

BUSINESS AND POLITICS IN EARLY 20TH CENTURY JAPAN



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'The Contributions and Limitations of Japanese Business
Diplomacy in the Interwar Period: A Case Study of Two
Major Economic Missions'

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'Business Shaping Political Decision-Making? An Examination
of the Iron and Steel Production Law of 1917'

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Discussion Paper
No. JS/02/429
March 2002

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Preface

The symposium on *Business and Politics in Early 20th Century Japan* held at the Suntory Centre on 2 November 2001, had two speakers. One was Professor Masato Kimura, currently at the Reischauer Centre of Harvard University. Professor Kimura has taught at a number of institutions in Japan and the United States, and published on the interaction between business and diplomacy in Japan in the first half of the twentieth century. The other was Peter von Staden, who is currently completing a doctorate on business and government interaction on policy towards the iron and steel industry in the Taishō and early Shōwa periods. We are grateful to both authors for allowing us to reproduce their papers here.

Janet Hunter
March 2002

Abstracts

The paper by Masato Kimura seeks to clarify the contributions and limitations of Japanese business diplomacy by looking at the business mission to Britain and the US in 1921-22, and the Japanese Economic Mission to Europe and the United States of 1937. The paper argues that Japanese business diplomacy, while of significance particularly in building up international human networks, was insufficiently influential to prevent political and military conflict.

Peter von Staden's paper focuses on the Iron and Steel Promotion Law of 1917 as a case study to explore the significance of the *shingikai* (deliberative councils) as a forum for formal and significant debate on issues of importance to both business and government. The paper argues that business interests saw the *shingikai* as a locus where conflicting interests could be resolved, calling into question the widespread assumption of across-the-board covert decision-making in the Japanese government-business relationship.

Keywords: Japanese business diplomacy; economic mission; Europe; Japan; United States; Japanese Iron and Steel Promotion Law, 1937; *shingikai* (deliberative councils); Japanese government; conflict; covert decision-making; business, politics; early twentieth century.

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The Contributions and Limitations of Japanese Business Diplomacy in the Interwar Period: Case Studies of Two Major Economic Missions

Masato Kimura

1. Introduction

The paper's purpose is to clarify the contributions and limitations of Japanese business diplomacy in the interwar period through the analysis of two major economic missions: the Eibei Hōmon Jitsugyōdan (the Japanese Businessmen's Mission to Britain and the United States) in 1921-1922 and the Ōbei Hōmon Keizai Shisetsudan (the Japanese Economic Mission to Europe and the United States) in 1937.

The reasons why I focus on these missions are two-fold: first, these missions were dispatched at very crucial times for Japan. That is, the Japanese Businessmen's Mission visited the United States, Britain and France (29 October 1921 - 5 February 1922) at the same time as the Washington Conference (12 November 1921 - 6 February 1922) that established the new comprehensive framework for the Asia/Pacific region after World War I. The so-called 'Washington Order' supplemented the 'Versailles Order', and both represented fundamentally important international thinking during the interwar period. The other mission, the Japanese Economic Mission, visited the United States and Europe from 6 May until 27 July 1937. The period included the outbreak of the Marco Polo Incident on 7 July 1937, that resulted in the quagmire of the Sino-Japanese War (1937 - 1945) that completely destroyed the 'Washington Order'.

Second, these two missions represented Japan's business elite, or the zaikai, and the Japanese government also entirely supported the dispatch of both missions. The term zaikai has a very broad meaning. According to Ogata Sadako, zaikai can be defined as follows:

'Zaikai are generally regarded as a power elite who represented the interests of the business community as a whole rather than of individual businessmen.'¹

Ogata's definition is a general one, but there is another definition of zaikai in the interwar period. Masataka Matsuura pointed out that the 'zaikai means a very narrow

business circle of the elite connected to political power'.ⁱⁱ And he defined as the zaikai 'the core group in the business society which lasted between the two World Wars'.ⁱⁱⁱ

In the interwar period in Japan, the zaikai was composed of members of major business circles such as the zaibatsu, and several powerful local and national associations such as the Chambers of Commerce in major cities. This paper will refer to the zaikai as the major business groups and leaders who regularly expressed their opinions on major political and economic issues and who sought to influence Japan's national policies from the beginning of the 1920s until the outbreak of the Sino-Japanese War in 1937.

Generally speaking, American and European business leaders had a substantial effect on international relations in the interwar period because reconstructing the world economy, in particular the European one, was a major challenge for that period. In particular, American business leaders could participate in the decision-making process aimed at developing economic policies in their country and in the League of Nations. On the other hand, the effect of Japanese business leaders on international relations at the same period was not necessarily clear. Through an analysis of these two missions, one can identify the zaikai's views on international relations and some important aspects of the zaikai's influence on Japan's foreign relations and on government- business relations.

The Japanese economy, as a result of structural changes occurring during World War I, became the strongest and the most internationalized one in Asia, and this was part and parcel of its close relationship with the world business community in the 1920s. Japanese business leaders made it a priority to participate in so-called global thinking as a 'first-tier' nation. As just mentioned, the Japanese Businessmen's Mission visited the United States, Britain and France at the very same time as the Washington Conference that established the comprehensive framework for the Asia/Pacific region after World War I was taking place.

The first mission can be contrasted to the later Japanese Economic Mission in 1937, which was dispatched in order to re-establish relations between Japan and the United States, Britain and Germany. The leadership of the later mission resisted Japan's isolation from the world business community and encouraged international

free trade, uttering grave warnings about autarky and economic nationalism, pronouncing these forces a menace to world trade and a threat to political stability.

There have been few studies on these economic missions, but one can find several important dimensions of Japanese business thinking in the interwar period through analysis of the following topics.^{iv} This paper will examine: 1) what kind of views did Japanese business leaders have on the international society during the interwar period; 2) what did they try to accomplish through these two missions and what were the accomplishments and failures; and 3) an analysis of the contributions and the limits of Japanese business diplomacy at this time.

2. Case 1: The Japanese Businessmen's Mission in 1921-1922

The zaikai's view on international relations

World War I and the Russian and Chinese revolutions that occurred in the 1910s changed the fundamental structure not only of domestic factors in each country, but also of international society. Japan's exports exceeded imports for the first time since the beginning of the Meiji era because of the unprecedented prosperity for Japan's export and shipping industry caused by World War I. Japan increased its exports rapidly and obtained tremendous foreign income, which offset its serious foreign debts after the Russo-Japanese War. In terms of its international debit and credit accounts, Japan changed to a creditor nation. Consequently, the Japanese economy had become the strongest and the most internationalized in Asia, and was deeply involved in the new order of the international economy after World War I. This new status was part and parcel of its close relationship with the world business community.

In establishing the new framework of the international economy, the initiative was taken by Financial and Economic Conference under the auspices of the League of Nations. Not only government but also business leaders had an important role in this conference. Central to the new framework was the International Chamber of Commerce (ICC), that was established in 1920 as an international non-governmental organization whose goal was to establish a cooperative system in the international business world and accelerate the reconstruction process of the European economy that had been destroyed by World War I.^v In particular, American business leaders such as Thomas Lamont and Owen Young were very interested in reconstructing the

European economy so that it would be a foundation for the stability of the world economy. Such American and European business circles' aggressive activities spurred the Japanese zaikai to participate in current world affairs.

The zaikai faced the challenge of responding to the new international dimensions of the Japanese economy. First, the Shōgyō Kaigisho (chambers of commerce), which had been public economic and business organizations since the late Meiji era, changed their role to become representatives of small companies in local areas after the Nihon Kōgyō Kurabu (Japan Industrial Club) was established in 1916 and subsequently took the initiative in submitting economic proposals to the government.^{vi} In other words, the chambers of commerce could no longer respond to the radical change unfolding within the industrial structure after World War I. Even the Japan Industrial Club, however, did not include banks which were involved in the Ginkō Shūkaisho (Bankers Club), so there was an urgent need for the zaikai to establish a new and comprehensive business organization to replace the Shōgyō Kaigisho Rengōkai (Associated Chambers of Commerce) with one that substantially represented Japanese businesses if they were to participate in the ICC as a formal member. However, Japanese business leaders did not have detailed information about the ICC.

How, then, did the zaikai perceive international relations after World War I? Although Shibusawa Eiichi, who has been called 'the father of modern Japanese capitalism', retired from the zaikai in 1916, from the viewpoint of business diplomacy, he remained one of the most important figures. There were three reasons for this: 1) Shibusawa was one of the most famous internationally minded Japanese business leaders because of his energetic international activities from the beginning of the 20th century; 2) Shibusawa had a broad and strong personal network of contacts not only in the economic and business worlds but also in the political and academic worlds in both Japan and the United States; and 3) Shibusawa was extremely adept in Japan's non-governmental economic diplomacy.^{vii} He had already visited the United States, Britain and France in 1902 as President of the Tokyo Chamber of Commerce. Moreover, he took the initiative in leading the Tobei Jitsugyōdan (Japanese Business Mission to the United States) in 1909, which was the first and biggest Japanese economic mission up to that point in time. This mission was composed of over 30 Japanese business leaders, and some scholars and their families. It was also

Shibusawa who seized the opportunity of sending the Japanese Businessmen's Mission to the United States and Europe.

