of Takatoshi by Takahira of the house of Hachiroemon (a main house

8) "Mitsui" was the family name, "Hachirobei" was the first name, given to the house head and was usually succeeded to by his heir, and "Takatoshi" was the personal name. The fact that the custom of succession to the house head's name had widely prevailed in the Tokugawa period shows us also what was the *ie*.

9) Nakata, Y., *Mitsui Takatoshi (A Biography of Mitsui Takatoshi)*, Tokyo, 1959, pp. 254ff.

established by the eldest son), reads in part as follows :<sup>10)</sup>

Any member of the House, who will not obey the instructions of the *oyabun* and who should fail to be diligent in the house business but become insolent, shall be, after consultation by the house council, retired from his position or placed in confinement in Ise .....<sup>11)</sup>

Any member of the House, who will not work for the house business and stays at home because of his weak constitution, shall have his household allowance reduced by 20 per cent, under the name of repair expense .....

It shall be according to the will of the parents whether the second son shall be permitted to establish a branch house or not. The third and following sons shall be given to any house other than the Mitsuis as adopted sons .....

The house business stated here was that under the control of *ōmotokata*. All the heads of the member houses were requested to pursue the house business in order that the House might last long in prosperity. The eleven houses were independent respectively, but only in the sense that they were permitted to manage their own households, the expense of which were allotted from *ōmotokata* at fixed rates according to their house ranks. It goes without saying that the usual practice of primogeniture was adopted by each member house; while the second son was to be permitted to establish *bunke* (分家—branch house) — inside the Mitsui *dōzoku* (同族) but outside the House of Mitsui —, the third and following sons and daughters should be given away to be adopted by any other houses than the Mitsui. These measures were nothing but the devices, it is thought, to maintain the perpetual prosperity of the House of Mitsui by keeping solid unity among the original eleven houses.

While the House of Mitsui was a corporate house, the House of Sumitomo comprised only one house. In those days when the House carried on exchange business besides copper mining and refining — the proper house business — in the middle of the Tokugawa period, there was a *dōzoku* organization composed of the main house and branch houses. But, before long the house of Kichizaemon became identified with the House of Sumitomo.

For convenience' sake, the author wants to explain about the House of Sumitomo depending upon the House Code (1882) of business management and the House Constitution (1891) on the position and duties of the

10) cited : in Tsuchiya, T., *Nippon Shihonshugi no Keieishi-teki Kenkyu (Business-Historical Study in the Capitalist Economy of Japan)*, Tokyo, 1954, pp. 27-35.

11) Ise (now Miye Prefecture) was the native home of the Mitsui Family.

12) "*dōzoku*" is near to the "clan," but it is to be noticed that the constituent units of a *dōzoku* are households, not persons. *Dōzoku* had started originally as a kin group, a *honke-bunke* group for example, but in later days, non-related households had come to be adopted into the cluster and designated as kindred (see; Hall, J. W. and R. K. Beardsley, *Twelve Doors to Japan*, N. Y., 1965, pp. 81ff.).

house head<sup>13)</sup>, because he is unable to gain access to the documents which narrate the detailed conditions of the House in the pre-Meiji era.

According to the House Constitution, the family head who succeeded to the house assets was called the house head. His duty was to exert himself for the welfare of the house and for the prosperity of the house business, and at the same time, he was expected to honour cordially the ancestors and to give education to his descendants. It seems from these provisions as if the house head was able to exercise his authority over the family members and employees, but his power was quite restricted by other provisions; for instance, appointment and dismissal and reward and punishment of employees should be conducted in accordance with the provisions of the House Code; even in the family affairs, the important ones should be treated with after consulting top-employees, the general manager and other managers of the house business; all expenses needed for the private household should be decided its normal sum also after consulting the top-employees. Thus, in this special case of the House of Sumitomo, the subjectivity was not in the house head but in the *ie* itself, and the main reason why the dictatorship of the house head was not acknowledged lay in the desire for the perpetual prosperity of the *ie*.

