

CHAPTER 1

ECONOMIC CHANGE IN THE
NINETEENTH CENTURY

At the beginning of the nineteenth century, Japan was a preindustrial agricultural economy with technology and living standards not greatly different from those of other preindustrial areas of Asia. If a Frenchman of 1600 had been able to see the Japan of 1800, he would have been impressed by obvious differences in dress, manners, and architecture, but most features of economic life would have been readily understandable to him. Had the same Frenchman visited Japan a century later, he would have been bewildered. By the end of the century, the nation's output of goods and services had increased fourfold, and the proportion contributed by industry had at least doubled, whereas the contribution of agriculture had declined to less than half the total output. Much of the infrastructure necessary for the development of an industrial economy, such as transport, communications, ports, and financial institutions, had been created, and a modest but crucial nucleus of modern factory industry was becoming a viable growth sector. This was a century of economic change, and the change was at an increasing rate.

Explanations for this change represent both a variety of ideologies and a variety of views of the facts. Most Japanese historians have viewed it as a transition from a feudal to a capitalist society within the framework of the Marxian theory of stages of economic development. Even granted that a relative latecomer such as Japan might be able to take advantage of some shortcuts, it was not easy to see how such a change, which took centuries in Europe, could occur within a few decades in Japan. Japanese historians have been divided on how to explain this problem. The Rōnō (laborer and farmer) school, so called from its journal of the same name, made an adjustment at the beginning of the process and, while maintaining the idea that premodern Japan was basically feudal, stressed the emergence of capitalist elements in the century before the Meiji Restoration of 1868, which is usually taken to mark the beginning of Japan's modern period. According to this school, therefore, the gap between the Japan of 1868 and

the Japan of the early twentieth century was not as great as that between feudal and capitalist Europe. The Kōza (lectures) school, which took its name from its major publication, *Nihon shihonshugi hattatsu shi kōza* (Lectures on the development of Japanese capitalism),¹ made the adjustment at the latter end and stressed the premodern aspects of the Japanese economy throughout the Meiji period and beyond, as exemplified by the survival of noneconomic factors in the relations between landlords and tenants and between employers and employees, the immaturity of Japanese capitalism, and the absolutist nature of the Meiji state. Neither school seriously questioned the assumption that the process of economic change in Japan was essentially similar to the earlier European experience.

Before the Pacific War, Western observers emphasized the importance of state power in alliance with powerful business groups in exploiting Japanese workers and poor farmers in the interests of building a strong nation as rapidly as possible. Their view may well have been colored by fears of what they saw as “unfair” competition in international trade supported by low wages in Japan. After the war, Western scholars devoted much attention to explaining Japan’s economic development in terms of what were identified as preconditions for economic change. In essence, this was an attempt to see whether explanations of economic change in Europe based on such factors as the Protestant ethic and the agricultural revolution could be applied to the Japanese case by identifying analogues to these factors in the Japanese experience. The results were unsatisfactory for two reasons. First, the implied assumption that economic development could not take place in the absence of factors that were thought to be important to European development proved to be invalid. Moreover, when equivalents were found in Japan, such as a merchant ethic analogous to the Protestant ethic, similar conditions were found to exist in other countries, such as China, where modern economic growth did not occur. Second, these studies on the whole took insufficient account of the fact that economic changes in Japan occurred a century or more after the industrialization of western Europe and North America. Not only had the world changed in the meantime, but Japan was able to draw on the experience of the advanced industrial countries.

Since then, explanations of Japan’s economic development have mostly been in terms of the quantitative relationships among economic variables such as capital formation, the labor force, technology, the

1 7 vols. (Tokyo: Iwanami shoten, 1932–3).

ECONOMIC CHANGE IN THE NINETEENTH CENTURY 3

structure of production and consumption, prices and other aggregates, and the ways in which they affect the rate of growth of national income. In comparison with prewar studies, these quantitative analyses are less explicitly concerned with the role of government and the exercise of power as a means of influencing economic activity. Attention so far has centered more on the behavior of the economic aggregates themselves than on the less quantifiable forces that modified the operation of free-market mechanisms.