Shibusawa thought that the current economic changes effected by World War I were worldwide and should be welcomed as the positive and direct changes in both Europe and the United States were likely to lead to the development of Japan's own economy. Shibusawa, therefore, thought that, given Japan's world position, it was reasonable to expect that her economy would have a major, and even a severe impact on the Asia/Pacific region after World War I.

He also understood how important it was for Japan to find a way to cope with these challenges. Shibusawa paid attention to the role of the League of Nations and international cooperation movements such as the International Labor Organization (ILO). He stated in his speeches that the main purpose of the League of Nations was forever to protect the world from the blind actions of power and violence. However, he pointed out that Japan should try to exclude those rules which hindered the development of the Japanese economy. At the same time he added that Japan should sometimes accept the various burdens that accompanied its participation in the League of Nations.^{viii} Shibusawa's ideas and views were commonly reflected in the zaikai's mainstream thinking, although the concrete responses for each issue were not necessarily the same. Go Seinosuke, for example, another Japanese business leader, thought that since Japan was a first-class country, the zaikai should seek broad contact with the world business community.^{ix}

The zaikai strongly anticipated worldwide disarmament. The Osaka Chamber of Commerce, for example, submitted its proposal on aggressive disarmament to the Japanese government in 1920. Pointing out that the increase of military expenditure would be a big burden for the sound development of the private sector of the economy, the proposal insisted that Japan should aggressively propose its own plan for worldwide disarmament.^x

The zaikai also expressed concern and anticipated changes in the relationship between Britain and Japan after the end of the Anglo-Japanese Alliance, which had been the axis of Japan's diplomacy since 1902. Japan's victories in the Russo-Japanese War (1904-1905) and World War I (1914-1918) were achieved under the aegis of this alliance. From the economic and business point of view, the zaikai held

a positive view of the Anglo-Japanese Alliance and the way it promoted the establishment of the gold standard system in Japan, as well as Japan's trade and commerce, by virtue of the international exchange system based on the pound sterling. The alliance confirmed the credit worthiness of the Japanese economy, that Japan could borrow large amounts of foreign capital from Europe and the United States.

However, as a result of the Washington Conference a new treaty was formulated between the United States, Britain, France, and Japan that replaced the Anglo-Japanese Alliance. There were three reasons for this: (1) the rapid advance of Japanese goods in the Chinese market clashed with British and the U.S. interests; (2) the German threat, one of the main targets of the Anglo-Japanese Alliance, disappeared as a result of Germany's defeat in World War I; and (3) the United States and some of the Commonwealth Nations strongly opposed the renewal of the Anglo-Japanese Alliance. In particular, the United States formulated a new set of concepts for China's development and the Pacific/Asia order after World War I.

Japan worried about America's views and activities. Britain was also cautious about the ignorance and lack of experience of the United States in Asia, in particular in China, expecting America's economic power to be focused on the reconstruction of the European economy. However, British businesses realized the necessity and benefits accruing from any exchange of ideas between British and Japanese business leaders. There were two reasons for this: (1) to maintain Britain's superior share in the Japanese market and (2) to cope with economic frictions with Japan in the markets both of China and of Empire nations such as India.

Japan had been an attractive market for British businesses since the opening of Japan at the end of the Tokugawa period in the 1850s. Japan imported various kind of machinery, iron, battleships and ocean-going vessels from Britain. From the beginning of the 20th century, however, American manufactured goods began to flow into the Japanese market. British businesses wanted to protect their share in the Japanese market from American rivals.

There were in addition signs that Japanese cotton goods had begun to compete severely in China with Britain's, and in Empire markets such as India and elsewhere in Southeast Asia. Moreover, the rapid development of the Japanese merchant

marine during World War I decreased Britain's share of East Asian maritime trade routes. Under these circumstances, British businesses wanted to negotiate with Japanese businesses in order to recover their share of the East Asian market and to reconstruct their own economy as soon as possible.

The purposes of the Japanese Businessmen's Mission to Britain and the United States

The purposes of the Japanese Businessmen's Mission were three-fold: (1) to promote personal exchange with many business leaders who had influence over the economy in both the United States and Britain; (2) to discuss bilateral economic issues between Japan and these two countries; and (3) to observe the activities of the International Chamber of Commerce (ICC) in Paris. Dan Takuma, Chairman of the Board of Directors of Mitsui zaibatsu, was nominated as the leader of this economic mission.

In April 1921, Sir Charles Eliot, British Ambassador in Tokyo, asked Shibusawa Eiichi to send the zaikai-sponsored mission to Britain. E.F.T. Crow, the British Commercial Attaché in Tokyo, also proposed to invite the Japanese economic mission to Britain at the same time. Shibusawa informed Prime Minister Hara Takashi about Britain's proposal and advised Hara to promote mutual personal exchange between Britain and Japan. In July 1921, Shibusawa and prominent Japanese business leaders, such as Inoue Junnosuke, Dan Takuma, Fujiyama Raita and Wada Toyoji, discussed how to organize the economic mission in a meeting at the prime minister's official office. Prime Minister Hara, who paid attention to the good relationship between Japan and the United States, strongly supported the economic mission. The idea of the Japanese Businessmen's Mission was therefore based on cooperation with Britain and the US, and on economic rationalism.

The itinerary of the Japanese Businessmen's Mission

The Japanese Businessmen's Mission visited several American cities, including New York, Chicago and Washington D.C., from 29 October until 13 December 1921. In the United States, Japanese business leaders met major politicians and business leaders and exchanged opinions. They confirmed, in particular, the necessity of disarmament and the improvement of mutual trade and understanding between Japan and the United States.

Subsequently, the Businessmen's Mission arrived in Britain and visited several industrial cities, including London, Manchester and Glasgow, between 19 December 1921 and 1 February 1922. In Britain, the Mission discussed several issues relating to the relationship between Japan and Britain such as the improvement of mutual trade and understanding. At the same time, Japanese business leaders studied the British economy and such things as the relationships between managers and workers.

Finally, the Mission arrived in Paris to visit the headquarters of the International Chamber of Commerce (ICC). They were surprised and impressed by the newly established European and American business organization and its activities.

3. Case 2: the Japanese Economic Mission of 1937

The zaikai's view on international relations

After Japan's withdrawal from the League of Nations and the failure of the World Economic Conference in London in 1933, the zaikai was eager to build economic relations with the United States and European countries such as Britain, France and Germany. They also changed their attitude towards the ICC and attached more importance to it. By the beginning of the 1930s, Japan was recovering from the great financial shock that had been caused by the international economic catastrophe in 1929, the so-called 'Black Thursday.' The dramatic decline of the yen had become an export advantage and an encouragement for import-substituting industries. Japanese companies were sufficiently efficient that their products soon advanced into world markets. European countries, in particular Britain and Holland, severely criticized Japan's export-oriented activities as 'social dumping'.

From 1934 to 1937, the zaikai did its best to avoid isolation from the world. After the London Economic and Monetary Conference in 1933, the Japanese government and the zaikai had been negotiating with the U.S. and Britain to explore a new set of cooperative relations within the framework of a bilateral relationship. One of their experiments was the mutual exchange of economic and business missions between these three countries. They included three large missions: the British Mission by Lord Barnby in 1934; the U.S. mission led by Cameron Forbes in 1935; and the Japanese mission led by Kadono Chokurō in 1937.

What did Japanese businesses think about international circumstances at the time, and what did they do to sustain good relations with the more developed Western countries, in particular the U.S. and Britain? Basically, they thought that close relationships between these countries were a life and death matter for the Japanese economy and business. In order to maintain these relationships, it was absolutely necessary to prevent any trend toward autarky and economic nationalism.

Kushida Manzō, Director General of Mitsubishi Bank and Chairman of the Japanese National Committee, uttered a grave warning against autarky and economic nationalism in the 1930s. After explaining the circumstances of the Japanese economy, he warned, 'every country is today more nationalistic in its commercial policy than ever before. This economic nationalism is indeed a menace to the recovery of world trade; and this strong trend, if it is not checked in time, will inevitably tend to engender international ill will and may even threaten international political stability'.^{xi} And he continued, 'This is, perhaps, a very strong statement but we ought to take it as a warning, because economic nationalism would, in the least, reduce the volume of world trade to a minimum'.^{xii} He concluded, 'If expansion of international trade is the right road to world prosperity, as we believe it assuredly is, and the interdependence of commercial countries is fully recognized, then the time must come when commercial policy will be so modified that international exchange of commodities will be far less restricted than it is today'.^{xiii}

The purpose of the Japanese Economic Mission

The zaikai decided for practical purposes to send an economic mission to the U.S. and Europe in order to exchange views among business leaders and to participate in the general congress of the ICC held in Berlin. The purpose of this mission was fourfold: (1) to promote personal exchanges between politicians and business leaders who had an influence over the politics and economy in each country; (2) to conduct return visits in response to both the Barnby Mission and the Forbes Mission; (3) to discuss bilateral economic issues between Japan and these two countries; and (4) to make a proposal at the Berlin Congress in 1937 that Japan was willing to host the next general congress of the ICC in Tokyo in 1939.^{xiv} The Hayashi Senjūrō cabinet strongly supported this economic mission, because Japan was seriously looking for ways to improve Japan-Anglo-American relations.

