

The Importance of Entrepreneurship in Japan's Late Nineteenth-Century Meiji Industrial Transformation

By John H. Sagers

Japan's rapid transformation in the late nineteenth century, from an agricultural society governed by the feudal samurai warrior class into an industrial power, is an unusual story in world history. When samurai leaders from Satsuma, Chōshū, and other domains joined forces to overthrow the Tokugawa Shogunate and rule in the name of Emperor Meiji in 1868, they might have been expected to establish a similar form of government that maintained the existing class structure and protected the samurai class's privileges. Instead, the Meiji government initiated a series of reforms that resulted in the abolition of the old class structure, elimination of samurai entitlements to hereditary stipends, deregulation of markets formerly controlled by officially chartered merchant guilds, and removal of restrictions on social mobility. Although many scholars have emphasized the importance of government planning and initiative in Japan's Industrial Revolution, private entrepreneurship in response to economic and social liberalization was of central importance. As we will see, political entrepreneurs within the government were much more successful in stimulating economic development through institutional support of private property rights and infrastructure investment than in central planning and management of state-owned enterprises. Entrepreneurs in the private sector then responded to new opportunities in the marketplace and invested their energy and resources in enterprises that contributed to Japan's economic development.



The Japanese delegation to the 1867 Paris World Fair. The young individual (seated in the center) is Akitake Tokugawa, half-brother to Shōgun Yoshinobu Tokugawa, the last of the Shōgun rulers. He visited Europe on an international goodwill visit. Eiichi Shibusawa is the first person on the left in the back row. Source: *Wikimedia Commons* at <https://tinyurl.com/yxhh6ygx>.



Woodblock print depicting the Tomioka silk reeling factory just after its start of operation. The women working at the long tables are sorting and prepping the silk moth cocoons.

Source: *WasedaWeekly* website at <https://tinyurl.com/y2u2lxjf>.

Discussions of entrepreneurship often begin with the work of Austrian political economist Joseph A. Schumpeter, who in the 1930s and 1940s articulated a new understanding of the role of entrepreneurs in economic development. Development for Schumpeter was “defined by the carrying out of new combinations” through introducing new goods or new methods of production, opening a new market for existing goods, acquiring a new supply of raw materials, or organizing an industry in a new way.¹ Schumpeter argued that entrepreneurs were the leaders in a capitalist evolutionary process that “first of all destroyed, or went far toward destroying, the institutional arrangements of the feudal world—the manor, the village, the craft guild.”² In examining the entrepreneurship of the Meiji Era, it is helpful to think of political and business leaders as fulfilling both these roles, simultaneously destroying the old institutional and organizational framework and creating new institutions and organizations to produce new goods and services for Japanese and international markets.

Well before the Meiji Restoration in 1868, Japanese producers were already developing entrepreneurial skills and attitudes in the changing Tokugawa economy. As historian Johannes Hirschmeier found, much of the entrepreneurial energy in the Meiji transformation came from rural farm families. Tokugawa Era commercialization led to farmers producing cash crops and handicrafts for market. Satō Gentabei, for example, was a wealthy farmer in Fukushima who produced sake, tea, rice, soybeans, and yarn. He was able to employ other people in his village to spin yarn. Rural entrepreneurs later provided the foundation for silk, cotton, vegetable oil, sake, and other industries.³

Rural entrepreneurs also had the advantage of being relatively free from the restrictions that governed commerce in the cities. Officially licensed wholesalers controlled how goods and services were produced and distributed in Japan’s urban centers. Trade between Osaka and Edo was controlled by twenty-four authorized agents with monopoly rights. When nineteenth-century reforms undermined these monopoly rights, old producers were encouraged to seek new markets, and opportunities opened for new entrants into existing industries.⁴

Soon after the Meiji Restoration, officials within Japan’s Ministry of Finance reformed Japan’s system of land tax collection and made land ownership more market-oriented. Where taxes had been collected in kind based on a percentage of the harvest, the new fixed land tax was to be paid in



Ōkubo Toshimichi (1830–1878). Source: *Wikipedia* at <https://tinyurl.com/y3hnq5ye>.

cash based on the assessed value of the land. This reform had the effect of both stabilizing government revenue, which would no longer fluctuate with the yearly harvest, and creating additional incentives for investment in agricultural productivity. The government essentially granted property rights over a piece of land to whoever was responsible for paying the land tax. Since the land tax was now fixed, the owner could keep anything produced above that amount. This led farmers to make greater capital investments to increase agricultural productivity of their lands.⁵

In the early Meiji years, government leaders also attempted—but with less success—to stimulate entrepreneurial activity with the Promoting Production and Encouraging Industry Policy (*Shokusan Kōgyō*) through a program of government-organized enterprises. Minister of Home Affairs Ōkubo Toshimichi summed up the paternalistic spirit of this industrial promotion policy in an 1874 memorandum when he stated, “It is the responsibility of those who are in the administrative positions in the government to guide and importune those who are weak in spirit to work diligently in the industries and to endure them.”⁶ For Ōkubo, industrial development was not simply a matter of technology transfer; it depended on exhorting Japanese to be more industrious and entrepreneurial in spirit.