There are particular difficulties in applying these quantitative methods to the study of the Japanese economy in the nineteenth century, for most of which quantitative data on a national scale are lacking. What follows in this chapter must therefore be largely descriptive. Because conditions varied widely from one part of Japan to another, descriptions of economic life in one village or region, of which there are many, cannot be taken as representative of the whole country. This chapter will nevertheless attempt to describe the economic system as a whole and the changes in the way that system operated.

THE ECONOMY AT THE BEGINNING OF THE NINETEENTH CENTURY

Japan in 1800 was in most respects typical of a preindustrial Asian country. The population was about 30 million to 33 million, less than a quarter of the present population, and was growing slowly. Some 80 to 85 percent of this population lived in rural villages. Of the remainder, nearly 2 million lived in the three very large cities – Edo (modern Tokyo), Osaka, and Kyoto – and upwards of a million and a half lived in the castle towns, the administrative centers of the domains, that varied in size from a few thousand to nearly 100,000 inhabitants. At least half a million lived in ports and communication centers. For administrative purposes, the bulk of the population was divided into four main classes – samurai, farmers, artisans, and merchants.

With very few exceptions, such as Buddhist or Shinto priests, doctors, and professional teachers, who were outside the four main classes, those who lived in rural villages were officially classed as farmers. They produced all of the country's food including marine products, and industrial crops such as cotton, oilseeds, flax, tobacco, indigo, vegetable wax, and the raw materials for papermaking and sericulture, and they provided nearly all of the tax revenue. But they also produced a large and increasing part of the industrial output and conducted the local trade, commerce, transport, and construction. In

some regions, such as around Osaka Bay and along the Inland Sea, villagers officially classed as farmers spent on average as much as half their time in nonagricultural pursuits. In more remote regions where opportunities for industrial employment were fewer, as many as one-third to one-half of the villagers spent the slack agricultural season or periods of a year or more working away from their villages, and at least half of this work was nonagricultural. The importance of industrial and commercial activity was therefore much greater than the classification as farmers of 80 to 85 percent of the population would suggest.

In Edo and the castle towns, about half of the population consisted of samurai and their dependents. As well as forming a standing military force whose function was mainly internal security, the samurai staffed the administrative and clerical levels of the government services. Samurai and their dependents made up some 6 to 7 percent of the country's population, but at any given time at least half of them had only nominal duties. The civilian population of these administrative centers consisted of artisans, wholesale and retail traders, and construction workers whose function was originally to supply the needs of the samurai establishment, but by the early nineteenth century much of the demand for their services came from the civilian population itself and from the growing role that these centers played as *entrepôts* for the commerce of the surrounding districts. Osaka, with a much smaller samurai establishment, was Japan's commercial center par excellence. Tax rice and essential agricultural and manufactured products were channeled into it and, sometimes after further processing, were redistributed to Edo and other parts of the country. Osaka's highly developed commercial institutions were a key point in the government's system of economic controls. Kyoto, the seat of the imperial court, was the traditional center of the industrial arts and also an important financial market. With the diffusion of such crafts as silk weaving and ceramics to other parts of Japan during the eighteenth century, Kyoto craftsmen specialized in products of high quality and artistic excellence for the court and senior samurai. Unlike the townsmen of Edo, few of whom had been in the city for more than a generation, many of the civilian inhabitants of Kyoto had been established there for two or three centuries before 1800 and were proud of their traditions.

Because of Japan's mountainous geography and long coastline, most interregional traffic went by sea along a chain of ports that ran right around the main islands. Ports like Hakata, Niigata, Sakata, Tsuruga, Obama, Shimonoseki, Shimizu, and Chōshi had populations of ten to

twenty thousand and provided services that were adequate for the needs of the Japanese shipping of the time. Nagasaki, the only official international port, was a city of fifty or sixty thousand, not including the Dutch and Chinese settlements. Sakai, the major port for inter-regional trade, especially with Hokkaido, was about the same size.