Kadono Chokurō, Vice President of the Ōkuragumi, was nominated as leader of this Japanese Economic Mission.^{xv} He had prior experience of having participated in the Japanese Businessmen's Mission of 1921-2. Before participating in the general congress of the ICC in Berlin, the mission visited the U.S. and was welcomed by a number of American business leaders in several cities such as San Francisco, Los Angeles, Dallas, Chicago, and New York.

Both Japanese and American business leaders discussed several important trade issues between the two countries such as cotton, textiles and automobiles. Generally speaking, discussions went well on the bilateral trade issues because both sides basically supported free trade, and the two countries did not face serious mutual economic conflicts.^{xvi} For American businesses, this Japanese mission created a good opportunity to exchange views on the political and economic situation in both Japan and China.^{xvii} However, officially they did not choose to discuss the Chinese problem. As is well known, there was a big gap between their views on Japan's invasion of Manchuria and the creation of Manchukuo.

The Japanese Economic Mission also asked American business leaders to support the invitation extended to host the general congress in Tokyo in 1939. For example, Winthrop W. Aldrich, President of the Chase National Bank, received a letter from Yoshida Hatsuji, who worked in the New York office of Mitsui & Company Ltd., asking him to support Japan's proposal. In his letter Yoshida said, 'Japan has already received assurances of sympathetic reaction to her proposal from British, German, Belgian and Australian National Committees'.^{xviii} Aldrich replied to Yoshida that he approved the invitation to convene the general congress in Tokyo and asked Thomas J. Watson, President of the ICC, to accept Japan's proposal. Thomas Lamont and other American business leaders also supported Japan's proposal.^{xix}

The Japanese government also supported hosting the ICC's general congress in Tokyo in 1939, because it would be a good opportunity to introduce Japan to foreign businesses, portraying Japan as the best business partner for Western nations in Asia, the most civilized country in Asia, and the site of the Tokyo Olympics in 1940.^{xx}

Next, the Japanese mission visited Berlin to participate in the 9th Congress of the ICC. Participants' discussions at the 1937 Congress focused on world economic reconstruction and growing trade blocks and bilateralism. The keynote theme of the

Congress was 'world peace through world trade'. Thomas J. Watson, the newly elected president, enthusiastically led the discussion to find new approaches to realize this key concept.^{xxi} Watson was the President of IBM, and was well known as a staunch supporter of Cordell Hull's trade policy in the US. Secretary Hull had a vision that 'governments will serve the best who can check the drift into bilateralism and restore the machinery of multilateral trade'.^{xxii} In reality, however, it was quite difficult to stop autarky and economic nationalism, about which Kushida had given a strong warning earlier.

Japanese business leaders participated in almost all sessions and they explained Japan's view on each problem and the current situation of the Japanese economy. They also appealed to others who held Japan's strong attitude towards maintaining a sustainable free trade system. Having succeeded in persuading its members, the ICC formally accepted Japan's invitation at the Berlin Congress on 27 June 1937.

Finally, the Japanese delegation visited London and Liverpool from 5 July until 27 July. Several official visits including one to Buckingham Palace to meet the King. At meetings with cabinet members such as the Foreign Minister and the Trade Minister, and with members of the London Chamber of Commerce, Japanese business leaders discussed important issues with British business leaders such as Lord Barnby. The main themes were as follows: (1) Anglo-Japanese political relations; (2) industrial competition between Britain and Japan; (3) trade control; (4) specific trade issues; and (5) the China problem.^{xxiii}

From an economic and business point of view, both groups of business leaders discussed a number of issues regarding Anglo-Japanese trade frictions. These included aspects such as import quotas and protective trade policy. Japan and Britain well recognized the importance of cooperation between the two countries, although the gap between the two nations was not appreciably narrowed at this time. In addition, they discussed the possibility of Anglo-Japanese cooperation in the Chinese market.

Unfortunately, the Sino-Japanese War that commenced in July 1937 forced the ICC to subsequently decline Japan's invitation to hold the next congress in Japan.^{xxiv} Japanese business leaders suffered a serious shock because they did not expect that the Sino-Japanese War would drag on endlessly. Many Japanese business

leaders were reluctant to disagree with the U.S. and European countries, because they understood the fact that Japan could not survive without trade with those countries. In particular, the U.S. and the British Empire and dominions nations held the power of life and death over the Japanese economy. Almost all of Japan's strategic goods were imported from those countries, so that Japan probably was not in a position to adopt contrary positions. However, after the Incident of 26 February 1936, the Japanese military controlled the freedom of speech in Japan, and Japanese business leaders could not oppose the government or the military (gunbu) publicly. If the general congress had taken place in Tokyo in 1939, over a thousand business leaders and their families could have visited Tokyo and it would have had a tremendous positive effect not only on Japanese businesses but also on political and military circles. Sadly, this was not to happen.

4. The Contributions and the Limitations of the two Missions

The contributions of the two missions

What, then, were the contributions made by these two missions? First of all, according to a variety of materials, including articles in major newspapers, there seems no doubt that British, U.S. and Japanese business leaders effectively promoted mutual understanding not only regarding the world order after World War I but also regarding bilateral economic and business relations. Therefore, Japan could introduce new technology and a significant amount of money from Anglo-American companies and financiers during the interwar period.

The second contribution was the enlargement of the zaikai network. Before the Eibei Hōmon Jitsugyōdan, the zaikai network was based on a triangular relationship between the United States, China and Japan. Furthermore, major European business leaders were not very interested in personal exchange with Japan before World War I. However, after World War I, Japan became one of the big five countries, and the rapid growth of the Japanese economy changed European business leaders' views on Japan and the Far East. They began to think that Japan would be the centre of the Far East instead of China, because China was still in chaos in the 1920s. These two missions enlarged businessmen's networks to include European countries.

Third, the Japanese Businessmen's Mission of 1921-2 promoted the establishment of the Nihon Keizai Renmeikai (Japan Economic Federation) in 1922. Both the Japan

Economic Federation and the Associated Chambers of Commerce organized the National Committee of the ICC which entered the ICC as a formal member in 1923. Participation in the ICC and the pressure resulting from involvement in a range of ICC activities contributed to preventing Japan's isolation from the world community after Japan's withdrawal from the League of Nations in 1933. Japanese business diplomacy was based on the bilateral relationships between Japan and America, and between Japan and Britain, and the network in the ICC. The ICC was an international non-governmental business organization, one of whose goals was to promote peace and cordial relations among nations. As Miles Fletcher has pointed out, major Japanese business leaders such as Dan Takuma held 'a firm belief that Japan should cultivate closer ties with the Western powers'.^{xxv} This view had a positive effect on the mainstream of Japanese business.

As most of the discussions at general ICC meetings in the 1920s focused on the reconstruction of the European economy, Japan did not play a conspicuous role. However, these meetings also discussed the rules for international economic activities in finance, production, distribution, transportation and communications. The future system of the European economy was expected to have a major influence on the Japanese economy. However, although some famous international business leaders, such as Inoue Junnosuke and Dan Takuma, served as consecutive secretary generals of the Japanese National Committee, few other Japanese businessmen had an interest in the ICC. Therefore, through the 1920s, Japan's attitude towards the ICC was that it was enough for Japan to maintain only routine contact.^{xxvi} The only thing that Japan took sharp notice of in connection with the ICC was the particular matter of Chinese business leaders' anti-Japanese activities.^{xxvii}

As I mentioned before, once there was a consensus in the 1930s that the most crucial problem for the world was to emerge from serious depression and to reconstruct the world economy, the zaikai paid more attention to the ICC. However, a number of assassinations, including the Incident of 26 February 1936, killed distinguished business leaders such as Inoue Junnosuke, Dan Takuma and Takahashi Korekiyo, and certainly weakened the zaikai's power in the Japanese political and economic world. The Japanese Economic Mission was the last chance for the zaikai to rebuild its relationships with the United States and European countries before World War II. Although its purposes were not realized in the short

run, the human networks that were reinforced during the mission ultimately proved most useful for Japan's return to the international business community after World War II.

The limitations of the Japanese Businessmen's Mission and the Japanese Economic Mission

Unfortunately, the zaikai's persistent inclination to separate economic problems from international politics confronted real limits, although there was a difference between these two missions. First of all, there were several business leaders who objected to such activities in the mainstream of the zaikai. For example, Mutō Sanji, President of the Kanebō Spinning Company, severely criticized Inoue Junnosuke's role in establishing the Keizai Renmeikai from the viewpoint of business-government relations. According to Mutō, the establishment of the Keizai Renmeikai under the auspices of Inoue strengthened government control of the 'business community'.^{xxviii}

The zaikai focused on discussing economic and business issues, but, as is well known, the real challenges that Japan embraced in the interwar periods were deeply related to its policy towards China and to social problems such as immigration and race discrimination. Japanese business leaders were reluctant to discuss these issues directly and officially. For example, the Japanese Businessmen's Mission of 1921-2 avoided discussing the movement against Japanese immigrants and did not visit San Francisco, which was a hotbed for anti-immigrant hostility.

