

Capital and Labor in the Meiji Era: The Meiji Restoration and the Start of Japanese Modern Economic Development

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Abstract

The topic of this paper is the capital and labor in Meiji Era (1868-1912) and the basic research question is on how Japan started its economic growth during the Meiji era through a series of reforms of the Meiji Restoration. A comprehensive set of studies has been done in academia that investigates the implications of those policy reforms, and this paper aims to utilize the insights from multiple previous scholarly research as its basis and develop its arguments in a logical manner to shed light on the application of various economic concepts and models in the analysis of Japanese Meiji era.

Keywords

Meiji Restoration; Capital and Labor; Japanese Modern Economic Development.

1. Research Theme Introduction and Paper Overview

In this paper, I will investigate the wide-ranging factors that have contributed to the economic growth including social and political driving forces, which are studied by various scholars and researchers in the literature of Japanese economic history. The social background and the changes that happened to the social system and structures in Japan is key to answering my research question. The foundation of my analysis is laid with an overview of the initial conditions of the economic growth including the international trade system the economic heritage from Edo era.

After the examination of the initial conditions, the adjustment process of the Japanese economic system is analyzed. The role of the Japanese government in the economic development during the Meiji Restoration comes in two ways, first, in introducing social structural reforms, and second, in creating industrial and entrepreneurial incentives. Through discussing government policies with a particular focus on labor orientations, qualitative analysis is conducted to give insights to their impacts on Japanese markets and trading environment. As a result, the importance of the land tax reform and the shareholding landlords in capital accumulation and the development of national industries and local businesses is emphasized. During the liberalization of economic activities and the removal of several trade barriers in Japanese society after the Meiji Restoration, the idea of “capitalism” was embedded in Japanese economic mechanism and Japanese societal development, and “profitability” and “efficiency” became a central philosophy and consideration of Japanese traders and dealers, and “profit-seeking behavior” became commonplace across national markets and industries.

Furthermore, the government industrial “Shokusan Kogyo Policy” (殖産興業), i.e., developing industry and promoting enterprise, its contents and economic impacts are evaluated in relation to its goals and its touch on different economic sectors. Overall, the government investments and private sector have played important roles in the industrialization.

Even though the economic and social statistics about the Meiji era are highly limited, this paper resort to existing studies that have been conducted by experts and professionals and

historical statistics from the Maddison Project Database. Therefore, the logical framework of the analysis and arguments of my term paper will be primarily based on the research by Masato Shizume, the professor of History of Japanese Economy at PSE of Waseda University, an expert on Japanese monetary system and financial institutions, and a variety of other external sources of information are also utilized, noticeably the work of Nakamura Takafusa, "The Start of Economic Growth".

2. Initial Conditions of Economic Growth: International Trade and Economic Heritage from Edo Era

To examine the initial conditions of Japanese economic growth during the Meiji era, two crucial elements are analyzed and contextualized in my paper: international trade and the economic heritage from Edo era. There is a two-dimensional effect of the start of international trade. The first component is the comparative advantage and the difference in resource allocation that the Japanese domestic economic system obtained from specialization and foreign exchange of goods and services, which was a static and one-time effect resulting in a move of Japan from autarky. This component of effect is relatively small, contributing to less than 10 percent of Japanese GDP.[1] The second component is the innovation and growth in TFP (Total Factor Productivity) of Japan, kicking start the accelerated Japanese modern economic growth[2] and contributing to prolonged structural changes, which was a dynamic and long-term effect gained through technological development.[3] The two-dimensional effect of Japanese international trade provided a wide range of beneficial conditions, creating an ideal environment for Japanese market development.

On the other hand, the economic heritage from Edo era also played an important role in the creation of conditions for Japanese modern economic growth. The heritage includes human capital, due to the relatively high standard of education, practical ethics and the development of entrepreneurship. Moreover, national commodity markets were created in Edo era and the majority of the Japanese population engaged in commercial activities. Finally, monetary and financial infrastructures were constructed during Edo era, promoting industrial development. [4]The evidence of the start of economic growth and development of TFP is provided by the comparative world data across countries from 1500 to 2008 on per-capital GDP and the summary table of sources of labor productivity growth (growth accounting) during the periods of 1885-1899 and 1899-1913 by Fukao from the Maddison Project.[5]

3. The Meiji Restoration (1868), Land Tax Reform, Role of Landlords and Capital Accumulation

Under the initial conditions of international trade and heritage from Edo era, the adjustment process of the Japanese modern economy started. A comprehensive and systematic set of reforms took place during the Meiji Restoration of 1868. The major achievement and impact of the Meiji Restoration was the removal of economic barriers among social classes and regions.[6] The social structural reforms came in two important ways. First, the land tax reform had multi-dimensional effects that improved Japanese fiscal balance, stabilized the national revenue, clarified the property right of land ownership and stimulated trade of land by making land an object for investment. It also led to Matsukata deflation under the landlord-tenant system. Finally, the tax was to be paid in money, which resulted in payers seeking products in local markets and promoting commodity trade.

