



## Problems of Japanese Economic History

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## *Problems of Japanese Economic History*

The economic history of the underdeveloped areas of the world, insofar as it has been written at all, has been written mainly by Western scholars. In the field of economic history, at any rate, Japan is far from underdeveloped. She has more economic historians per thousand academics than any other country in the world. Roughly a quarter of all faculty members of departments of economics are economic historians. Others are to be found in departments of history, in social science research institutes, and in faculties of agriculture, law, and even engineering. Even the local amateur antiquarian is far more interested in the economic activities of his forebears than is his European or American counterpart.

It is not too difficult to account for this situation. The Japanese academic tradition was formed at a time when the prestige of economic history in Europe was at its peak. The tendency of a relatively backward country to adopt whatever seems to be the latest trend in the more advanced countries was reinforced in late-nineteenth-century Japan by her national interest in the study of the process of economic development. In Japan, dedicated to the goal of economic growth, interest in the theories of the stages of economic development being advanced in Europe amounted almost to an obsession. Once introduced into Japan, this tradition was perpetuated, and to some extent fossilized, by the rigidity and inbreeding characteristic of Japanese academic institutions.

With so many workers in the field, it should not be surprising that Japanese economic history fairly bristles with problems. Like their Western colleagues, Japanese economic historians are better at raising problems than at solving them, and the huge mass of material which they have collected raises in the minds of Westerners many more problems which have not even been considered in Japan. Most of the earlier work in Japan was aimed at documenting that country's economic history as a case study of European—overwhelmingly Marxist—models of historical development. Attempts to synthesize the results in terms of the theoretical model became more and more sporadic as it proved increasingly difficult to incorporate the mounting corpus of factual data within the Marxist framework. One might have expected the next step to have been a spate of comparative studies of Japanese and foreign experience. This did not materialize, however, because of the marked separation between the study of Japanese and of European economic history. Apparently the linguistic and other differential skills required for Japanese and for foreign studies are regarded in Japan as so distinct and so difficult to acquire as practically to enforce specialization. Schools of Japanese and of Western economic history are quite separate, and courses in general economic history are very rare, if they exist at all.

In common with Japanese in other areas of the social sciences, Japanese economic historians have on the whole shown very little capacity for conceptualization or for producing theoretical frameworks of their own, though the diffusion of modern economic theory and foreign influence may have improved prospects. In capacity for painstaking and detailed research in depth and for compiling collections of source materials, on the other hand, they are possibly unmatched. Thanks to the efforts of a small army of competent researchers, many aspects of Japanese economic history are now superbly documented. These efforts have been promoted, not only by academic institutions and private research societies, but also by ministries and bureaus of the government and by local government bodies. Officially sponsored work on banking, public finance, and industry has generally supplemented private enterprise which has concentrated rather heavily on agriculture, cottage industry, and changes in rural society.

The rural flavor of economic history in Japan stems from a controversy about the nature of the premodern economy. Japanese scholars sought to identify the Marxist stages of precapitalist development in their country's economic history. Until very recently almost every Japanese historian—economic, social, or political—identified the two-and-a-half centuries of Tokugawa rule which preceded the Meiji Restoration with the stage of feudalism. Despite the many and obvious differences between Tokugawa Japan and European feudalism, there were enough similarities to make the identification plausible, particularly since Marxist economic history seemed to require the identification of feudalism somewhere in the Japanese past. For most, the question was already settled by a footnote in *Das Kapital*, Chapter XXVII, in which Marx himself described Japan under the Tokugawa shoguns as the most perfect historical example of feudalism. For many years a great deal of economic-history writing in Japan amounted to a voluminous commentary on this footnote. Still following Marx, feudal society was equated with subsistence economy.

As the growing volume of research on the premodern economy produced clearer and clearer indications that the Japanese economy of the first half of the nineteenth century was far removed from the subsistence level, a controversy arose on the significance of these facts. One party obstinately refused to admit that the commercial and industrial development of the century or so before the Meiji era modified in any significant way the feudal-subsistence nature of premodern Japan. The other saw in these developments the beginnings of commercial capital, manufacture, and a bourgeoisie. Some may even have discerned, albeit in a sort of vestigial form, the whole sequence of stages which occupy the interval between feudalism and capitalism in the Marxist system of socioeconomic evolution.