In 1937, the Japanese Economic Mission picked up these issues, but they could not find a solution to those problems. Japanese business leaders thought that Japan had her special interests in Manchuria and that Japanese businesses were not wrong to be active in China. Moreover, they stressed that Japanese businesses had good relations with many Chinese businesses and wanted to cooperate with American and European companies in the Chinese market. In particular, they expected British business leaders' attitudes to be positive, because the Barnby Mission in 1934 had accepted the existence of Manchukuo.

These views were too optimistic and lacked a sufficiently deep understanding of Chinese nationalism and the anti-Japanese movement that confronted not only politicians but also businessmen and common people in the whole of China in the interwar period. Therefore, Japanese business leaders were shocked by the ICC's

quick decision to cancel the Tokyo Congress of the ICC immediately after the Marco Polo Incident. American and European business leaders were not about to condone or sanction Japan's invasion of the important areas of China such as Beijing and Shanghai. Moreover, these two business missions avoided other hot issues between Japan and Britain and America. For example, the Japanese Economic Mission did not include any representatives of the merchant marine, which was one of the most severe sources of conflict between Britain and Japan at that time.

5. Conclusion

According to the above analysis, the zaikai's main interest was how to support and maintain the free trade system and the stable international monetary system that sustained the free trade system in the interwar period. In order to accomplish their policy, it was absolutely necessary for Japan to forge good relations with the United States and Britain because these two countries had overwhelmingly strong power, controlled strategic natural resources such as crude oil, and offered potentially large and open markets for Japan.

Overall, Japanese business diplomacy had a significant effect on the international environment. The Japanese economy and its businesses could increase trade and commerce, yet it could not prevent the invasion of the Japanese military into the Chinese continent and the outbreak of the Pacific War in December 1941. Even pro-Anglo-American business leaders in Japan had a special feeling about Manchuria and China as part of a Japanese sphere of influence. As a result, these leaders were overly optimistic about the degree of understanding expected from Anglo-American business leaders, and they underestimated their caution and warnings about Japan's invasion into China. There was a decisive difference between Anglo-American business leaders' views and Japanese ones regarding Japan's military actions in China. In short, businesses were not able to function as an effective deterrent to war. In this sense, Japanese business diplomacy did not have enough power to prevent the war.

On the other hand, analysis of these two economic missions allows us to say that Japanese businesses established a broad human network with business leaders in the United States and European countries, based on their strong reliance on and support of the free market economy. This network was crucial in its ability to promote

Japan's early return to the world business community after World War II.^{xxix} In general, business activities are based on profit seeking. Such profit seeking attitudes reflect not only short-term interests but also long-term interests, and these attitudes should also be considered as being broader than narrow day to day economic and business activities.

The two economic missions built the human business network that in the long run could reconstruct not only the Japanese economy but also the world economy. In that sense, one might say that business diplomacy had a role in rehabilitating the world economy in a way similar to that in which Chinese herbal medicine rehabilitates the body. That is to say, the herbal approach does not operate quickly with effects that can be compared to surgery. Nonetheless, the alternative therapy can influence the recovery of the body and contribute to its long-term health

Endnotes

ⁱ Sadako Ogata, 'Business Community and Japanese Foreign Policy', in Robert A. Scalapino, *The Foreign Policy of Modern Japan* (Berkeley, 1963), p. 180.

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**Business Shaping Political Decision Making?
An Examination of the Iron and Steel Promotion Law of 1917**

Peter von Staden

How we see relations between government and business in Japan today is, in part, a product of the literature on economic policy formulation and its related literature on the explanations for post-war economic success. These works, largely by omission, cast the relationship as covert, depicting government-business interaction in the process of political decision making as occurring behind closed doors. Hence they arguably serve the ends of speculation. Moreover, the comparative paucity of scholarly literature on the Taishō (1912-1926) period and early Shōwa (1926-1989) years facilitates the reinforcing of dominant post-war perceptions. This is furthered by arguments based on the historical legacy of the close relations between ruling powers and large business families. In short, how we think about decisions that emerge from politico-business interaction rests largely on assumptions, and the impact of insufficient empirical research. This is not to suggest that discussions in surroundings, such as tea houses, do not take place. Indeed, there is far too much smoke to imagine that there is not some fire behind it all. This fact notwithstanding, the notion that shady deals and opaque decision making are inherent to Japan's way of doing things demands scrutiny. Such notions underscore the necessity for a clearer understanding, if only in the end to confirm existing assumptions. By definition, records are scant on closed-door discussions and so scholarly enquiry must look for an indirect method to address the validity of these assumptions.

An examination of the formal decision making process of the Iron and Steel Industry Promotion Law (*Seitetsu Jigyō Shōrei Hō*) of 1917 provides insight into how government and business operated for a number of reasons. First, the records of the *shingikai*, or Councils of Deliberation, and other promulgations by trade associations such as the Industry Club of Japan (*Nihon Kōgyō Kurabu*) are detailed and afford a close view of government and business interaction at the point 'which marked the beginning of the government's industrial policy'.¹ Secondly, the particular economic circumstances created by World War I, which shaped and bracketed this decision making process, provide a unique opportunity to consider both the debate over the nature of government

and business interaction and the associated debate regarding the role of the *shingikai* in Japanese decision making.

Perceptions on the post-1945 government and business relationship

The prime question that underpins the research agenda in post-war Japanese economic history has been 'How did Japan do it?' The contending analyses differ according to the way they bring together the main actors - the bureaucracy, politicians and business - and, according to some accounts, the role of the market as well. Since the early 1980s, this tripodal configuration of actors has come to the fore with the seminal work of Chalmers Johnson which, with regards to Japan, has given common coinage to the term 'developmental state'.² Such has been the impact of Johnson's work that approximately a decade after its publication, one scholar viewed noted: 'The current prevailing conception of Japan, in both academic literature and the popular view, is of Japan as technocracy, ruled by a select group of bureaucrats motivated primarily by efficiency and by economic, rather than political concerns'.³ Business was seen less in terms of its own initiative but rather as the engine for economic growth conducted by the Ministry of International Trade and Industry, though it was only after a painful trial and error process lasting many years that an acceptable arrangement was reached.

In shaping post-war views on government and business relations in Japan, Johnson's work has been of critical importance. Though received critically by some, the fact that hardly any subsequent work can avoid a mention of Johnson's work underscores this point. Many authors have adopted it as a point of departure and sought either to draw attention to its weaknesses and provide a more nuanced understanding of the inner dynamics of the developmental state, or to reject its conclusions and provide alternate explanations. At the very least Johnson's work has left us thinking of the Japanese success as based on a particular configuration of co-operation between the bureaucracy and business different from that elsewhere. In that sense it has been a dominant force in recent years in shaping our perception of politico-business interaction.

Perceptions on the pre-1945 government and business relationship

Research in economic history or the political economy of the post-1945 period is driven by knowing how Japan 'succeeded'. Work on the late 1930s and through the war years has fed into the research on postwar 'success' by drawing out institutional learning and

other continuities.⁴ There is a substantial literature on the Meiji period (1868-1812) that attempts to explain how Japan managed to adopt so quickly its new 'modern' institutions and put itself on the path of industrialisation, but there is in many respects a curious dearth of research on the years from about 1912 - 1930. Reasons for this are unclear. The Taishō period is seen by some as a brief episode in Japan's modern history when it experimented with western liberalism, bracketed by periods in which more autocratic approaches dominated. The view that the 'honeymoon' was peripheral to understanding how Japan really operates perhaps helps explain the paucity of literature. Whatever the reason, our understanding of how business and government operated in this period is limited. The assumption that business and government operated in hand-in-glove fashion is more entrenched than for the post-war period, but there is not equivalent empirical research. As we have a limited understanding of how business and government operated, the scope for speculation on the importance of covert interaction is that much greater.

