POLITICS AND THE ECONOMY
IN PRE-WAR JAPAN

by

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and

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

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

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Preface

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

Janet Hunter
February 2000

Abstracts

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

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

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

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

Masataka Matsuura

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

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

For a long time zaibatsu has been taken as the key concept for analysing the relationship between politics and the economy in Japan. People believed that there was an ‘inappropriate relationship’ between zaibatsu and political parties and government in pre-war Japan. At this time there was a two-party system, based on the Seiyūkai party, and the Kenseikai party, which later became the Minseitō. It is often said, even now, that the Mitsui zaibatsu controlled the Seiyūkai and the Mitsubishi zaibatsu controlled the Kenseikai, and that they took turns dominating politics. The most often cited individual examples of this are the Prime Minister Katō Takakakira (1924-26), who was the leader of Kenseikai, and his Foreign Minister Shidehara Kijūrō (1924-27, 29-31), who later became prime minister 1945-46. Both their wives were daughters of Iwasaki Yatarō, who founded the Mitsubishi zaibatsu. It is true that the zaibatsu supplied human resources and funds to the parties, but such an image of politics is too simplified. In the past, explanations have stressed the economic power of the zaibatsu and infer from this that they must also have controlled politics. It is true that zaibatsu had real structural power and that ordinary people were in awe of it. This, however, ignores the question of actual political processes and the flow of political history. In fact, most big zaibatsu forbade their members to have any connection with politics. They gave parties donations for campaign funds, but in most cases, direct political reward in return was unnecessary. So then, is zaikai different from zaibatsu? My answer is, yes, totally different. Zaibatsu is a very important factor in explaining the zaikai, but the former is not the same thing as the latter. So, how does zaikai differ from zaibatsu?

Firstly, the zaikai is a political variable with which we can analyse the relationship between the business world and politics. Zaibatsu is only an economic variable and as such cannot be used to explain the process of politics. Secondly, the zaikai maintained political connections with ‘the state’, political parties and politicians for the express purpose of influencing politics. However, in most cases it remained invisible to ordinary people. It had neither formal nor legal existence. So, most people imagined that the visible zaibatsu had all the political power that the business world was capable of possessing. However, this was not the case. Thirdly, the zaikai was a limited network of the business elite, most of whom can be called zaikai sewaygo, which might be translated into English as ‘economic system facilitator (or coordinator)’. This is very important. The zaikai was a network of zaikai sewaygo who tried to maintain the economic system and
to reform it through their efforts. Sewagyō means the business of providing *sewa* (help, assistance) and *sewa* is the key concept in explaining the nature of the zaikai, one that may be unique to Japanese society. Thus the true difference is in my opinion, that the zaikai was composed of zaikai sewagyō, but in most cases leader of zaibatsu were not zaikai sewagyō. For example, from my perspective, Dan Takuma, who was famous leader of the Mitsui zaibatsu, was not a zaikai sewagyō, and maintained a firm policy of not intervening in politics. The leading business man Mutō Sanji, who bitterly attacked zaikai sewagyō members, defended him. Dan was respected in the business world, not because he was zaikai sewagyō, but because he was an excellent leader of the big Mitsui zaibatsu. He never participated in the zaikai sewagyō network.

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

The zaikai in Japan mirrors three aspects of Japanese society. Firstly, there is the cultural aspect. Zaikai meetings were often held in a private room in a kind of high-class restaurant, known as a ryōtei. The private room could hold up to around ten people. Its limited space is important. The meetings were mostly held in these ryōtei, but sometimes at a private mansion. Zaikai meetings were mostly dinners followed by a speech and discussion, but sometimes they took the form of a tea ceremony. Occasionally they might be organised around a private antique exhibition. Both the tea ceremony and antique collecting are customs which require participants to be wealthy, and can be closely identified with the Japanese cultural background. Perhaps the British business elite use tea, fish and chips and chocolate bars at the famous 'gentleman's club' for the same purpose!

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

Thirdly, the particular process of economic and political development in Japan was an important factor in shaping the zaikai. I would not wish to say that there is only a single-tracked path of development, but rather that Japan sought to follow the path of the West and tried to catch up with it. The Meiji government could build concrete infrastructure and import machines and engineers, but did not have the resources to create intangible systems like the networks needed to run and maintain a business society. This will become clearer when we examine the role played by the individual zaikai sewagyō.
Who, then, were the zaikai sewagyo? From here we shall deal with the third main problem, that is, how did the zaikai start and what forms did it take? The first individual to be known for sewagyo was Shibusawa Eiichi (1840-1931), who was the son of a rich farmer and became a samurai retainer of the Tokugawa Shogunate. After the Meiji Restoration he was employed by the new government. When he was a farmer, Shibusawa had once tried to be an anti-Western terrorist and to set fire to Western people’s accommodation in Yokohama to kill all the Western people there. However, after that he was employed by the Tokugawa Shogunate and was sent to an international exhibition in Paris as an attendant of the Shogun’s brother. He learnt about the Western economic system for a year in Europe and then returned to Japan, where he worked to set up the new economic system in Meiji Japan. He played an important role in introducing such new ideas as the company, the bank, insurance, and so on. It is not difficult to imagine how hard and how important it was to introduce such brand new ideas to traditional Japan. Shibusawa not only encouraged private merchants and rich people to create and invest in new companies and banks, but he himself also put his money into such new enterprises.