The urban population tended to be a shifting one, and information on urban population is much less reliable than that on the rural population. In all, at least 10 percent of the population lived and worked in cities of ten thousand or more, and perhaps another 5 percent lived in towns of five thousand to ten thousand inhabitants.²

Urbanization on this scale, while low by modern standards, implies a good deal of commercial activity. Although the theories of the political economy of Tokugawa Japan were predicated on subsistence farming with all the surplus being drawn off in taxes, urban consumption centers had to be supplied with food, clothing, fuel, and other necessities, and thus the system itself required commercial development and production for the market as well as the delivery of taxes in kind. Tokugawa economic policy was aimed at securing these supplies without putting cash into the hands of rural producers who might use it to express their own competing demands for the products of the market. For administrations whose incomes were in taxes in kind but whose expenditures were in the cash market, any growth of civilian demand represented unwelcome competition, and this situation became both a basic problem of economic policy and the source of economic change.

Economic policy and its administration

Under the *bakuhan* system, responsibility for economic policy and its administration was shared by the Tokugawa government (*bakufu*) and some 270 domain (*han*) administrations. The *bakufu* held nearly a quarter of the country's land, by ratable value, as its own domain. In addition, it held all the cities of major economic importance containing nearly half the urban population. It also controlled all gold and silver production and had a monopoly of issuing coinage. The *bakufu* could also give guidance or even issue orders to the *daimyo*, the titular heads of the domains, who would comply more or less enthusiastically according to their own interests and their relationship with the *bakufu*; but because they were ultimately responsible to the *bakufu* for the good government of their domains, they tended to follow its lead. In

² Sekiyama Naotarō, *Nihon no jinkō* (Tokyo: Shibundō, 1966), pp. 114–15. I have added a figure for samurai and others not included in this source.

general, the economic aim of both the bakufu and the domains was to take in tax as much of the production of their people as they could while maintaining and, if possible, increasing the productive capacity of their territories. In the early years of the *bakuhau* system, these aims of the bakufu and the domains did not seriously conflict with one another, but by 1800 production for the market had developed to a point where competition for the profit on the marketing of these products led to chronic conflict between the policies of the domains and the bakufu and between merchant groups allied with one or the other or seeking independence from both.

The principal aim of the bakufu's economic policy, as of its policy in general, was the maintenance of stability and the preservation of the agricultural economy which was its main source of income. Both the bakufu and the domains believed that the function of the agricultural population was to produce tax revenue, and this belief rather than any interest in the welfare of the villagers underlay their efforts to maintain the viability of the rural village and to increase the production of rice and other crops. Thus in the bakufu territories a village could be punished for failing to get the maximum amount of production from its land, planting commercial crops on land assessed as taxable rice land, or neglecting farming in favor of other occupations. Despite these efforts, the yield from taxes on agriculture had already reached its peak before 1800, and attempts to raise it increasingly encountered strong resistance.

Fiscal policies of both the bakufu and the domains aimed to spend no more than was received as revenue, but this aim was seldom achieved. With their regular income fixed within narrow limits, governments tried to find other sources of income and to limit expenditures as far as possible. In these respects, the situation of the bakufu differed from that of the domains, and the possibilities available to the domains themselves also differed from one another.

The bakufu had separate budgets for rice and cash. Records of these budgets are fragmentary and inconsistent, but all point to a deterioration in the financial position of the bakufu. The regular rice tax income of the bakufu was actually falling at the opening of the nineteenth century. Even in the famine decade of 1782–91 its rice tax receipts averaged 613,000 *koku*, net of collection costs and local administrative expenses, leaving an average annual surplus of just 38,000 *koku*. In the following two decades, receipts rose slightly, but so did expenditures. In the decade of 1812–21, however, rice tax receipts fell sharply to 566,000 *koku* per year, and the bakufu was forced to draw

on its stocks. These figures do not appear to include the revenues of the *hatamoto*, or bannermen. Regular cash revenue, including various license fees, also fell over the same period, whereas cash expenditures increased.³ From time to time the bakufu requested loan subscriptions from the virtually untaxed merchant communities of Edo, Osaka, and some other cities in its domains. Five requests between 1800 and 1813 yielded a total of over half a million *ryō*, about half the amount requested. The cash deficit was financed largely by resort, not to the printing press, as the bakufu did not issue paper currency, but to debasement of the coinage which was subject to rather more practical restraints. Nevertheless, the results were similar, and because about a quarter of the total cash expenditures were financed in this way, inflationary results could be expected.⁴ That prices did not rise much until the 1830s and 1840s was due partly to the increasing demand for cash to finance a rising level of cash transactions, as people came to buy more and more things rather than produce them themselves or barter their produce for them, but it also depended largely on price control.