It is apparent that the the Big Four *zaibatsu*, namely Mitsui, Mitsubishi, Sumitomo and Yasuda, and other smaller ones such as Asano, Furukawa, Fujita and Kawasaki, benefited from the business opportunities that World War I afforded. However, though the Big Four held a major position in the economy at the time of the conflict, it was not until the 1920s, when many smaller businesses failed to weather the recession, that they 'established a clear hegemony'. Though 'their influence extended beyond business and into the political world, they did not have a monopoly on economic power'.⁵ By the late 1920s, Allen argues, the *zaibatsu* had greatly enhanced their ability to influence government decisions⁶, but between 1914 and 1919, the three largest *zaibatsu*, Mitsui, Mitsubishi and Sumitomo, accounted for approximately 28 percent of the total assets of the top 100 companies in Japan, excluding those owned by the government. Their position, though, varied according to the industry. Government firms included the largest iron and steel maker, Yawata (Yahata). In the iron and steel industry the *zaibatsu's* position diminished from 84.5 percent of private sector assets in 1914 to 41.7 percent in 1919.⁷

Addressing members in 1908, Nakano Buei, the president of the Chamber of Commerce, encouraged the advancing of business interests through political means.⁸

By 1917, of the 381 seats in the House of Representatives, 30 members had extra-parliamentary careers in the bureaucracy (7.9 percent), 192 members were businessmen (50.4 percent) and 20 had careers which were both in the bureaucracy and business (5.2 percent).⁹ The business position in government was further enhanced by the funding of the two main political parties from the coffers of Mitsui and Mitsubishi. The former directed its funds to the Seiyūkai and the latter to the Kenseikai. Roberts claims that 'Hara was amply funded as president of the Seiyūkai. At the end of each year dietmen belonging to the party used to visit his home to pay their respects and receive envelopes stuffed with money. It was generally assumed that Mitsui provided a share of the party's funds; evidence of the fact became public in 1920'.¹⁰ Direct involvement in government affairs by Mitsubishi can be traced back to at least 1896, when Iwasaki Yanosuke, head of the combine, helped to bring about the second Matsukata Cabinet.¹¹

Kinship also played a crucial part. From 1908 Iwasaki's cousin, Toyokawa Ryōhei, head of the Mitsubishi Bank and chief director of the Tokyo Clearing House, 'undertook a role of leadership among Diet members'.¹² Katō Takaaki, who married Iwasaki Yatarō's eldest daughter, became president of the Kenseikai in 1916 and led a coalition cabinet in 1924. Similar influences were at work in the founding of the Industrial Club of Japan, whose focus on heavy industry made it a key organisation in the business-politics relationship. Funding of the Club was evenly divided between Mitsubishi and Mitsui, and Baron Dan Takuma, general manager of Mitsui, was its president from 1917 until his assassination in 1932. Kaneko Kentarō, a close friend of Baron Dan since their student days in the United States¹³, and whose younger sister married Dan, became Minister of Agriculture and Commerce in 1898 and Minister of Justice in 1900-01. He played a central role in the establishment of the Club.¹⁴

The 1930s provided a new environment for politico-business relations characterised by changing economic priorities, growing government intervention and the presence of the military. Hirschmeier and Yui suggest that it was the 'young bureaucratic elite as well as the military... [who] abhorred the free market system with its possibilities of making profits out of scarcities'¹⁵ that in particular rankled with business, and in the early 1930s well-known businessmen clashed with government. As the war years progressed and

the strain on Japan increased, this 'weld[ed] the government and the business community together in a joint purpose. But their views did not coincide on business matters'.¹⁶ In the 1920s and 30s, it was rare to find businessmen assuming cabinet positions; in the 40s we find a number of prominent business figures in key government posts.¹⁷

Notwithstanding connections based on economic strength, political participation and friendship, it is not clear that the large *zaibatsu* directly exercised their influence to receive specific benefits on a *quid pro quo* basis. Ikeda Seihin, who took over the helm of Mitsui after Dan's death, acknowledged that financial support was given by both Mitsui and Mitsubishi to political parties. However, he claims that given the strength of the Big Three *zaibatsu*, they did not need to resort to underhand means in order to have their interests taken into account: given their economic size, their interests would be naturally considered in the political decision making process.¹⁸ Dan Takuma's own biography, written by a committee in 1938, claims that he would have no truck with political money - bribery -¹⁹, and in fact it was only late in life that he developed an interest in politics. Moreover, as a member of Mitsui, he was not allowed to participate in politics as there was a strict code that forbade such activity.²⁰ Even Nakamigawa Hikojirō, vice president of Mitsui bank, recognised in the Meiji period that 'Mitsui Bank's operational difficulties stemmed from its dependence on government patronage', and in 1892 introduced reforms that started to steer the *zaibatsu's* bank from the traditional path of the political merchant.²¹

Matsuura Masataka has pointed out that Mitsui, Mitsubishi and Sumitomo disliked their members' participation in political affairs. Moreover in 'the post-War [World War I] period, in general enterprises that were part of former *zaibatsu* already had huge economic power and were secure in their close association with the political elite, so they did not feel a need to participate in politics'.²² That the economic position of the large *zaibatsu* was such that it was not necessary to participate in politics does not imply that they did not actively exercise their influence through other informal means. Furthermore, as Ikeda pointed out, they were confident that given their structural position in the economy their interests would be taken into account in political decisions. Also, despite whatever rules had been established to prevent direct political participation, there seemed to be a

Nelsonic blind eye in at least two of the *zaibatsu* houses: in the 58th Diet of 1930 1.8 percent of Minseitō members and 1.7 percent of the Seiyūkai members held positions in Mitsui and 3.7 percent of the Minseitō and 1.7 percent of the Seiyūkai were from Mitsubishi.²³ It should also be noted that the remainder of the business community did not enjoy the same privileged position as the large *zaibatsu*, and probably did not fetter themselves with house rules preventing their employees from getting a leg-up on the competition.

In the end, however, it is difficult to evaluate the degree to which business exercised its influence in government at this time. There is a decided lack of detail on how this interaction occurred. Assumptions made on the basis of factors such as economic strength or diet presence, hold that business was having its way or at least having a say. There is thus a clear need for detailed empirically based work to test the truth of these assumptions. The limitations imposed by the scarcity of documents make systematic empirical research in this area difficult, but no less necessary.

The *Shingikai* and the stakes in the iron and steel industry in 1917

The term *shingikai*, or *deliberative councils*,²⁴ is a collective term including bodies with the titles *shingikai*, *chōsakai*, *iinkai*, *shinsakai*, *kyōgikai* and *kaigi*. Such bodies have been convened since the Meiji period to deliberate and provide informed recommendations on issues as determined by government. *Shingikai* do not have the power to decide, though in particular situations they may be given the scope to do so.²⁵ The 'contemporary commissions differ from their pre-war cousins in nomenclature, legal basis, membership, and function'.²⁶ However, the original central precept has not changed: ostensibly at least, *shingikai* have been, and remain today, a forum for extra-governmental interests to participate in the process of policy formulation. However, in the pre-war period, participation by individuals not from business circles or academe, was very rare, though not necessarily forbidden. At the same time policy formulation was not seen as a matter in which input from the common man was necessary, though popular demands did enter the calculus of political decision making through the latter years of the Taishō period.

In comparison to the scholarly research on the *shingikai* of the post-war years, very little work has been done in either Japanese or English on the pre-war institution, in particular

with respect to its role in the political decision making process. *Shingikai* were 'formed by prime ministers, cabinets, individual ministers or high-level bureaucrats... [and the] legal instruments for their establishment were mainly imperial edicts, cabinet orders and ministerial ordinances, though several were formed by legislation'.²⁷ In some instances a committee would be formed on the request of extra-government interests, though in the main they were established in response to initiatives from the 'particular administrative unit concerned'.²⁸ In the case of an imperial edict, the emperor's office would provide the operating rules and instructions, as well as select one of the divisions of the bureaucracy to organise the committee. In some instances, at least, membership numbers were determined by the emperor's office, and also the numeric break down between the core members and those who would be called upon as experts in case of need. The names of the members seem to have been selected by the bureaucracy itself. It is also likely that where the *shingikai* was established by cabinet order or ministerial ordinance, the remit and details of operation of the committee would have been determined by these initiating authorities. Harari reports that 'membership was dominated by bureaucrats from relevant ministries; other salient categories of members were university professors and leaders of industrial and agricultural interests. A small number of labour leaders – and only those on the right wing of the labour movement – served on a negligible number of advisory bodies'.²⁹

Claims of the existence of a powerful bureaucracy in prewar Japan, as well as the infancy of political parties and the limited number of actors in policy making, give reason to believe that the *shingikai* were co-opted by the bureaucracy. However, recent examinations of the *shingikai* suggest that this view is somewhat simplistic.³⁰ Analysis of issues and arguments has underlined the need to view each *shingikai* as different, and to judge its effectiveness in terms of the issue at hand and the actors involved. In other words, a case-by-case examination is needed to determine whether the charge of bureaucratic co-option is valid.³¹ The role of the *shingikai* in the policy making process was clearly a complex one. It stands to reason, moreover, that business was unlikely to have turned to this *shingikai* forum in attempting to influence the political decision making process had they not felt it in their interest to do so. This would have been particularly so in times when the stakes were high, such as in the case of iron and steel policy during World War I.