One of the most famous examples of the Meiji government’s industrial promotion efforts was the Tomioka Silk Filature, where modern silk-reeling equipment was purchased from France and installed in a model factory so Japanese producers could learn about the latest technology and apply it in their own businesses. However, results in state-run enterprises like Tomioka were generally poor. Most growth in the silk industry took place not through implementing modern technology, which was prohibitively



Maeda Masana (1850–1921). Source: *Portraits of Modern Japanese Historical Figures* at <https://tinyurl.com/y383c67z>.

expensive, but rather using existing wooden machines operated by hand or water power.⁷

From 1871, members of the samurai class were allowed to enter occupations in agriculture, industry, and commerce. Officials also made plans to remove the stipends paid to samurai from the government's budget. Between 1874 and 1876, stipends paid to samurai were converted to lump sum cash payments for smaller stipends and government bonds bearing 5 percent interest for larger stipends.⁸ Some samurai used this money to invest in new businesses, but few succeeded.

By 1880, the limitations of government efforts to generate sufficient economic growth had become apparent, and the state-owned assets were sold at low prices to private enterprises. In a comprehensive economic development report "Opinions on the Encouragement of Industry" (*Kōgyō Iken*), government official Maeda Masana argued that the government's policies were largely to blame for the failure to generate meaningful entrepreneurship. Taking issue with the idea that former samurai should provide leadership in modern Japan, Maeda decried the inability of the ex-warrior class to be successful in commerce after receiving government bonds in place of their hereditary stipends:

By 1880, the limitations of government efforts to generate

[The samurai] then changed their public bonds into cash and become engaged in various occupations. However, they are totally inexperienced in commercial activity, which requires sophisticated calculations for profit-making. As a consequence, those who have entered into commercial enterprises have been faced with many difficulties.⁹

Among these difficulties were falling prey to foreign merchants who took advantage of their inexperience or being victimized by managers they hired from the merchant class. So daunting were these difficulties that Maeda wrote, "We may say that only one out of a hundred met with any success."¹⁰ In a later section, Maeda stated,