Second, the central government kept paying stipends to ex-samurai warriors in kind (rice), assuring their vested right in order to prevent their rebellion, which was 30% of government expenditure in normal times, even though ex-samurai were retired and weren't government

employees anymore. In 1875, the payment method was switched to money. In 1876, the stipends were abolished by the government, and at the same time, government bonds were issued as a kind of compensation allowing the bonds to be the security of private banknotes issued by (American type of privately-owned) national banks. This change reduced the level of income of recipients by 60-70 percent and contributed to the securitization of the rights in receiving pension.[7]

It's important to emphasize the role of agriculture and landlords in capital accumulation during the Meiji era. Land tax was the major source of revenue for the early Meiji government, the old land tax in 1868 brought only 2 million yen to the Japanese government, whereas the reformed land tax in 1873 brought 60.6 million yen, which was more than 90% of the tax revenue and about 70% of the fiscal revenue. In 1876, the government lowered the tax rate from 3 to 2.5%, but the burden of even this lower tax eased as a result of the inflation during the Satsuma Rebellion and the skyrocketing price of rice. Profit-seeking behavior became widespread and people combined plots for high profits and even large merchants and zaibatsu such as Fujita and Mitsubishi became land managers. Until after the First Sino-Japanese War, the proportion of land tax to total tax revenue fell below 50%. Therefore, the tax revenue from agriculture clearly was the basis of the Japanese government's capital accumulation. The parasitic landlords as well used tenant rents to accumulate for other industries. Yamaguchi gives the cotton industry as an example and concluded: "The largest shareholders of a firm in most cases were almost all residents of the same prefecture in which the firm was located...and particularly the same city as the firm...Thus, the spinning companies of this time were local enterprises which relied on local funds." [8] Landlords were instrumental in spinning firms. The banking industry is another example. Farmers of the commoner class held only 3 to 4% of the stock of national banks between 1880 and 1896, according to Asakura. Many of the merchant stockholders who held 15 to 20% of the total were landlords. In addition, local railroads and sea transport companies were probably similar in stockholder composition like the two examples. [9]

Furthermore, landlords were active in the traditional industry, as brewers, pawnbrokers and village moneylenders. The number of sake brewers and soy sauce brewers both more than doubled from 1892 to 1899. Most of them were landlords and as a result, they played a key role in local capital accumulation, although not all their capital was agrarian in origin. To sum up, landlords played important roles in government capital accumulation through land tax provision, and in social capital accumulation through shareholding in both modern and traditional industries, and in both local and national industries, leading to capitalization and long-run economic growth.[10]

4. The Shokusan Kogyo Policy (殖産興業), Role of Government and Development of Private Sector

The government industrial policy 殖産興業, meaning to develop industry and promoting enterprise was initiated by the Japanese government for the mobilization of private capital. During the 1870s, the national banking system was created, and railroads, postal and telegraph networks and the public sector factories were built up. The lending of funds to private firms became common. Although the projects worked as pilot cases, the effect was limited due to the lack of quality management of those investments. In general, the private sector, rather than the public sector played the primary role towards industrialization. Through the industrial policy, the adjustment process of the Japanese modern economy continued.

Japanese government played an important role in boosting industrialization and modernization and designed a variety of policies and set up a range of economic institutions.

First, it guaranteed the freedom of migration and occupational choice, contributing to greater labor mobility. Second, it developed the judicial system which guaranteed property rights. Third, investments were made in the education sector which increased the level of human capital. Fourth, tax and money were unified, and this became an infrastructure for mobilizing domestic financial capital. Finally, the government industrial policy developed the infrastructure of the daily life of the Japanese. All of these actions supported the private sector of the Japanese economic system.[11]

The chronology of industries in which the economic and social development took place is in this order: banking and finance, transportation, mining, and textile respectively (infrastructure first, industry second). A system of social organization was also imported, and a corporate form of business and a banking system (private-issuing banks and the central bank) was introduced. The roles of private financial institutions in the Japanese financial system with a reference to their number and capital, including national banks, private banks, and quasi-banks are illustrated in the statistical research by Goto.[12] Statistical information about the development of postal and telegraph services, land transportation (railroad), sea transportation, sericulture and silk reeling industries are to be observed from Sugiyama's tables.[13]

5. Topic Conclusion and Topic Evaluation

From outlining the initial conditions of international trade and the heritage from Edo era, this paper develops its argument centering around the impacts of the social reforms and industrial developments during the Meiji Restoration. The roles of landlords in shareholding and capital accumulation and the government actions in supporting the private sector were highlighted as important factors that led to the rapid modern economic growth of Japan. The various government policies and the wide-reaching set of reforms laid the basis for the establishment of the Japanese modern industry and the long-run economic development of Japanese society. This paper also offers insights on how social reforms are related to economic development in terms of productivity, investment and so on. Furthermore, the idea of the market economy, capitalism and monetarism are at the heart of the Meiji Restoration, along with the concept of profitability and efficiency, those concepts were embedded in Japanese social environment, and the importance of financial systems, monetary institutions, and private sector are demonstrated in the logical framework of this paper. Even though the studies to which this paper refers were based on limited, incomplete and possibly biased historical data about the Meiji era and they could be out-of-date, sufficient insights and reliable and valid conclusions can indeed be drawn from the implications of the driving forces that contributed to Japan's capitalization, industrialization and modernization from the Meiji Restoration. In conclusion, although limited amount of recent research on the Meiji era economy are available for discussion, with the development of statistical analysis techniques, Japanese economic historians are urged to fill the potential missing parts in the existing research of the literature to give us a more complete picture and a more realistic and viable conclusion, meeting the increasing demands of self-interested readers. Clearly, more accurate, a wide range of information and a tremendous amount of data collection, analysis and interpretation are required for scholars to achieve this purpose, as to capture more details in the changing nature of the factors contributing to (long-run) economic growth in Japanese economic history, as implied by the Production Function $Y = A F(L, K, H, N)$ in the language of economics in relation to various sociocultural considerations.[14]

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