According to the excellent study done by Professor Nakano<sup>14)</sup>, continual succession of the *ie* was principally maintained with the lineal line in the center, and in order to realize the existence and continuance of the *ie*, not only collateral relatives but also non-kin households were given roles, as constituent members of the *ie*, appropriate to their status. It was a common practice in Japan to give membership to non-kin households and, according to Prof. Nakano, here could be found one of the special features of *dōzoku* group of Japan. Therefore the author wants to take an example of this type of *ie*; the House of Ono, which was famous for its prosperous commercial activities ranked with the House of Mitsui at the time of the Meiji Restoration.

The House of Ono had been composed of one main house (house of Ono Zensuke) and three branch houses (houses respectively of Ono Sukejiro, Ono Matajiro, and Ono Zen'emon), and engaged principally in money exchange and money lending. While two other branch houses were kindred to the main house, the third branch house, that of Zen'emon, which dealt in raw silk and silk goods, was non-kin; that is, the head of the house was to be elected for a term of years from among hereditary employee managers

13) cited in: Shirayanagi, S., *Sumitomo Monogatari (A Story of the House of Sumitomo)*, Tokyo, 1931, pp. 229ff.

14) Nakano, T., *Sho-ka Dozokudan no Kenkyu (A Study in the Dozoku Group among Merchant Houses)*, Tokyo, 1964, p. 772.



by turns<sup>15)</sup>. After the Meiji Restoration, the House of Ono was reorganized into a company called Ono-Gumi, which consisted of the four houses previously mentioned. But, the author's interest is no more in this point than in the fact that the House had established a non-kin branch house and given it a complete membership of the corporate house of Ono. This must have been a device arising from a desire for the perpetual prosperity of the *ie*.

It was a common practice in old Japan to adopt a son from other families, without discrimination among relatives or non-relatives, and let him inherit the *ie*, not only when the *ie* lacked lineal heirs, but even in case the heir lacked the capacity needed to inherit the *ie*. Let us examine an example of inheritance by an adopted son in the House of Omi-ya Chobei (the present Takeda Chemical Industries, Ltd.)<sup>16)</sup>. Tomizo, a cousin of Chobei II, who had been adopted by him in the year 1846, was nominated for the first time at the age of 22 as the heir of the House. But his status on this occasion, though he took the position of the house head, was still that of *bekke* (別家—a separate house), and he was not yet permitted to conduct the house business (imported drug trading) by himself; this duty was discharged by a senior *bekke*, Omi-ya Tomoshichi, who filled in as the acting house head.

In 1854, Tomizo was at last given the name Chobei and was permitted to take initiative in the house business. On that occasion, he wrote a pledge as follows addressed to the ancestors of the House as well as to the present members of the *dōzoku*:

I am blessed to have been given the name of Omi-ya Chobei III. Hereafter I shall serve the house and devote myself to the house business with diligence and the utmost care, and without a hint of negligence on my part. I shall never commit any speculative transactions such as rice-jobbing. I shall manage every single matter only after consulting all of you and, upon my honour, I shall never stick to my own opinion .....

It is quite clear that Tomizo inherited the *ie*, different from the case of lineal inheritance, passing through many rigid processes. In spite of this, the fact that he wrote a pledge like this addressed to the ancestors as well as to the present members of the House tells us something of the nature of the *ie*.

The House of Iwai (present Iwai & Co. Ltd.), which had established itself after the Meiji Restoration, provides us with another example of

15) Itsuka kai (ed.), *Furukawa Ichibei-o (A Biography of Furukawa Ichibei)*, Tokyo, 1926, p. 55.

16) "Omi-ya" was the shop-name, the family name being Takeda. Takeda Yakuin-Kogyo Kabushiki-kaisha (ed.), *Takeda Hyakuhachi junen-shi (180 Years' History of Takeda)*, Osaka, 1962, pp. 167-171.