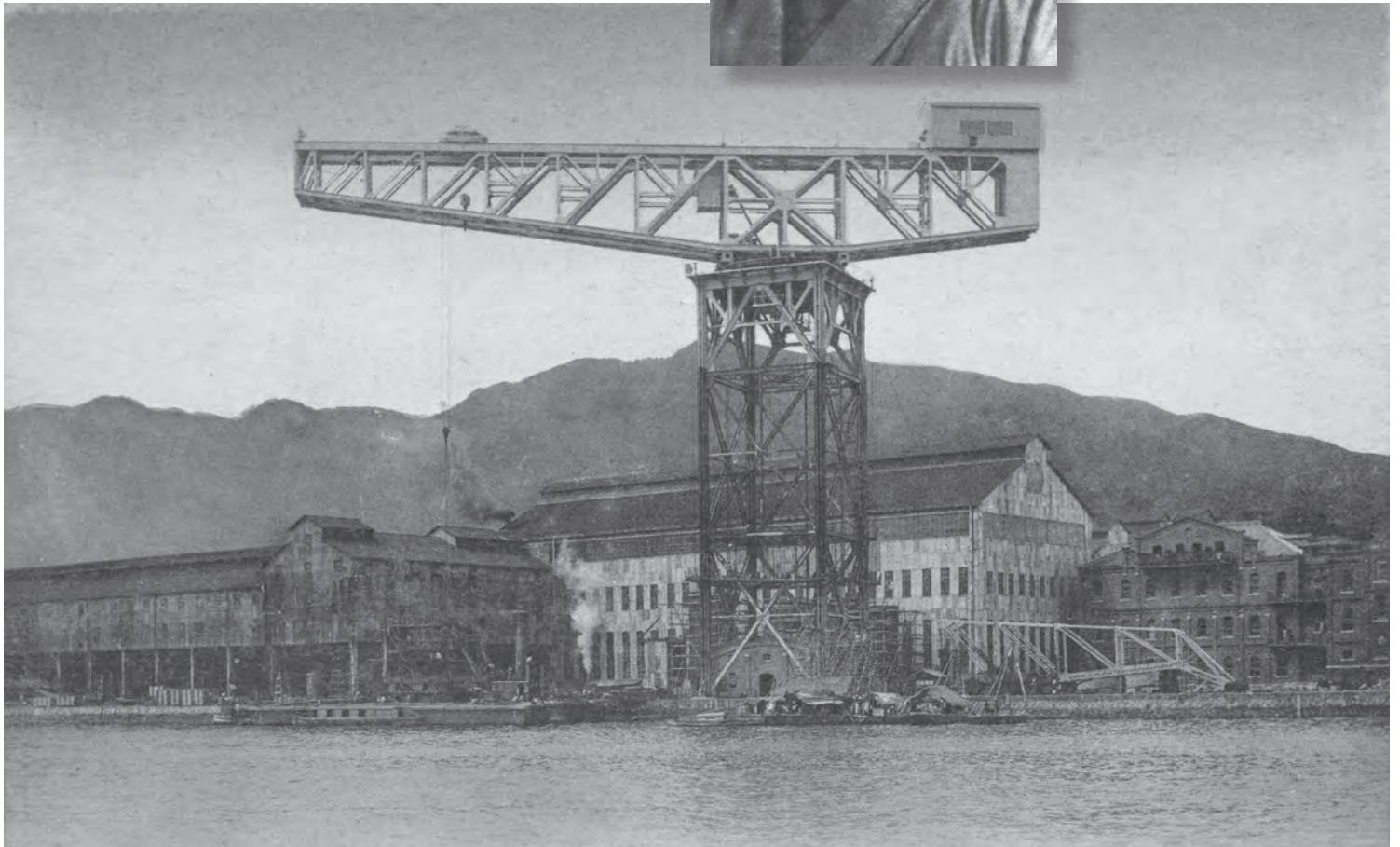
In short, the failure of government incentives and protective policies for the promotion of industry resulted from the fact that both the government and the people wanted to promote industries immediately before all of the necessary conditions had been set up.¹¹

With the failure of government industrial promotion efforts, private entrepreneurs stepped in, often with significant government help, to manage new enterprises. In the private sector, we can identify five types of entrepreneurs who responded to changing economic opportunities in



the Meiji Era. First, and perhaps most famously, were the "political merchants" like Iwasaki Yatarō, who used close connections with government to build large conglomerates known as *zaibatsu* (financial cliques). Second were entrepreneurs like Shibusawa Eiichi who focused on building organizations to accomplish a variety of

Iwasaki Yatarō (1835–1885). Source: *Wikipedia* at <https://tinyurl.com/y2xnf32c>.



Early 1900 postcard of the Mitsubishi shipyard in Nagasaki. Source: *Portraits of Modern Japanese Historical Figures* at <https://tinyurl.com/y383c67z>.

objectives. Third were entrepreneurs like Itō Denhichi who moved into industries with equipment purchased at low prices from the government. Fourth were entrepreneurs from older merchant houses like sake brewer Tatsu'uma Kiyō, who took advantage of new opportunities afforded by deregulation and access to nationwide and international markets. Fifth were entrepreneurial innovators like Hattori Kintarō, who opened a shop to sell clocks and soon began producing them in a small factory that would grow into the famous Seiko Corporation.

Mitsui and Sumitomo were both merchant houses that survived the Meiji Restoration and expanded into other businesses to become zaibatsu conglomerates. Mitsui provided banking services to the Meiji government and invested in silk and cotton textiles in the 1870s. Acquiring the Miike mine in Kyushu from the government in 1888, the Mitsui group further secured its financial base with which to provide capital to other enterprises in its emerging zaibatsu.¹² Sumitomo's main business in the Tokugawa period was copper mining. After the Meiji Restoration, Sumitomo applied Western technology to copper mining and refining. It then expanded into financial services, insurance, warehousing, and other businesses.¹³

Mitsubishi was another company closely associated with government subsidy and support. Historian William Wray outlined the ways entrepreneurs who became known as political merchants (or *seishō*) could exploit connections to government and build large fortunes through currency speculation, exclusive privileges like Mitsui had in banking, trading companies and access to information, and government service contracts such as those exploited by Iwasaki in building Mitsubishi. Beginning with a government subsidy of shipping, Mitsubishi diversified into mining and later into industry. Mitsubishi managers were generally free from direct government control, but lucrative contracts gave them the financial resources to develop their capabilities in a number of fields until Mitsubishi was a large conglomerate, or zaibatsu.¹⁴