Although the relevance of the controversy to Japan's economic growth tended to become obscured, it prompted much valuable research on agricultural life, village society, the formation of an absentee (referred

to in Japan as "parasitic") landlord class and the associated formation of a rural proletariat, the spread of industrial crops, the development of commercial agriculture and rural industry, and in general the growing intersectoral involvement of peasant agriculture. The controversy also served to show up very clearly regional differences in economic development. The pure feudalists tended to draw their ammunition from the more backward regions of northern Japan and Kyushu, where medieval forms of social and economic organization persisted until quite late. Their opponents concentrated on the more advanced regions of Kinki and Chugoku in the Japanese heartland and of the Kanto Plain around Edo (modern Tokyo).

Both parties to this "manufacture controversy," as it was called, saw the introduction of modern industry as a new departure and denied that there was any continuity between premodern development and modern economic growth. The Japanese view was that the development of the traditional economy was blocked by the introduction of a modern industrial sector and that its stunted progeny survived in the shape of Japanese small business. One can agree that the impetus for modern economic development came from outside Japan. The threat of domination by the industrialized nations of the West, and the promise of far higher standards of material welfare which the new system of industrial capitalism held out, acted like the carrot and the stick to urge Japan into embarking on a program of modern development. As a follower country in this field, Japan clearly did not need to go through the process of reinventing industrial capitalism. In a sense, therefore, the "manufacture controversy" had little relevance to the later development of a modern economy in Japan. In another sense, however, both parties to the controversy missed the real point—the importance of the economic milieu into which Western capitalism was introduced. Why did Japan react as she did to the external stimuli? Other premodern societies (such as China) reacted very differently, and many more have hardly reacted at all. Once the decision to modernize was made, how did modern economic development get through into the economy at large, instead of remaining a small enclave as in China, Indonesia, or the oil-producing countries? The answers to both these questions must be sought in the traditional environment.

It is only quite recently that these questions have been posed specifically and the accumulated data examined from these points of view. Despite much good work in the last few years, there is still no general agreement on many important points. Initial income and productivity levels, for example, are highly relevant here. Common sense suggests that modern economic growth is unlikely to take place unless there is already a reasonable margin of production above the subsistence level, and in Western countries it began from relatively high income levels.

Was Japan an exception? Attempts to estimate national income for the 1860's or even the 1870's have not proved very satisfactory. Ohkawa's national income series is the best available, but its earlier years are

unsatisfactory. Over its first three years (1878-1880), for example, the series shows a 50 per cent rise in output of primary industry in real terms, which is hardly plausible. A recent reexamination of agricultural output almost doubles the official estimates used by Ohkawa for the late 1870's. Although the new estimate is itself not very convincingly based, it demonstrates the need for caution in this field. Since agriculture accounted for about 70 per cent of GNP in those days and is actually the best-documented sector of production, this will give some idea of the problems involved. Perhaps the next move should be to make detailed studies in depth of individual household economies. Data so far available on these, however, are heavily biased in favor of more prosperous farming families. Comparable data for poorer farmers, tradesmen, and lower-class samurai are to the best of my knowledge still lacking, and the prospects for obtaining a representative sample of income groups and regions along these lines seem rather remote. These are technical problems; but when it comes to making international comparisons of income levels, the conceptual problems seem insuperable. How are we to compare the output of Japan in the 1860's or 1870's with that of England on the eve of the Industrial Revolution or of Germany in the 1830's? The composition of output is so utterly different that there seems to be no basis for comparison. Perhaps a comparison of such indicators as Engel's coefficients might be significant—if only reliable estimates were available.

The initial degree of commercialization of economic activity is highly relevant to the process of economic development, inasmuch as potential for change would seem to be closely connected with the responsiveness of producers and consumers to changes in factor and product prices. To take the extreme case, it seems inconceivable that a process of economic development could get through to a basically subsistence traditional economy, unless it were forced upon it by direct controls. This may be the trouble, for example, in Mainland China, where the rural economy was never greatly market-oriented and where the removal of its main commercial element—the landlord class—left a situation unresponsive to market forces. In this situation, moreover, even direct action backed by the power of a Communist state has not proved notably effective. The rapid growth of agriculture and of the traditional economy as a whole in the free enterprise context of late nineteenth-century Japan would seem to indicate a rather high degree of responsiveness to market forces. Attempts to measure this by the ratio of marketed output to total output have so far not been very satisfactory for premodern Japan. As we have already seen, the level of total output for these early years is uncertain, and our knowledge of amounts marketed is even less certain. For the agricultural sector, estimates range from a low of 12 per cent to a high of over 60 per cent. The higher figure includes, in the marketed portion, deliveries of agricultural products (mainly rice) as taxes paid in kind. Whether this inclusion is justified or not is a problem in itself. The justification put forward is that agricultural output collected

in taxes was eventually marketed by the collecting agency and that it was possible in the 1870's to carry out, without apparent difficulty, an administrative change by which the producer marketed this portion of the crop himself and paid taxes in cash. On the whole this seems to outweigh the objections of those who exclude it on the grounds that this part of agricultural output was not subject to market forces in the unmodified traditional system. Since these tax payments amounted to over a third of agricultural output, the point is by no means a trivial one.