*dozoku* including non-kin members<sup>17)</sup>. It was in the year 1896 that Iwai Katsujiro began a trading business of his own, independent from the shop of his father-in-law. The business became soon prosperous and in 1906, he formulated the House Constitution. According to article 17, which provided for the family council, membership of the council was given to the following: (1) Kinsmen within the third degree of relationship and relatives by marriage within the second degree, (2) heads of the branch houses, and (3) employees above the rank of manager. Incidentally, employees above the rank of manager were granted the status of quasi-kinship, and any employees active or retired, whose service to the House had lasted more than fifteen years and had been of some merit were also given the same status.

It goes without saying that the perpetual prosperity of the House of Iwai was thus expected by organizing *dōzoku* in such a type as had been traditional to Japanese merchant houses. The traditional social order and the traditional idea of the *ie* were so strong as to be alive even after the Meiji Restoration which was accomplished under the banner of "Renovation of Everything."

### III House Business and House Assets

The typical *ie* had its house business and house assets. It is better to say that the *ie* was composed of persons related lineally from ancestors to descendants, and was composed materially of business and property which were to be handed over from generation to generation. Furthermore, house business and house assets were in an inseparable relationship, in the sense that the former yielded to the latter and the latter provided funds for the former. However, in the Tokugawa period, more importance was attached to the former than to the latter, from the view-point both of economic-ethical theory<sup>18)</sup> and policy. That is, in those days when the *ie* were supposed to be the basic units of the state and the society, all the people — samurai, peasants, craftsmen, and merchants — were expected and educated to be steady in mind and to do the best service possible to the state through devoting themselves to their house businesses and house professions, which were looked upon as "callings", and were expected finally to carry out "Heaven's will" (in the sense of Confucian theory).

Thus, the desire of the people for the perpetuity and prosperity of

17) Iwai Sangyo Kabushiki Kaisha (ed.), *Iwai Hyakunen-shi (Hundred Years' History of Iwai)*, 1964, pp. 581ff.

18) Dazai Shundai, for example, wrote in his book "*Keizai Roku (Articles on Political Economy)*", 1729, as follows: "By a fixed property is meant a regular occupation, without discrimination of samurai, peasants, craftsmen and merchants."

the *ie* lead to their diligence in their house business and and to their frugal and simple living; and further, made them refrain from speculative transactions. Profit-pursuit was not necessarily denied (in some cases, it was justified) to the merchants, but the purpose of their money-making was thought not to become rentiers. It followed from these ideas and practices that the house business and house assets should never be divided among lineal as well as lateral members of the *ie*, as was shown in the usual practice of primogeniture and succession to names. Let us examine a few examples.

The *ōmotokata* of the House of Mitsui, stated before, consisted of assets and business that had been bequeathed undivided to his sons by Takatoshi, the founder, and was thought to be the real basis of the House of Mitsui. According to Professor Nakata, "in appearance *ōmotokata* was the agency for the common administration of the whole business and assets belonged to the House of Mitsui, but in actuality it was a kind of corporation of which capital was shared by member houses, and the rate of amount invested by each house had been laid down in the will of Takatoshi."<sup>19)</sup> In sum, Prof. Nakata seems to insist that *ōmotokata* was a kind of joint-stock enterprise. Dr. Kanno is of the same opinion. The author's view is different. The rate shown in the will of Takatoshi should not be understood as the rate of capital contribution, but should be seen as the rate of supposed shares, at which the business profit was to be distributed to each member house for the household expenses. Therefore, *ōmotokata* should be understood as a whole body, which owned all the property and administered all the business of the House of Mitsui.

It is needless to say that the property of the House of Sumitomo was not a joint-stock, since the House had been established by a single house of Kichizaemon. The Besshi Copper Mine among other enterprises was long considered by the people of the House as the main basis upon which successive generations of the House depended, and the efforts of the House were concentrated in the management of the mine. After the Meiji Restoration, the headquarters of the House business came to be called *sō-honten* (general head office) and this endured until the year 1921, when *sō-honten* was reorganized into a limited partnership. Meanwhile, *sō-honten* was a private concern of Sumitomo Kichizaemon, and the banking business, for example, started in 1895 as one division of *sō-honten*, only became an independent company after many years<sup>20)</sup>.