After working as a bureaucrat to establish a new system of currency and finance, Shibusawa resigned because of a political conflict and became a private entrepreneur. During his life he established five hundred companies and banks, and also many business associations such as the Japan Chamber of Commerce, the Bank Assembly (Ginkó Shūkeijo), the Tokyo Stock Exchange, and the Tokyo Commercial Inquiry Agency (Tokyo Kōshinjo). When the first economic crisis struck Japanese capitalism in 1890, and during similar crises after the Sino-Japanese War of 1894-95 and the Russo-Japanese War of 1904-05, Shibusawa acted as a mediator between the government, the Bank of Japan and other business interests in order to find a way of protecting the economic system. He was also involved in mediating various types of conflicts in companies, like labour disputes, internal troubles with executives, takeovers, mergers, and bad debts, and helping reorganise and restructure them. This kind of mediation activity was one of the main tasks of the zaikai sewagyo, because the Japanese economic system was immature, anxious to catch up with Western countries, and the Japanese state did not have the power to mediate in the private business world. At first Shibusawa worked as an architect on the Japanese economic system, presenting a blueprint and setting up the system, but later he worked as one of the original zaikai sewagyo, maintaining and coordinating that system. He wielded political power as a representative of both the banking sector and the industrial sector in the first stage of the development of modern Japan. This double role was possible because Japanese industry was underdeveloped.

Shibusawa prepared for retirement around the time of the First World War, and he worked with and nurtured the second generation of zaikai sewagyo. This second group is represented by Wada Toyoji, Inoue Junnosuke, and Gō Seinosuke. Wada Toyoji (1884-1924), graduated from Keiō University, then went to America to do business for six years. After that he worked with the Kanebō Spinning Company and moved to the Fuji Spinning Company in 1901. There he restructured the company and made his name as a good manager. From then on, that is, after the Russo-Japanese War, he started to work as a zaikai sewagyo, because other businessmen brought many management and business problems to him. It was after the First World
War that his activities became prominent, because at this time a sustained recession occurred; many companies faced management crises and the government established many economic councils to try and address the problems. Wada reorganised many companies, worked as a committee member on many governmental councils, and took the initiative in establishing new business associations.

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

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

G. Seinosuke (1865-1942) started his zaikai sewagyō career around 1895, with his reputation based on his success in restructuring a transportation company. He became the top zaikai sewagyō when Inoue was assassinated in 1932. He was the son of Japan's first Deputy Minister of Finance, but he was disowned because of his exceedingly evil deeds in his boyhood, and was sent to Heidelberg to study for his doctorate. After
obtaining his degree he returned to Japan and started a business. It was during his presidency of the Tokyo Stock Exchange (1911-24) that he gained a reputation as a *zaikai sewagyō*. He made efforts to correct the public evaluation of stock markets, changing investment through this means from a form of gambling to an essential component of capitalism. After the First World War Gō used his political power and connections to the bureaucracy and politicians to defend the market against widespread panic. A member of his staff, Kawai Yoshinari, suggested a plan for stabilizing the market by cooperation between a syndicate of banks and the Bank of Japan. This scheme has been used several times since the Second World War, notably in the Yamaichi crisis in 1965 and also in the current economic crisis. Gō also achieved some successful results as a *zaikai sewagyō*, including reorganization, mergers and mediating with other *zaikai sewagyō*. Important cases in which he was involved included the merger of the Nihon Yūsen (Japan Mail Steamship Company) and Toyō Kisen (Oriental Steamship Company) in 1926, the establishment of the Electric Power Union (*Denryokoku Renmei*) and the control over the supply of electricity in 1932, and the big merger of steel makers into Nihon Selltetsu (Japan Steel) in 1934.

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

In the 1930s Gō was joined by Ikeda Shigeaki (1867-1950) and Yūki Toyotarō (1877-1951) to form the third wave of *zaikai sewagyō*. Ikeda was the son of a middle-ranking samurai in Yonezawa and graduated from Harvard University. After returning to Japan he joined the Mitsui Bank, and from 1904 he worked as the key manager of the bank. As a key person in the Mitsui Bank, he promoted cooperation between private banks. Initially, the area of bank finance was competitive and free from state intervention, but after the First World War the competition for bank accounts became
very intense because of the expansion of the economy. Ikeda took the initiative in seeking to regulate interest rates for private banks with the help of the Ministry of Finance and the Bank of Japan. Other bankers had previously reached similar agreements, but Ikeda Shigeaki was the first to ensure that all parties honoured them. Ikeda was also the president of the Tokyo Clearing House (Tokyo Tegata Kōkanjo) from 1923. During the financial disturbances after the First World War, especially during the Financial Crisis in 1927, he used his strong leadership to maintain and strengthen the cooperation between banks. For that reason he acquired strong influence over banks and in the manufacturing sector. He established the Industry Research Association (Sangyō Chōsa Kyōkai) in 1930 with a view to rationalizing industry and establishing bank syndicates in order to decide where investment funds should be concentrated. This was the start of the cooperative investment system which was to continue, along with the main bank system, after the Second World War. Ikeda was also able to bring trust banks and insurance companies as well as commercial banks within the remit of these systems. In this way he was able to establish influence over these sectors, too.