Somewhat similar problems are encountered in estimating rates of savings and the initial stock of capital. No thorough attempt has been made to estimate the stock of capital with which Japan began her modern economic growth, but so far as it has been taken into account it has generally been grossly underestimated. In particular, the capital value of leveled and graduated paddy fields with their retaining walls and irrigation systems was very large, and the more than doubling of paddy-land acreage in premodern Japan indicates a substantial rate of investment. This has frequently been neglected by those who have suggested that rice yields in other parts of Asia would be greatly raised by the adoption of Japanese methods. Such proposals often claim that Japanese methods of heavy application of fertilizer and pesticides, of seed selection and of planting techniques are not capital-intensive. Such methods, however, are only effective after problems of water supply have been solved, and that involves an extremely high capital/output ratio. In view of the important role of traditional production in Japan's economic development, some notion of the stock of native capital is very desirable, but the accounting problems of valuing capital assets are probably too great to permit more than a qualitative assessment. Any figure purporting to express in money terms the capital stock of Japan a century ago may be viewed with some suspicion.

Even in the field of population and vital statistics there are still many problems for the period before 1880. The difficulty of demographic estimation for this period lies in the fact that data are far less reliable for urban than for rural population. Since there was a substantial, though not accurately known, movement of population to the cities at this time, most estimates tended to underestimate population growth. Recent re-evaluations have taken this into account, and, whereas it was once thought that Japan's population was stable or even falling in the first half of the nineteenth century, it is now thought to have been rising slightly.

Perhaps it is just because the premodern economy is so much better documented in Japan than in other Asian countries that we attempt more and wind up dissatisfied. This may serve to underline the need to collect data now in the many areas of Asia and Africa where the process of modernization has as yet hardly begun.

In summary, the problem of preconditions for economic growth in Japan is largely one of perspective. However highly the development of the premodern economy is rated, it should be clear that it contained

in itself practically no features of modern economic growth. Although reopening of contact with the West was producing far-reaching effects before 1868, high rates of growth and structural transformation based on the systematic application of science and technology did not come until a decade or more after the Meiji Restoration. The significance of the premodern economy is that it was unusually responsive to change—some might say “ripe for change.” But the creation of the conditions under which modern economic growth could proceed in a basically free-enterprise context was the work of the period from 1868 to about 1885. In this period two things stand out: the growth of the traditional economy and the role of the state.

The growth of the traditional economy in the period up to the Russo-Japanese War is now recognized as an essential part of the process of economic development. Although its rate of growth may be somewhat exaggerated by underestimation of output at the beginning of the period, there can be no doubt that it was substantial. In the absence of any great assistance from outside, resources for the building of a modern sector could come only from the traditional economy. How was it able to provide this support? In a way, the marked regional differences facilitated growth as backward areas approached the standards of the more advanced. There was also considerable scope for the application of Western technology to traditional activities, and institutional changes seem to have released a good deal of pent-up potential. There remains, however, the problem of how traditional output was channeled into building the modern sector. In financial terms, the importance of the state is clear. Less is known about the way in which the private sector carried out its half of total investment. Moreover, the question of how traditional skills and activities could be mobilized in physical terms requires some explanation. Here, perhaps, Japan was fortunate in having been forced by her isolation to have a well-rounded economy, albeit at a comparatively low technological level. She was fortunate in the timing of the process, since the technological gap between traditional and Western production was not yet so wide as to make traditional skills inapplicable. She was fortunate also in finding strong demand abroad for such traditional products as silk and tea and in being able to maintain patterns of consumption that could be satisfied by the products of the traditional sector. None of these conditions necessarily obtains in countries now planning for development. In many of the underdeveloped countries of today, production tends to be biased toward a limited range of exports, such as the products of tropical agriculture, for which world demand is claimed to be falling, or at least becoming more elastic. The technological gap also may now be so great that traditional methods are becoming less applicable. The failure of traditional methods, outside of civil engineering and construction, to make much of a contribution to China’s “Great Leap Forward” would seem to provide an indication of this.