With the Mitsubishi Shipping Company (Inc.) the story is slightly

19) Nakata, *op. cit.*, p. 259.

20) Sumitomo Ginko (ed.), *Sumitomo Ginko-shi (A History of the Sumitomo Bank)*, 1955, pp. 15-22.

different. Although the firm appeared to be an authentic corporation, the title was only in name. It was nothing more than a private concern of Iwasaki Yataro, the founder of the company and its sole proprietor<sup>21)</sup>. This is shown by the following provisions of the Company Regulation formulated in 1875: <sup>22)</sup>

I. Although we carry the name of a company and are organized as such, this firm is the private business of the House of Iwasaki, and as such differs from ordinary corporations which draw their capital funds from the sale of stocks. Therefore, the president is granted absolute power over all matters pertaining to the management of the firm and other administrative details concerning the operation of the firm, including reward and punishment as well as appointment and dismissal of employees.

II. The president shall have right to claim all the profit hereby gained, but shall assume all the responsibility for the losses during the course of business.

The year 1885 saw the death of Yataro, and the company transferred its shipping business to the newly established Nippon Yusen Kaisha, and set a course to expand its business with coal-mining and ship-building in the center, under the name of Mitsubishi-sha, which was reorganized into Mitsubishi & Company, Ltd. in 1893, the year in which the Commercial Code was enforced. The capital fund of this new company amounted to 5 million yen, and was equally shared by Iwasaki Yanosuke (younger brother of Yataro) and Iwasaki Hisaya (eldest son of Yataro). But this was only in form. The reason why the firm was reorganized into a limited partnership of two members was as follows: <sup>22)</sup> a corporation of this type was the fittest for the purpose to discern, by giving a legal character to the enterprise, the reversion of profit, property, and responsibility from those of private individuals, and, at the same time, to maintain to the last the special feature of a private concern by combining the management with the ownership in the same individuals. In other words, the Mitsubishi Company, Ltd. was nothing but the house business of Iwasaki disguised under the legal trappings of a company.

As shown by the above examples, it was common among Japanese business people of traditional type to expand their enterprises and to amass their fortunes, not on a joint-stock basis but on a house basis. This was a matter of course, since economic enterprises were carried on in order to realize the perpetual prosperity of the *ie*. The expansion of house business and house assets might be attained, needless to say, by gaining commercial profit and by ploughing it back to the business. It will be worthy of note,

21) Mitsubishi Ginko (ed.) *Mitsubishi Ginko-shi (A History of the Mitsubishi Bank)*, 1954, pp. 6-7.

22) *Ibid.*, p. 72.

however, that the house head was expected to take lead in diligent work and thrifty living, as was shown, with few exceptions, in the house code of merchant houses. This is deeply related to the fact, as mentioned before, that the house head lived not for his own sake but for the sake of the *ie* he represented. Let us cite a passage from the excellent work of Professor Lockwood for the better understanding of the facts: <sup>23)</sup>

Whatever the social evil of extreme concentration of wealth in the hands of the *zaibatsu* (財閥), therefore, it was not that they wasted their substance in riotous living or salted it away in unproductive hoards. The urge to power and prestige in an industrializing society, the close relations between the business and political elites, the tradition of clan unity and discipline, the emphasis on modified primogeniture carried over in Japanese law from feudal times — all worked to perpetuate the great fortunes and to encourage the reinvestment of a large share of upper-class income in the creation of new capital assets for the Japanese economy.

In sum, in the early stages of industrialization of the Japanese economy, that is, in the days when the savings of the masses had not yet been collected in the hands of banking facilities and the offer of stocks for subscription was still difficult, the reinvestment of the house assets thus accumulated was bound to play a very important role in the establishment of modern enterprises.