Case study

The onset of war is invariably accompanied by dramatic shifts in demand and supply to meet changed military needs among the belligerents and also their trading partners. Japan, though not a principal belligerent in World War I, benefited from this experience. For the iron and steel industry, the dramatic increase in demand combined with a shortage of supply created considerable problems. The total annual demand for iron increased from 505,000 tons in 1913 to 924,000 tons in 1919, and for steel, from 751,000 to 1,165,000 tons.³² This increased demand was met by expanding the output of established plants, and by encouraging a large number of new entrepreneurs to invest in their own sites.³³ However, Japan had largely relied on external sources of iron and steel, and there was a serious decline in imports. The supply of steel and iron from Britain and Germany dwindled, though American steel imports did eventually increase because of a special arrangement regarding steel for ships which was formalised in the U.S.-Japan Ship and Steel Exchange Pact of 1918. Between 1913 and 1914, however, iron ore and steel imports dropped 36% and 25% respectively. With the export ban on steel imposed by Britain in 1916 and supply cut from Germany, the need for self-sufficiency was brought into clear relief and Japan faced a 'steel famine'.³⁴

The situation was exacerbated by government proposals. Capitalising on the increase in demand and rising prices, the state owned and government managed Yawata Works submitted its third expansion plan to the 37th Diet in January 1916³⁵. The construction plan was approved by the Diet the following month. Yawata, however, did not normally sell its pig iron on the domestic market³⁶. As the only integrated producer in Japan, it had adopted the policy of not directly selling pig iron to private firms, but using it for its own operations. The Kamaishi Works, a relatively large private sector enterprise, purchased foreign pig iron but used most of it for cast metal. The rest of the private sector had to compete for the 30,000 tons annual output of the Wanishi Iron Works³⁷, or look abroad for supply. Domestic steel producers therefore feared that Yawata would further expand and diversify its production of steel goods and hence strengthen its competition with the private sector.³⁸ A sector reeling from the effects of tight supply of inputs, and with many smaller producers carrying heavy debt loads, viewed poorly the government decision to give preference to its own interests. Anxious to capitalise on the

strong demand for pig iron and steel, businessmen, 'realising their once in a thousand years opportunity', firmly opposed the plans for Yawata's further expansion.³⁹

World War I was thus a fillip for the expansion of Japan's iron and steel industry, but also brought problems that affected the plethora of newly founded private sites. Both business and government were stakeholders in the industry, and given the inflated prices, both sides had a particular interest in seeking their own ends. In response the government established a *shingikai* to consider the issue. The remainder of this paper will set out the process of decision making in the *shingikai*, through which the different actors established their positions and sought to achieve their ends, and the outcome of the debate.

The leading voices and the shaping of the debate⁴⁰

On 15 January 1916 approximately 500 members of the Rengō Danwa Kai (discussion group for matters of mutual concern) met in the Tokyo Station Hotel. This group was comprised of the Iron and Steel Institute of Japan (*Nihon Tekkō Kyōkai*), and the Academies of Electronics (*Denki Gakkai*), Machinery (*Kikai Gakkai*), Shipbuilding (*Zōsen Kyōkai*) and Armory (*Kahei Gakkai*). Inviting Oshikawa, the head of Yawata, to attend, they formed the *Tetsuzai Jikyū Tōron Kai* (discussion group on self-sufficiency in raw materials for iron production) to address some of the issues raised by the third expansion plan. Members from the academies of Civil Engineering (*Doboku Gakkai*), Architecture (*Kenchiku Gakkai*), and Japanese Mining (*Nihon Kōgyō Kai*), were also invited to attend. Participants were therefore largely derived from the academic and business worlds. The principal speakers included Imaizumi Kaichirō, chief engineer and managing director of Nihon Tekkan, and one of the directors of the Iron and Steel Institute of Japan, who proposed government and private sector co-operation. He argued that 'the question of whether the demand for iron and steel is sufficient is only a problem for government managed steel mills (Yawata)' and that 'in order to induce the rapid rise of the private industry, Yawata should produce all the pig iron and the steel ingots etc., while the private sector should from this produce the finished products. Through this means, some of the pressure on private industry can be alleviated'.⁴¹ This meeting marked the start of a serious confrontation between the government managed Yawata Works and the private sector.⁴²

The following month the discussion group produced its 'Proposal for the Establishment of a Committee of Inquiry into Joint Public-Private Iron and Steel Manufacture (*Minkan Gōdō Seitetsu Chōsakai Setchi Kengi*). The central proposal was that 'in order to put on a more solid footing the independence of our industry, a policy for the long term self-sufficiency of iron and steel must be tried'.⁴³

At the same time Imaizumi formally expressed his views in his 'Opinion Regarding the Third Expansion of Yawata', in which he again emphasised the need for co-operation between government and private sector.⁴⁴ Submissions on the issue were made to both houses of the Diet. One petition author, Kawasaki Suketarō, a businessman from Osaka, outlined that private capital should be poured into Yawata Works and that management should be re-forged to include the private sector. The submission from Nakano Buei, the president of the Tokyo Chamber of Commerce and founding chairman of Tōyō Iron Works, advanced the view that 'the government's Yawata works should make steel materials for the private sector sites, semiprocessed goods and intermediate products (*chūkan seihin*) for the private sector'.⁴⁵ The Upper House urged that an investigation committee be established to consider the adjustment of supply and demand between government and private sector in the industry. However, to the dismay of the private sector, the proposals to fund Yawata's expansion passed through the Diet.

In May of 1916 the government did set up a *shingikai*, the Investigation Committee on the Iron and Steel Industry (*Seitetsugyō Chōsakai*). This comprised 20 members, mainly academics and leading businessmen from heavy industry, with the government represented by officers from Yawata, from the Imperial Navy and Army, and the National Railway Bureau. This was the first time that heads of private sector steel companies were present (as participants in such an investigative committee). The Minister of Agriculture and Commerce referred the committee to four areas: 1) investigation of the location of raw materials and their supply for domestic use; 2) investigation into the kinds of pig iron and steel products that would be best for Japan; 3) co-operation of private and government producers; 4) what was necessary for the development of the industry.⁴⁶ Following the creation of this committee, two other subcommittees were also established and towards the end of 1916, the results of all these deliberations were

submitted to the Minister of Agriculture and Commerce, under the title of Report of the Investigation Committee on the Iron and Steel Industry (*Seitetsugyō Chōsakai Tōshinsho*).

The report suggested a wide range of iron ore supply options that might be examined, including the use of low grade iron ore, and more distant supply locations such as Australia and the South Pacific, as well as special government assistance. Future demand figures were calculated for pig iron and steel materials and projected volumes of production. It was suggested that there was likely to be an excess of pig iron production, but insufficiency of steel materials. Only one sentence of the relatively lengthy report was devoted to the issue of government and private sector cooperation. The thrust of this was that co-operation could help to avoid mutual competition and thus foster development. The reasons for the cursory manner in which this key issue for the private sector was handled are unclear, particularly in light of the composition of the committee. Had the matter been adequately considered and co-operation not considered appropriate, then such discussion might be expected to be reflected in the report. It is likely that this insouciance rankled with the private sector. Perhaps most important in terms of its contents, the report also addressed the necessity of encouraging the development of the iron manufacturing industry. However, though in principle encouraging the development of the private sector, the report recommended a 10 year tax exemption for 'mills that have a production capacity of above 35,000 tons in pig iron and steel'. This figure was highly significant, for it meant that the bulk of the smaller private sector sites excluded from any tax exemption. By contrast, support for plants in Korea and China 'was insisted on by Mitsubishi, Ōkura, and the South Manchurian Railway Company, since they were establishing works in Korea and China that would produce over 35,000 tons of low phosphorous pig iron. Ōkura's joint venture, Ben Xi Hua Coal and Iron Company, which had low phosphorous iron ore, was particularly interested in seeking governmental promotion'.⁴⁷ The extent of the behind-the-scenes influence of *zaibatsu* and other large business interests, and in particular the rationale for this 35,000 ton barrier is hard to assess.

In protest at the recommendations of the Investigation Committee, Shiraishi Motojirō, the director of Nihon Kōkansha (NKK), in May 1916 launched a complaint to the Japan

Industry Club. He particularly objected to the 35,000 ton tax limit, which excluded the NKK and many other companies.⁴⁸ He advocated strengthening the industry as a whole, proposing that 'without distinction to pig iron and steel, also without distinction to present or future, all iron and steel companies should be exempted from tax for more than 25 years'.⁴⁹ The following month the Industry Club submitted to the government its own submission on the future protection of the iron and steel industry (*Honpō Seitetsu Jigyō Hogo Shōrei ni kansuru Iken Sho*).

The position of the Japan Industry Club

At the start of the report, Dan Takuma emphasised the multitude of new companies that had sprung up since the start of the war and the need to establish long-term self-sufficiency in steel production. This in turn needed self-sufficiency in pig iron production. With this in mind, the report outlined the following six recommendations:

1. Measures to enable steel making sites with an annual manufacturing capacity of 35,000 tons pig iron to acquire additional land for expansion.
2. Plants of over 3,000 tons pig iron manufacturing capacity, and over 10,000 of steel manufacturing capacity to be exempt from business tax, income tax, urban prefecture and prefecture tax, and city, town and village tax, for 25 years from the year after opening.
3. With regards to steel manufacturing sites that produce iron as well as steel parts for essential machines to be exempt from import tax for 10 years from the day of promulgation of the law.
4. Sites with an annual pig iron capacity above 3,000 tons, as well as steel manufacturing of an annual capacity greater than 10,000 tons, to be granted suitable financial assistance for a period of 10 years.
5. Sites just starting to be given encouragement by the government, especially with regard to special pig iron.
6. Government steel manufacturing site(s) to make available to private steel manufacturers pig iron and steel ingots.⁵⁰

The Industrial Club was clearly anxious to develop the iron and steel industry as a whole. With the production capacity barrier set at 3,000 tons for pig iron and 10,000 tons for steel, a far larger number of sites would qualify for support. As a yardstick, one of Japan's first furnaces in 1857 managed to produce about one ton a day.⁵¹ Thus, an

annual production capacity of 3000 tons, or approximately 8 tons per day, was a sufficiently low barrier to include all but the smallest of sites.