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

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

Finally then, how was the zaikai organised into a formal network of zaikai sewagyō? Before the First World War Shibusawa was able to cover all the sectors and areas of the economy as a zaikai sewagyō, but after the war, such work became impossible. With the war, industry had developed tremendously, and in 1917 the Nihon Kögyō Kurabu (the Japan Industry Club) was established as a gentleman's club for large industry. It is often said that this club was ruled by the zaibatsu, because its presidents and the chairman of the board of directors, like Dan Takuma, were from the zaibatsu. In fact, however, the real power was held by Wada, Gō and their colleagues, who worked as managing directors. As for the banking sector, it was Ikeda and Inoue who had influence over it. At that time the Japanese business world was comprised of three 'islands': the banking sector, the industrial manufacturing sector, and the small and medium-scale enterprises sector. The last of these three was represented by the Chamber of Commerce, which was controlled mainly by Fujiyama Raita.
In 1917 a very important club was established in the form of the Yōka-kai (the Eighth Club), so known because its meetings were held on the 8th day of every month. The club's membership was limited to only 10 people, and these included Gō, Inoue, Wada, Ikeda, Fujiyama and a few others from banks and industries. This club appears to have lasted for 28 years, until the end of the Second World War, and meetings were held continuously throughout this time! Because of the people involved, and the length of time over which the club continued to operate, a formidable power was maintained. Every meeting had only one guest, who was usually an important politician, and the group would then discuss the important topics of the day. The club embraced representatives of the three sectors mentioned above, and it was here that important mission were born, like the Business Mission to Europe and America in 1921-22, and important institutions like the Nihon Keizai Renmeikai (the Japan Business League), which was established by the three sectors in 1922.

The organisation and unification of the zaikai was completed when Gō was elected president of the Tokyo Chamber of Commerce in 1930 and president of the Japan Business League in 1932. The zaikai sewagyō had constructed networks through their sewagyō business, and these formal institutions were the result. With the completion of such organisations they started a political campaign for industrial rationalization and economic control based on self regulation. This marked an institutionalization of the sewagyō business, that is, mergers and rationalization with the help of the state. They often took as their models H C Hoover in America, and W Rathenau and W V Mollendorff in Germany. This may be considered as their brand of 'progressivism', modelled on that of America. The group managed to have Nakajima Kumakichi, who was an associate of Gō, appointed to the Saitō cabinet as the Minister of Commerce and Industry in 1932, and brought about the unification of the steel industry by establishing Japan Steel in 1934. Nakajima also tried to mediate a union between the political parties to check the power of the military. At this point, their opponent Mutō Sanji, who believed in a liberal economy, took the view that the zaikai was a conspiracy against sound politics and economics. He started an anti-zaikai campaign in the newspaper he owned, and bitterly attacked Gō's Banchōkai for many things, including bribery. The Prosecutor's Office, which was then very politicized, sympathized with Mutō's bribery allegations and prosecuted many innocent businessmen, such as Nakajima, as well as bureaucrats. This is the famous 'Teijin Scandal' which brought about the fall of the Saitō cabinet.

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

However, as the war continued and the bureaucratic influence became stronger, the zaikai network was thought to be unnecessary, and the state bureaucracy and the military decided to control industry directly. Therefore,
although some schemes and a few successors, like Kobayashi Ataru and Nakayama Sohei, did survive, the zaikai perished with the Second World War. Today the word zaikai still exists, but its influence and power has largely diminished. In this sense, my wife keeps telling me, it is not unlike men in contemporary Japan.

Endnotes

1. This paper draws on a number of my earlier works. Any interested reader who wishes to refer in more detail to the issues and individuals discussed here should refer to one or more of the following:

i. 'Nitchū Sensō Shūshū Kōsō to Kachō Tsūka Kōsaku' (Visions of the Settlement of the Sino-Japanese War, and the Currency Question in Central China), Kokusai Seiji, vol.97 (May 1991)


vi. Takahashi Korekiyo to Kyōkoku Itchi' Naikaku – Seiī Naikaku Hōkaigo no Seiji Keizai' (Takahashi Korekiyo and the 'National Unity' Cabinet – Political Economy after the Breakdown of the Party System) in Kitaoka Shinichi & Mikuriya Takashi (eds.), Title to be confirmed (forthcoming, Tokyo University Press)

2. I will be discussing some of these issues at another workshop at LSE.