#### IV Separation in Person between Ownership and Management.

As stated in previous chapters, house heads were masters of the *ie*, but not necessarily dictators. For instance, Iwasaki Yataro, the founder of the House of Iwasaki, with all the appearance to being a dictator, was assisted in the business administration by able executives like Ishikawa Shichizai, Kawada Koichiro, Shoda Heigoro, and others. Every house business had, of course, experienced so-called one-man management in the early stages of its establishment. It is also obvious that, in case of a small business, the house head was in charge of the whole work of management. However, as the business grew and the number of employees increased, there usually appeared a tendency towards separation in person between ownership and management; a tendency whereby the house head (the owner of the business) came gradually to trust the employee manager or managers with the management of the business.

Generally in the Tokugawa period, and after the Meiji Restoration as well, it was quite a usual practice for the house head in his boyhood to be disciplined as if he were an apprentice. Not infrequently the heir apparent was removed from this status because of incompetence in business matters.

<sup>23)</sup> Lockwood, *op. cit.*, pp. 284-285.

Some capable person was adopted, in place of the lineal heir, from outside. And yet, there appeared the tendency above mentioned. The most important reason for this is thought to be the desire for the perpetuity and prosperity of the *ie*. To put it more succinctly, it was feared that the *name* of the house might be injured if the house head, coming out to the front of the business, happened to make some mistakes in the conduct of the enterprise or in its transactions. Under the circumstances above stated, matters concerning the treatment of employees and the evaluation of their abilities and merits were mentioned in the house code of almost every merchant.

Employees in charge of management in the House of Mitsui were called *motojime* (元締). "*Motojime* is the first among servants to support the house. His duty is to remonstrate with the master when the latter makes a mistake, to give advice to the underservants when they commit faults. He should always be conscious that the house will be in peace when the master and the servants are in harmony in everything ..... *Motojime* shall be limited in number within six or seven;" thus mentioned in the House Constitution<sup>24</sup>. As was shown by the another name "*nadai*" (名代 proxy), *motojime* was so to speak an acting house head in so far as the matters concerned business transactions. The reforms carried out in the House of Mitsui after the death of its founder, the most important being the establishment of *ōmotokata*, were effected on the advice of one *motojime*, Nakanishi Sosuke<sup>25</sup>. Minomura Rizaemon in the early years of Meiji and Nakamigawa Hikojiro in the middle Meiji era were the best known among the able managers of the House of Mitsui of modern times.

Top-managers of the House of Sumitomo were called *shihai-nin* (支配人 — managers), the chief of them being called *sō shihai nin* (general manager). They roughly corresponded to the directors and the managing director of later times. The most famous was Hirose Saihei, the general manager around the time of the Meiji Restoration, who had rescued the House from the crisis of its disintegration and had laid the foundation of its prosperous development thereafter. There is an interesting episode in the career of this famous manager. When he was advised in 1871 by a foreign acquaintance, a senior partner of a Dutch firm in Yokohama, that he might do better to enter into partnership with his master in the mining enterprise of Besshi, he rejected the idea at once, saying: "The Japanese have a different notion of loyalty from foreigners. There is such a preferable custom proper to the Japanese people as this; if we serve from first to last our master with earnest zeal, the master in turn will never fail to reward with good faith, and he will go so far as to take good care of our

24) cited in: Tsuchiya, *op. cit.*, p. 34.

25) Nakata, *op. cit.*, pp. 256, 259.

descendants. We are in no need of getting a share of profit by entering into partnership with the master."<sup>26)</sup>

By "reward" or "take good care" is meant, for instance, granting permission to set up a *bekke* (separate house) or *bunke* (branch house) and to become a member of the *dōzoku* of the master's house. Hirose himself was awarded with the upper rank of life-time *bunke*, when he retired from Sumitomo in 1894 at his age of 67. A more interesting example may be that of the House of Ono, which had established a *bunke* for the hereditary manager, to which the author referred in the second chapter.

A practice common in merchant houses was to permit the loyal servant to establish *bekke* of two kinds; the one was an independent *bekke*, given "goodwill" (the same shop-name and a part of customers), the other was a living-out *bekke*, serving the master's house as a manager as he had been before.