Efforts to reduce expenditures took two forms. First, the bakufu, like the domains, tried to reduce the amount of goods and services bought by itself and its retainers. Official exhortations to frugality were included in its "Regulations for Samurai" and repeated with particular zeal in times of financial crisis, but they seem to have been singularly ineffective.⁵ The economic circumstances of the samurai depended on relative movements in the price of rice in which their incomes were denominated and in the prices of the goods and services on which they spent their incomes. As Yamamura has suggested, the real incomes of the bakufu's retainers seem to show no long-term falling trend in the last century of Tokugawa rule, but in the nineteenth century they fell sharply as rice prices fell, whereas the general price level remained relatively stable.⁶ Using five-year averages to even out year-to-year fluctuations, the real value of the incomes of bannermen fell by 15 percent between 1791–5 and 1796–1800 and by a further 13 percent between 1796–1800 and 1801–5, and it was a long time before the levels of the last decade of the eighteenth century were

3 *Nihon zaisei keizai shiryō* (Tokyo: Zaisei keisai gakkai, 1922–5), vol. 10, pp. 436–57.

4 Satō Jizaemon, *Kahei hiroku* in *Nihon keizai sōsho* (Tokyo: Nihon keizai sōsho kankōkai, 1914), vol. 32, pp. 327–8.

5 Ishii Ryōsuke, ed., *Tokugawa kinrei kō* (Tokyo: Sōbunsha, 1959), 1st ser., vol. 1, pp. 61–75; and Takayanagi Shinzō and Ishii Ryōsuke, eds., *Ofuregaki Temmei shūsei* (Tokyo: Iwanami shoten, 1958), pp. 481–92.

6 Kozo Yamamura, *A Study of Samurai Income and Entrepreneurship* (Cambridge, Mass.: Harvard University Press, 1974), p. 41.

regained. It was thus in the bakufu's interests to maintain and stabilize the price of rice, while making every effort to prevent rises in the cost of other commodities. These efforts consisted of regulating competing demands for goods from the rural population and attempting to control prices in the cities.

Regulation and control were indeed the cornerstones of economic as of other administration at all levels in Tokugawa Japan and particularly of the economic administration of the bakufu. Economic policies were directed at people rather than at economic variables such as the money supply, incomes, and employment. It was well known, for example, that

rising prices are due to an overabundance of money. After all, the annual production of goods is fixed while there is no natural limit to the annual amount of increase in the money supply. The greater the increase the worse the effects. It is just like trying to relieve a famine by cutting the meat into smaller portions.⁷

Faced with a deficit, however, the bakufu preferred to regard deficit financing as inevitable and to put the blame for rising prices on the people for spending the money that it thus put into their hands.

The people, particularly the peasant farmers, were regarded as existing and working for the support of the government. All that they produced was, in principle, at its disposal, but because the government accepted responsibility for the peasants' livelihood, it allowed them to keep just so much as they needed to keep body and soul together. In principle, too, every aspect of the village's economic life was controlled, and farmers were required to devote all their efforts to producing food and other useful crops. Any other activity that interfered with this was forbidden. Even if work of any kind was available outside the village, it could not be accepted without permission, and the authorities had to be satisfied that the move would not reduce production from the land. Even an overnight absence from the village required an official exeat. Failure to work from dawn to dusk was described as "laziness" and was a punishable offense. A farmer who failed to cultivate his land so as to produce the maximum crops possible with the existing technology and weather conditions – even though his income might be higher if he devoted his time to other pursuits – not only incurred social penalties but was guilty of dereliction of duty and could be punished for the crime of neglecting his proper duties.

Granted that these regulations were not always strictly enforced, it

⁷ Satō, *Kahei hiroku*, p. 320.