Iwasaki was born in the Tosa domain in 1834 to a rural samurai family. In the early decades of Iwasaki's life, the Tosa domain was exploring ways to encourage economic production. Iwasaki was a student of Yoshida Tōyō, a scholar of Western learning and a domain official who argued for development of shipping to enhance the competitive power of nations. In early 1866, Iwasaki was appointed to the Tosa domain's *Kaiseikan*, Industrial Promotion Agency, where he worked to promote the domain's trade and shipping in Osaka and Nagasaki. After the Meiji Restoration, Iwasaki continued to build up his shipping concern as a domain agency, starting with three steamships and acquiring more. As a domain agency, Iwasaki enjoyed government support and protection, but he was not subjected to the same level of regulation that hindered the management freedom of Tokugawa Bakufu-licensed merchants. This new pattern of government business relations, where government subsidized key industries but left management decisions to private enterprise, would become a key feature of the zaibatsu model.¹⁵

Iwasaki was a business competitor and made no apologies for doing whatever was needed to maintain Mitsubishi's viability. When considering Mitsubishi's rivalry with the British Peninsula & Oriental Steam Navigation Company for control of shipping between Yokohama and Shanghai, as well as shipping between Japan's coastal cities, in 1874, Iwasaki noted, "I have thought about this problem very carefully and have come to one conclusion. There is no alternative but to eliminate unnecessary positions and unnecessary expenditures."¹⁶ In an 1878 company notice, Iwasaki made it clear that Mitsubishi was his family's company and that decisions were his alone to make,

The company is named as a company and is organized as such. However, in reality, it is a business enterprise of one family and is different from a group publicly subscribed and organized into a company. Therefore, anything relating to this company, including commendations and admonitions, and promotions and demotions, must be sanctioned personally by the president.¹⁷

Shibusawa Eiichi

Shibusawa Eiichi (1840–1931) was a financier, industrialist, and has often been called the "Father of Japanese Capitalism." To recognize his contribution to the economic growth of modern Japan, the Japanese government recently announced that his portrait will appear on the 10,000 yen note, beginning in 2024.

The son of a prosperous farming family in what is now Saitama



New 10,000 yen note. Source: Wikimedia Commons at <https://tinyurl.com/y5cyth5k>.

Prefecture, Shibusawa learned many business skills from his father, who operated a sideline business processing indigo for use in dyeing fabric. Following Japan's forced opening to international trade in the 1850s, Shibusawa left home to become an activist committed to reforming Japan's politics, economy, and society.

Following the Meiji Restoration, Shibusawa was recruited by the new government to work on tax, banking, and commercial reforms. He left the government to become head of the newly created First, or Dai Ichi, Bank. From this position, he helped organize and finance nearly 500 new business enterprises as joint stock companies.

After his retirement, Shibusawa lectured widely on his belief in using Confucian moral principles to guide ethical business conduct. These ideas were encapsulated in the book *The Analects and the Abacus*, published in 1916. Shibusawa also made several trips abroad to meet with government and business leaders to promote international understanding.¹

NOTE

1. John Sagers, "Shibusawa Eiichi and the Merger of Confucianism and Capitalism in Modern Japan," *Education About Asia* 19, no. 3 (30–35): <https://tinyurl.com/y2w4qepz>.

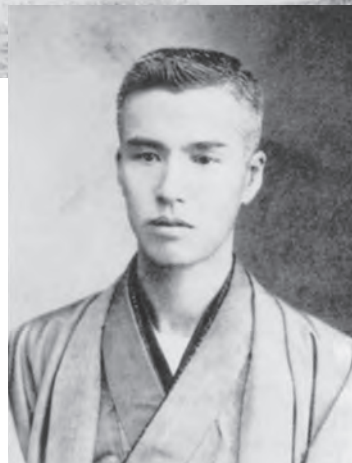
In contrast to the family-owned zaibatsu model, financier Shibusawa Eiichi championed the joint stock company as a way to distribute ownership among many shareholders. As the head of Dai Ichi Bank, Shibusawa acted as a venture capitalist and organizer to assemble capital and found companies.