Be that as it may, the employees were trained from their boyhood to serve the *ie*, and were expected to climb up the ladder beginning from *detchi* (丁稚 — apprentice), through *tedai* (手代 — assistant manager), to *banto* (番頭 — manager). Herein was lain the foundation of the system of lifetime commitment which presupposed the loyalty of employees to the *ie*, and at the same time, could be found the factor of the business management by hired managers.

After the Meiji Restoration, even in the Tokugawa period as well, there had developed a different form of employment, in which able men were appointed managers without climbing the usual ladder, or school graduates of higher education were appointed to a position of trust. But we must take into consideration that such a new form of employment could be adopted on the basis of the above-mentioned factor, and accordingly, that there existed the traditional idea of "master and servants" under the new relation of employment.

## V Conclusion

It has been pointed out in the previous chapters that the *ie*, the traditional type of family system to the Japanese people, had an independent identity of its own, had the indivisible business and assets for the maintenance of its perpetuity and prosperity, and had the tendency of personal separation of business management from ownership. It has also been suggested that the *ie* played in the modernization of Japanese economy a

26) Hirose, M., *Saihei Iseki (The Life and Performances of Hirose Saihei)*, Ehime Pref., 1926, pp. 87-88.

role similar to that of early joint-stock companies in the West. However, the author does not claim his findings hitherto are conclusive enough to support his thesis. There is yet much research to be made in this area.

The *ie* that had been handed over from the Tokugawa period to the Meiji era might be described as a feudal remnant, in the sense that it had a colour specific to the feudal society. In reality, however, the *ie* was a traditional entity that was transcendent over historical periods. Therefore, the *ie* was not so weak as to be easily extinguished only by the Meiji Restoration, through which the political organization as well as the economic system of Japan were largely changed and the idea of individualistic freedom was actively imported from the West. So far, however, the *ie* was apt to be conservative, and, in order to adapt itself to the new age, it was necessary that there should occur a change in outer conditions, and that there would appear a creative response to the change inside the *ie*.

The important among outer conditions changed were; the opening of Japan to foreign countries, the re-organization of government, the re-orientation of the national economy from agriculture to industry, the liberalization of economic activities, the abolition of class distinction by professions (samurai, peasants, craftsmen, and merchants), the importation of modern technical and managerial knowledge, and so forth. In response to the change of conditions, there emerged men of entrepreneurial character from among house heads, managers, and other members of the *ie*. Of course, the *ie* might have been limited in the number which could play immediately the role of pioneers in the economic modernization of Japan. But, it should not be forgotten that, under the rapid development of the corporate form of business in Japan, the idea and activity of the *ie*, which exerted to support and expand itself in the new age, was still wide spread.

The desire of the *ie* for self-expansion was expressed in the diversification of house business, or in the dispersal of investment of house assets in a number of non-speculative enterprises. Herein the main reason why the *zaibatsu* in Japan in after years were formed with the *ie* in the center. The prototype had already been found in the example of the House of Nakai (see Chapter 1), around which more than dozen partnerships were formed<sup>27)</sup>.

The *ie* was the object of loyalty with the employee as with the house head. It was, accordingly, "the public" as against "the private" being. There was, however, the bigger and inclusive "public" — the state — above the *ie*, it was thought, in those days when the *ie* was considered to

27) Egashira, *op. cit.*, pp. 133ff.



be the constituent units of the state<sup>28)</sup>. Accordingly, it was generally assumed that to serve the *ie* was after all to serve the state. The pioneering modern entrepreneurs in Japan are characterized by Professor Ranis not as auto-centered entrepreneurs but as community-centered entrepreneurs. This will be said to be a result of the tradition of the *ie*.

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28) Nakano, *op. cit.*, p. 114.

29) Ranis, G., "The Community Centered Entrepreneur in Japanese Development", *Explorations in Entrepreneurial History*, Vol. 8, No. 2, 1955, pp. 80-98. See also, Horie, Modern Entrepreneurship in Meiji Japan, in Lockwood (ed.), *The State and Economic Enterprise in Japan*, Princeton, 1965, pp. 183-208.