ECONOMIC CHANGE IN THE NINETEENTH CENTURY 9

is clear that the bakufu did not rely on the operation of market forces and indeed regarded them as working against its interests. Restriction of consumption by fiat, wage fixing, compulsory procurement of all essential products at regulated prices, and processing and marketing through organizations that acted in many ways like government agents were the time-honored ways of restricting rural demand, ensuring a steady supply of essential goods to the administrative centers, and keeping prices down. If despite all this, prices in Edo rose, the bakufu simply ordered wholesalers and retailers to reduce them. If the market price of rice fell following a bumper harvest, the bakufu ordered the rice dealers to increase their stocks, sometimes lending them funds to do so. Under such a closely regulated system, the free market operated, as it were, on the fringes and was countenanced only when it was of a petty nature or when it could be made to work to the benefit of the authorities. The situation was in this respect not unlike that in a country such as the People's Republic of China. In terms of producing economic growth, the controlled economy was a failure, but then economic growth was not a principal aim of the policy. As we shall see, even in terms of the economic policy of the time, it failed to achieve the stability that the bakufu desired.

As well as its monopoly of the coinage, control of national commerce and agriculture, and consumption in its own domains, the bakufu controlled foreign trade and most mining and forestry. Foreign trade was officially limited to a small traffic with the Dutch and Chinese through Nagasaki, Japan's only authorized international port, but a considerable trade with the Ryūkyūs operated by Satsuma was tolerated and seems to have included as well as Okinawa sugar, some goods of Chinese, Southeast Asian, or even European origin.

Despite such an array of powers, the financial position of the bakufu and its ability to control the economy declined as the century progressed. The causes of this decline included, as we shall see, the growing fiscal demands of foreign relations and defense, the diminishing power to enforce collection of revenue, a slow but steady fall in the proportion of national product produced by agriculture, a number of poor harvests, and, not the least, the frustration of its system of commercial and financial controls by actions of the domains attempting to shore up their own finances.

Because the domains were denied the right to issue coinage, their deficits represented an increase in their indebtedness, and with rising costs, especially of traveling to and from Edo and maintaining an establishment there, almost all the domains were accumulating a

mounting burden of debt despite a range of measures to increase revenue. These included raising the rate of agricultural tax, imposing new taxes, promoting land reclamation, “borrowing” or withholding part of the retainers’ stipends, levying contributions from leading merchants of the domain, issuing paper money, encouraging production and processing of industrial crops, and sharing in the profit from their production and sale through monopoly marketing boards operated by the domain itself or through its agents. The scope for increasing revenue by most of these measures was limited. Despite the encouragement of reclamation projects, the output of rice and other staple crops that provided the traditional tax base grew only slowly; and the higher the tax rate was, the more profitable it was for farmers to direct their energies to other kinds of production. Hence the steady flow of edicts forbidding neglect of staple agriculture for other occupations and hence, too, their general lack of effect. Growing and processing industrial crops was far more profitable than was growing rice to be taken in tax. If the taxes were too heavy, the farmers absconded and left the land to go to waste, thus reducing the domain’s income and offsetting schemes to increase acreage by expensive land reclamation projects. Even the Satsuma domain, which maintained tighter control than most over its farming population and where alternative occupational opportunities were relatively limited, had by 1820 accumulated debts to the tune of five million *ryō*, equal to about ten years’ regular revenue.

In a society that had come to expect that traditional practices would be maintained, imposition of new kinds of tax provoked discontent and sometimes actual rebellion. Levies on merchants and borrowing from retainers tended to alienate the very groups on which the domain authorities relied for support. Denied the right to issue coinage, the domains turned to issuing paper notes. The bakufu had placed strict controls on such issues in 1759, but with the growth of local industry and commerce in the early years of the nineteenth century, there was a demand for means of local payments, and so many domains issued notes backed by cash, rice, or goods. Those notes (*hansatsu*) were legal tender for certain purposes within the domain, and some enjoyed limited acceptance beyond its borders. By the 1860s such issues reached very large proportions, circulated at a heavy discount against cash, and contributed heavily to the inflationary pressures of the last decades of the Tokugawa period. Their direct inflationary effects were, however, largely confined to the domain that issued them, and their effect on national price levels was less than that of the massive