When starting a new company, Shibusawa generally acted as a facilitator, drafting articles of association, holding an inaugural meeting, and collecting funds from shareholders for the new business. At the initial meeting, directors and auditors would be selected and Shibusawa would turn over operation of the company to them. If companies ran into difficulty after incorporation, Shibusawa was available for consultation and would sometime send a management team to get a company through a crisis.¹⁸

A leader in financial circles, Shibusawa also provided needed capital to other entrepreneurs. Itō Denhichi was a merchant who was forced to seek new opportunities following the Tokugawa regime's collapse. When his monopoly rights as a sake brewer were eliminated after the Meiji



The K. Hattori Building in the Ginza District in 1895. Source: *Smoking Samurai* website at <https://tinyurl.com/y4dsrbb>.



Hattori Kintarō as a young entrepreneur in 1890. Source: *Smoking Samurai* website at <https://tinyurl.com/y4dsrbb>.

Clock from the Seikosha (in later years, Seiko) clock factory. Source: *Seiko Clock Inc.* website at <https://tinyurl.com/yy48479o>.



Illustration of the Seikosha clock factory in 1920. Source: *Smoking Samurai* website at <https://tinyurl.com/y4dsrbb>.

Restoration, Itō thought the future of cotton textiles would be promising. When the Meiji government sold ten sets of 2,000 spindles, he applied for and was awarded the right to purchase them. Running into many difficulties getting a cotton-spinning factory underway, Itō died in 1883 before the business ever became profitable. His son was almost bankrupt when Shibusawa and other investors put sufficient capital into the firm Mie Cotton Textiles until it was able to turn a profit.¹⁹

Another Tokugawa Era merchant house that successfully navigated the Meiji transition was the sake brewery led by Tatsu'uma Kiyō. Kiyō was the daughter and only child of Tatsu'uma Kichizaemon IX. She married the son of another sake brewer, and he was adopted as the heir of the Tatsu'uma house and became Kichizaemon X. From 1842, Kiyō was the main leader of the house behind her husband and sons, who were the nominal heads of the household. She recruited brewmasters and carefully arranged marriage for her children to build alliances with other sake-brewing houses.²⁰

Although we often think of entrepreneurs as risk-takers, it is important to remember that minimizing and managing risk is actually a key factor in entrepreneurial success. In sake brewing, risks stemmed from contamination, fire, and fluctuations in the price of rice. Kiyō managed these risks by diversifying into financial services, including gold/silver exchange and moneylending. After acquiring property through defaults on loans, Kiyō further expanded into real estate. To manage the risks associated with shipping sake to Edo, the Tatsu'umas borrowed money to acquire their own ships and entered the shipping business, followed by her own marine and fire insurance company. She also pioneered selling sake in bulk to minimize the effects of price fluctuations in barrels and blended her family's sake with sake from other brewers when Tatsu'uma sake fell short of demand.²¹

Kiyō's entrepreneurial strategy was to expand her core business and move into adjacent fields where her company could be successful. These moves could be seen as risk-taking, but it would be more accurate to see them as creating new combinations to minimize and control risk rather than to take on new risks. Diversification mitigated the risks of heavy investment in sake, a single product that was especially sensitive to rice quality and price, as well as to the variability of the brewing process. Seeking to control costs associated with packaging and shipping, Kiyō managed her own distribution system by acquiring ships, insuring against shipping losses, and pioneering bulk sales to get her product to market with minimal costs.²²

Hattori Kintarō was an entrepreneur who began in the retail business and then moved into producing more and more of his products in-house. Hattori established a shop in Tokyo selling and repairing clocks in 1881. In 1892, he acquired factory space and began producing wall clocks as the Seiko Corporation. By 1893, his factory in Tokyo was producing two dozen units per day. The Seiko factory seems to have produced the movements, while cases and other accessories were likely purchased from subcontractors, with Seiko doing the final assembly.²³

"Import substitution" is a common strategy for newly industrializing countries to implement more advanced technologies as they substitute domestically produced products for goods that had previously been imported. In the case of clocks, Japanese clockmakers were using imported springs, but in 1893, tinsmith Rangi Masajirō used technology for producing steel hairpins to make clock springs, and within a few years, imported springs were replaced by domestically produced parts. Seiko grew quickly and produced pocketwatches in the 1890s and Japan's first wristwatch in 1913. In 1929, Japan National Railways adopted Seiko watches as the official timepieces to keep trains running on time.²⁴


In conclusion, we can see that the Meiji transformation was the result of entrepreneurial efforts on the part of both government officials and leaders in the private sector. While government officials initially attempted to use central planning to industrialize Japan, it soon became clear that government efforts alone were insufficient. Responding to new

property rights, economic opportunities, and avenues for social mobility, entrepreneurs from the ranks of farmers, merchants, and former samurai developed new industries and contributed much to the economic development of Japan. ■


NOTES

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