It is clear that both sides acknowledged that measures were needed to promote the development of the industry. However, there was a glaring omission of any concrete proposals for joint private-government management, and a significant gap between the recommended tonnage levels. Government was not interested in combining private sector interests with its own iron and steel making enterprises. Encouragement for the industry meant to the government large, well-established sites, while the Japan Industry Club, representing the industry as a whole, sought to promote all producers, almost regardless of size. These differences reappeared in the Lower and Upper House debates, where they were eventually resolved.

Although the formal institutions through which business had to make its case were the two Houses of the Diet, the process whereby business and government established and made public their positions actually occurred outside these institutions. However, the process ran concurrently with the initial meetings of a Lower House *shingikai* whose members were appointed by government. This membership was drawn from the house itself and the cabinet, as well as from academe, business, and the bureaucracy. An Upper House *shingikai* was also established with similar composition, except that the Diet representatives were from the Upper House. The discussions of these two *shingikai* progressed over a period of 18 months, and moved from general inquiry into more focused and increasingly heated debates.

The Lower House debates : Committee on the Proposal Concerning the Promotion and Future of the Iron and Steel Industry (**Seitetsu Jigyō Sokushin oyobi Shōrei ni kansuru Kengian linkai**)

This Committee sat as the 37th Diet debated the proposals for Yawata's expansion, and the private sector responded with its own suggestions as mentioned above. The first meeting of this Lower House committee was on 22 January 1916. It was convened in total five times, with the final sitting on 24 February. Though reference is made to the issue of Yawata's expansion, most of the discussions of the committee revolved around a limited number of issues that were also raised in the Tōron Kai and Imaizumi Kaichirō's report.

The question of whether Japan could find from domestic sources sufficient raw material for the production of pig iron, and, if not, from where it could be secured, was debated throughout the five sittings of the committee. The Minister of Agriculture and Commerce, Kōno Hironaka, stated that there was no plan to make Japan independent with regards to steel, implicitly acknowledging the lack of domestic sources and the government's intention of going for foreign procurement.⁵² It was generally recognised that Japan had limited sources of iron ore and that reliance on foreign supplies was critical for the expansion of the industry.

Kōno also argued from the outset that it was of prime concern to ensure sufficient raw material for steel production at government run sites, perhaps inadvertently from the outset confirming fears among the private sector over the government's priorities. At the start of the final sitting of the committee, Kōno reiterated that the fundamental problem in providing assistance for the private sector was that there was insufficient raw material for the industry as a whole. No extent of assistance could allow for the expansion of the private sector. He added that were this fundamental problem to be overcome, expansion could be achieved. In short, the government did little to help assuage private sector fears about adequate raw material supply for all smaller sites. The 'steel famine' in general, and private sector fears fuelled by the anticipated increase in demand as a result of Yawata's proposed enlargement, raised the stakes in finding secure sources of supply, whether domestically or from abroad.

A similarly negative stance was also taken by government with regards to the proposal for joint government and private sector management of steel mills. A considerable gap existed between the two positions over the feasibility of implementing this idea. Nishimura Tanjirō, a member of the Lower House, observed that from the perspective of the government the Japanese industry was still in an 'infant' stage, but from the point of view of the private sector businessmen, the industry had already reached a more advanced level. As the private sector was functioning independently of government support, then by definition it was competitive. If only the government would 'slightly open the doors' then the industry would develop more rapidly.⁵³ Though Nishimura did not elaborate on what he meant by the term 'doors', he may have been referring to an adjustment in import tariffs to facilitate growth. He went on to urge that the two sides

should meet to resolve their differences. Research on the industry must be done together and in a formal manner.

Nishimura's observations were echoed in the arguments of Machida Chūji, a government committee member and later minister, on the non-feasibility of joint government and private sector management. Showing a greater depth of knowledge of the industry than most other participants, Machida explained that the projected cost of the third expansion of Yawata was 35,000,000 yen, and would take an estimated 40 years. The payment scheme was a long term one, and such a burden, even if shared by government, would be too great for the private sector. He tried to give some consolation by adding that once this expansion had been completed, the proposal for joint management could be considered.

Despite this offer, there is an underlying sense of fatalism in the discussion over joint management. Though the budget for the expansion had not yet been approved, the discussions suggest that there was little chance at this late stage of modifying Yawata's submission to accommodate private sector wishes. Far from being a debate between competing sectoral interests, the overwhelming tenor of the five sittings of this committee was one of tame inquiry and exploration of issues. Perhaps because this was the first committee meeting on the steel industry, arguments were restrained, but there was also a general lack of knowledge among those participants whose comments have been recorded. In one instance discussion of the quantity of iron ore output in Manchuria proceeded on the basis of rumours, there being no firm figures to hand.. Moriya Koresuke, an elderly committee member who had held a variety of positions in the iron and steel industry as well as having been re-elected to the Lower House 8 times between 1906 and 1919, summed up the situation by mentioning that when he had studied at school the academic curriculum had not included matters relating to steel production and now Japan was a producer of iron and steel; in other words, the pace of the development of the iron and steel industry was so fast that it was difficult for participants to keep abreast of the changes and have sufficient understanding of iron and steel technology to make the judgements required by the *shingikai*.

The last of the major issues discussed in this first series of committee meetings was tariff reduction. The basic line of argument of the private sector was that the rate of

protection was too high, unduly hindering the entry of iron ore into the country. Instead of being an aid by keeping out cheap foreign produce and encouraging domestic production, the tariff exacerbated the lack of iron. The Minister of Agriculture and Commerce stated that he was receptive to the reduction or elimination of tariffs as suggested by the industrialists, but maintained that the fundamental obstacle was the basic lack of raw material. Dr. Kobayashi Ushijirō, the chairman, also saw raw material as the main problem. He felt that inevitably Japan would have to continue relying to some degree on external supply, but pointed out that this was not a unique situation. In both England and Germany one third to one quarter of the supply came from outside the country. There should be no problem in relying on the import of iron ore given appropriate contracts with suppliers in China and Manchuria.

Essentially, committee members were voicing their opinions, but without appropriate research only tentative conclusions could be reached. Machida, the government nominee, expounded on a number of possible scenarios, admitting at each step that he did not have any answers. The question of whether reduction or elimination of tariffs would be beneficial to the private sector was left open to debate. Thus, the first series of Lower House committee meetings is perhaps best characterised as exploratory. Both private sector and government were still in the process of establishing their positions, though attitudes to some of the fundamental issues can already be seen. For entrepreneurs concerned over the supply of iron ore, this series of meetings gave sufficient grounds for unease about any specific measures government might advocate in the coming months.

Committee for the Proposed Iron and Steel Industry Promotion Law

The five sittings between 29 June and 9 July 1917 of a further committee, the Committee for the Proposed Iron and Steel Industry Promotion Law (Seitetsugyō Shōrei Hōan linkai) reveal a greater depth of knowledge than previously seen. Where the previous committee meetings were exploratory, in this case a draft of the law had already been submitted to the committee. The debates were more focused and linked with the articles of the proposal.

At the first of the series of discussions of this committee, the new Minister of Agriculture and Commerce, Nakakōji Ren, set the tone for the position of government on the

proposed measures. He stated that since the beginning of the 'steel famine', considerable debate had been focussed on the demand for steel. Here, he emphasised, the focus would be on the emergency measures needed to address this situation. As a first step, he pointed out, the third expansion of Yawata had already been approved, and given the current dire straits, all efforts should be directed at benefiting the country, even if in the process private sector welfare was sacrificed.⁵⁴ In order for this to be achieved, it was critical that a steady development of the industry be maintained. To this end, he proposed that iron and steel mills (*seitetsujo*) with a production capacity above 35,000 tons per annum should be given encouragement in order to achieve a solid base for steel manufacturing. If, in the pursuit of expansion, additional land was required, measures had been included for the necessary expropriation. Firms would be exempted from income, business and local taxes, and tax on the import of equipment would be waived. The proposed measures should be debated and passed into law as soon as possible.⁵⁵ The position of government was thus clear from the outset. The aim of the law was not to create a protective umbrella for the industry as a whole, fostering the development of sites regardless of size or need, but rather to promote the expansion of the largest mills in the national interest.