The role of the state in institutional change, finance, and entrepreneur-

ship has been studied in detail in Japan and has generally been the focus of foreign interest in Japanese economic history. In the institutional field, the Meiji government abolished the Tokugawa class structure of samurai, farmers, artisans, and merchants. It abolished or commuted the hereditary privileges of the samurai, although interestingly enough a separate class of "ex-samurai" was retained for about another forty years. It freed internal and external communications and commerce, and it established freedom of occupation. Its reform of the land tax not only provided the mainstay of government revenue for the next forty years but brought sweeping changes in rural life.

In the financial field, the state not only created modern fiscal and financial institutions culminating in the establishment of a central bank in 1885; it also played a leading part in mobilizing resources for transfer from the traditional economy to the young modern sector. How the state used budget funds to undertake about half of gross domestic investment has been described in detail by Rosovsky. But its contribution to capital formation was not confined to this. By its actions the state converted whole blocks of traditional assets into capital. The new land tax and removal of restrictions on the alienation of land brought land into the capitalist system. Commutation of samurai stipends turned hereditary privileges into capital, and the associated creation of banks authorized to use pension bonds as their reserves created such an amount of liquid funds that after 1876 ruinous inflation was avoided only by the drastic deflationary measures of 1881. Despite the inflationary dangers, however, deficit financing and massive injections of liquid funds probably served a good purpose in mobilizing resources during the fifteen years or so before a sound fiscal base had been established. In fact, prices settled down remarkably quickly after the disturbances of the Restoration and it was not until 1876 that inflation again became a problem. It seems likely that until then the rapidly rising transactions demand for cash absorbed the expanding supply. If so, inflation after 1876 might indicate that monetization was virtually complete by that date. Perhaps other factors began to operate at this time, but this whole question deserves further study, particularly now that a monumental collection of materials on the financial history of the Meiji and Taisho periods has been completed by the Bank of Japan.

Why did the state play such an active part in view of the fact that its plans were predicated on the free-enterprise capitalist model, and how was it able to act so effectively? The answer to the first part of the question may have something to do with Japan's relatively late entry into the field. It has been observed that, in general, the later the process of economic development begins the greater the participation of the state. The explanation may be related to the increasing width of the gap between the existing situation and the situation aspired to. The gap may have become too wide to be bridged by unaided private efforts. If this was the case in nineteenth-century Japan, we must expect a much wider sphere of state action in the countries embarking on the



process now. The ability of the Japanese state to perform its role can be explained partly by the wide powers of economic control exercised by central and local governments in the traditional system. Overseas and interregional trade, mining, forestry, water conservation, and what little Western-type industry there was before 1868 were all almost entirely government operations. Governments promoted industrial crops and manufactures and claimed the right to control wages and prices. No large-scale enterprise could be undertaken without official sanction. In the early Meiji period, moreover, the government was the only agency with access to investible funds in very large amounts. This, too, owes something to the effective system of taxation which the Meiji government inherited from the traditional system. Although its direction and aims changed, state activity in economic life was nothing new.

The meaning of the government's apparent withdrawal from direct participation in industry in the retrenchment of 1881 has been the subject of some discussion. The theory that the sale of government undertakings to private interests at low prices at this time was a form of compensation for financial aid in the early years of the Restoration has now been generally abandoned. The Meiji government was under no particular obligation to most of the buyers; nor were the buyers themselves particularly keen to purchase the undertakings. It is now viewed as an economy measure. Losses of these enterprises were a drain on the exchequer and, although both parties to the transactions may have guessed that they might well become profitable at some future time, the government felt that it could not afford to keep them at that time. The importance of this so-called Matsukata deflation can hardly be over-emphasized. Far from throttling development, it strengthened and completed the basis from which the growth of the modern sector really began. Perhaps this episode, too, contains a moral for the developing countries of today.

Important as the state's role was, particularly in the early stages, Japan has never been a Socialist or even (except in wartime) a highly planned economy. Success or failure of her economic development depended fundamentally on the achievements of the private sector. Because it is more diverse, less well documented, and generally more difficult to handle than the public sector, however, it has been given less prominence than it deserves in general economic histories of Japan.

For many, the problem of the supply of entrepreneurship has become central to the understanding of economic development. Japanese have tended to take this factor rather for granted. Such questions as whether the process of economic development created its own supply of entrepreneurs or whether their autonomous emergence was a precondition of development remain unanswered and largely unasked in Japan. Japanese work in this field has consisted of a very large number of biographies of individual entrepreneurs and histories of individual firms. Much of this work is excellent, although much is unobjective. Biographies were often commissioned by the family or by associations of admirers, and most of

the business histories were published by the firms themselves. The urge which Japanese firms of any size apparently feel to perpetuate their achievements in print is a great boon to the economic historian. Although many of the results are scrappy, larger firms have commissioned leading economic historians to compile competent and detailed works. Some firms, like Mitsui and the larger banks, maintain full-time historiographical staffs. Despite the existence of this large and still growing mass of material, Japanese have, characteristically enough, made little attempt to systematize it beyond some rather mechanical tabulations of the social origins of businessmen. The field has not yet been invaded by Japanese sociologists, psychologists, and psychoanalysts which, in view of the primitive state of the behavioral sciences in Japan, is probably just as well. Since Japan is a follower country in economic development, the entrepreneur is seen simply as a businessman who introduces methods, generally well tried elsewhere, in response to emerging opportunities. He sees the opportunities more clearly and has a longer time horizon than most, but his main asset consists in access to scarce investible funds, often through his contacts with the government. His community-centered orientation has been noted by G. Ranis. He is, in fact, typically a promoter rather than an entrepreneur in the Schumpeterian sense. There seems to have been no shortage of competent businessmen of this type. Much experience acquired in the premodern period was easily applied to new kinds of activity, although this resulted in some interesting peculiarities of business organization. Perhaps changes in the business sphere at any rate were less drastic than we tend to suppose. Certainly a close connection between business and government was nothing new.

In the period up to 1885, the growth of traditional output overshadowed the rather shaky beginnings of the modern sector. Even in the twenty years after the Matsukata deflation, rates of increase in output and productivity were comparable to those in the modern sector. From about the time of the Russo-Japanese War, however, the modern sector grew with gathering speed and there was at the same time a slackening of growth in the traditional sector. A growing gap in growth rates, productivity levels, and wages between the two sectors produced a new set of problems which may be described collectively as the problem of the dual economy. This is a structural concept, not a regional one, as in some countries. In Japan, the problem was viewed as the problem of small business conceived, though not explicitly, as traditional industry. Japanese scholars at first thought that the growth of the traditional sector was slackening *because of* the development of the modern sector and expected that traditional industry would soon be competed out of existence. Later they saw its long survival as something peculiar to Japan and sought reasons for it in special features of the Japanese economy. It was only with the recent remarkable growth of the modern sector that the dual economy was again recognized as a phase in the process of structural transformation which is the essence of Japanese economic

growth. In Japan, a dual economy with differential wages, labor productivity, and factor proportions has survived far longer than it did in any advanced Western country. This may have been due up to a point to the setbacks of the 1920's, but differential rates of development leading to a dual economic structure are probably characteristic of all densely populated follower countries. Because of the increasingly capital-intensive nature of modern industry, this phenomenon may be more pronounced the later the development takes place.

Basically, the problem stems from the inadequacy of the rate of capital formation to raise the productivity of the whole economy to modern levels within a reasonable time, and it is intensified by the rapid rate of population growth usually associated with development. In the initial stages there may be an investment choice between concentrating on the modern sector and attempting to maintain equal rates of productivity increase in both sectors. It seems highly unlikely, however, that this freedom of choice could be maintained in a free-enterprise system once the development of the modern sector had proceeded very far. The problem is not only a welfare problem of inequality of incomes. It also involves some complex problems of resource allocation and is related to the "balanced" versus "unbalanced" growth controversy. A study of Japanese experience from these points of view might provide some interesting results.

If high rates of investment in the modern sector combined with a falling rate of increase of working population continue, the problem should eventually be solved by the absorption of the low productivity traditional sector. This raises problems of the economic "history" of the future with which we have no space to deal here. There is no reason, however, why economic historians should not be considering them now, since past, present, and future are all part of the historical process in which we are interested.

In studying the economic history of Japan, the foreigner often feels like an interloper. With so many competent Japanese in the field, we are acutely aware of our linguistic and other disadvantages. I have tried to indicate some of the areas in which we could make a useful contribution in collaborating with and supplementing the efforts of our Japanese colleagues.

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