Inoue Kakugorō, a prominent businessman and member of the Lower House,⁵⁶ posed the question of whether the development of sites below the 35,000 ton limit would not also be of benefit to the country. Instituting measures to create greater unity among producers and the systematic harnessing of the production capacity of the smaller sites, would also achieve the goals of the Minister.⁵⁷ In response the Minister observed that it was not only a matter of co-ordinating the smaller sites but also a problem of raw material. He feared there would not be enough for the various sites, not to mention the inadequacy of facilities and transportation.⁵⁸

Closer to the nub of what irritated the private sector were the reasons for the governmental position of 35,000 tons. As one government committee member admitted, there had been no investigations conducted as to the failure rate of small scale manufacturers, which undermined the arguments suggesting that they were an investment risk.⁵⁹ Throughout the series of committee meetings, a number of explanations were posited in support of the favour afforded to the larger sites, one of

which was managerial efficiency.⁶⁰ However, the rationale for this numerical value rested purely on research showing that sites that had an output of less than 100 tons per day were inefficient, a standard that had been accepted in other countries.⁶¹ How efficiency was defined was not explained. It was suggested that approximately 167 sites would fall under the 35,000 ton limit and not be eligible for the support offered by the proposed law.⁶² The members of the committee were clearly aware that were the law to be passed as submitted by the Minister the future of many smaller sites was uncertain.⁶³

In the final stage of the fifth meeting on 9 July, members voted on the proposed law. Nakakōji, in a final effort to persuade members of the necessity of accepting the 35,000 tons barrier, tried to rally support for the government position using the argument of national interest.⁶⁴ An alternative proposal called for reducing the limit for support to 3,500 tons, and another to 1,500 tons. Voting details are not provided but the outcome was in favour of the 3,500 ton position.⁶⁵

With this vote the Lower House debates drew to a close. Participants had gone beyond exploration and begun a serious debate on the proposed measures. Nakakōji, representing the government, had from his entrenched position strongly urged members to rally around his call in the national interest. However, the vote was a clear sign of private sector sentiment.

The Upper House debates : Special Committee on the Proposed Iron and Steel Industry Law (Seitetsugyō Shōrei Hōan Tokubetsu linkai)

Following on the heels of the last Lower House committee meeting on 9 July, the first of the final two committees, the Special Committee on the Proposed Iron and Steel Industry Law of the Upper House, sat on 11 and 12 July 1917. On the first day, the proposed law was submitted. Certain parts were then revised. According to the records, this was done by the committee and presented the following morning. Debate did not commence until the afternoon of 12 July. There were a number of proposed changes to the 11 July submission which directly affected the smaller sites and related to the capacity issue. In particular, there was a tax provision (Article II) which stated that with regards to 'enterprises with facilities that have the steel capacity and pig iron capacity of 3,500 (35,000) tons per annum, they are exempt for a 10 year period' was of concern.⁶⁶

That afternoon of 12 July, the Minister of Agriculture and Commerce, Nakakōji Ren, again explained at considerable length the government position, arguing that given the current dearth of steel in Japan, an appropriate policy must be implemented. To that end, he explicitly stated the need for a law that would target sites of 35,000 tons capacity or a daily rate of 100 tons. The rationale was that directing the country's resources, financial and otherwise, to such sites would maximise the output of iron and steel in the national interest. One business committee member, Kamata Katsutarō, challenged Nakakōji, stating that the Minister's reasons were insufficient, and that 'the aim of the proposal was to protect large sites'.⁶⁷ The Minister defended himself with the argument that the prime issue was not what was best for the private sector but what was best for the country, and reducing the limit to the lower level, raised the possibility of jeopardising the success of the large sites.⁶⁸ The issue then went to a Joint House Committee on the Proposed Law for the Future of the Iron and Steel Industry (*Seitetsugyō Shōrei Hōan Ryōin Kyōgikai*), which sat on 13 July 1917 and was composed of members from both houses. The range of topics discussed was limited and the exchanges on tonnage reveal additional insights into the rationale for either the government or the private sector positions. The tone of the discussions, however, was different. This was the final day of meetings on the issue and it must have been understood that if no compromise position was reached during the talks, a deciding vote would be necessary. The meeting commenced with Motoda Hajime, the Lower House Speaker, stating his preference for the reduced tonnage position, followed by Viscount Inoue Tadashirō, the Deputy Speaker of the Upper House, defending the government stance that the fastest path to redressing the iron and steel dearth was through larger sites. The exchange between the speakers continued in this vein until Suzuki Umeshirō of the Lower House entered the discussion, challenging the government on the rationale for its figure of 35,000 tons. Inoue answered, but not to the satisfaction of Suzuki, and he continued to press the issue. Tension mounted and finally Suzuki, perhaps by way of veiled threat, pointed out the result if a compromise position was not found:

'this problem of 35,000 tons is the most important problem of all. However, unfortunately, if the Lower House and the Upper House do not reach an agreement, then unfortunately the proposed Law will collapse'.⁶⁹

Ichiki Kitokurō, a professor of Tokyo Imperial University, former government minister and later member of the Upper House, stepped in with a more conciliatory tone, emphasising that the aim of this committee was to achieve an understanding:

'of course this Joint House committee will work to find an agreement. Since the outset of this committee the wish for this has been shared by all members of the Upper House and all members the Lower House'.⁷⁰

The discussion proceeded without apparent compromise any closer, eventually leading to an agreement to create a subcommittee which would sit and continue the discussions. At 2.17 pm, Matsuoka Yasutake, former Minister of Agriculture and Commerce (1906-08), on behalf of the Upper House, selected three members, while Motoda chose three from the Lower House. With the committee reduced from 20 to 8 appointees, the discussions proceeded for about three hours. The records do not contain the contents of these talks. At 5.12 pm the full committee resumed, and the results of the closed talks were disclosed. Motoda announced that the compromise position on Article II was 5,250 tons, reduced from 35,000 tons; the 3,500 tons specified in Article III had been modified to 5,250 tons.⁷¹ A number of interlocutors, including Nakakōji, not formally a member of the committee, expressed their satisfaction with the results and the proposed law was voted though.⁷²

Why 5250 tons and to whose benefit?

Initial consideration suggests that though the agreed figure was not 3000 tons as sought by the Lower House members, 5250 tons was quite close, and the private sector had reason to be pleased with the outcome. Certainly those firms whose annual capacity was equivalent to or exceeded the compromise tonnage were likely to have been happy. However, their numbers were relatively few. In 1913 there were 21 iron and steel firms. By 1918 there were 208. The majority of these newly arisen enterprises had seen the war boom as an opportunity to enter the market, but their viability would be in question were this egregious level of demand to fall. Indeed the post-war economic decline witnessed a serious contraction and of the 208 firms operating in 1918, only 60 remained in 1923. More importantly for our purposes here, 166 of the 187 new firms that sprang up were under 5000 tons capacity. Thus, in terms of who benefited from the Promotion Law, the vast majority of firms still fell below the cut off line. Moreover, many of those which did were also *zaibatsu*-owned. So, the question arises as to who the 8

committee members were who made the final decision, and whether they represented the interests of big business to the exclusion of the remaining private sector firms. Given the absence of records, we are not ultimately able to go beyond speculation in assessing the rationale for the sub-committee's decision to select 5250 tons as the break-off point. In light of the preponderance of small sites that fell below the 5250 ton mark, though, we can consider who were the winners and losers. The following table provides the break down of the industry according to market shares in iron and steel in 1918.

Table 1: Market Shares in Iron and Steel in 1918 (tons; %)

	Pig Iron Tons/ Annum	%		Crude Steel	Tons/ Annum	%		Finished Steel	Tons/ Annum	%
Yawata	271,578	46.6		Yawata	444,735	54.7		Yawata	306,419	56.8
Kamaishi	67,946	11.7		Kamaishi	21,881	2.7		Kamaishi	17,414	3.2
Wanishi	82,866	14.2		NKK ¹	69,689	8.6		NKK	49,788	9.2
Sites using charcoal ²	34,246	5.9		Nihon Seiko-sho	82,341	10.1		Nihon Seiko-sho	26,763	5.0
Sumidagawa Seitetsujo*	12,550	2.2		Sumitomo Copper	21,778	2.7		Sumitomo Copper	14,968	2.8
Tobata Imono	5,783	1.0		Sumitomo Steel Casting	5,678	0.7		Sumitomo Steel Casting	18,777	3.5
Reclaimed (scrap)	80,230	16.9		Kobe Steel Works	27,503	3.4		Kobe Steel Works	21,923	4.1
Others	27,559	4.7		Kawasaki Hyogo Steel Works	28,711	3.5		Kawasaki Hyogo Steel Works	22,450	4.2
				Kawasaki Shipbuilding Fukiai Works*	12,912	1.6		Kawasaki Shipbuilding Fukiai Works*	5,939	1.1
				Asano Kokura Steel*	5,831	.7		Asano Kokura Steel*	12,118	2.2
				Tokyo Kozai Company*	7,576	.9		Tokyo Kozai Company*	5,265	1.0
				Nihon Chuko*	5,346	.7				
				Osaka Steel*	10,945	1.3		Osaka Steel*	8,030	1.5
				Others	68,293	8.4		Others	29,783	5.5
Total	582,758			Total	813,219			Total	539,637	

Source MITI (ed.), *Shōkō seisaku*, vol. 17 *Tekkōgyō* (Tokyo: Shōkōseisakushi kankokai, 1970), pp. 199-200. Note: "*" were sites formed during World War I.

¹ Also known as Japan Steel-Tube, Inc.

² Charcoal (mokutan), the carbon remains from wood, have similar burning properties as coal. Charcoal was superceded by coal as the preferred energy sources in the production of iron and steel.

Of the 15 private sector production sites listed above, six were not affiliated with *zaibatsu* or government ministries: Osaka Steel, Nihon Chuko, Tokyo Kozai Company, Sumidagawa Seitetsujo, Tobata Imono, and Kamaishi. The remaining ones were affiliated with *zaibatsu*: NKK, Sumitomo Copper and Sumitomo Steel Casting, Asano Kokura Steel, the two Kawasaki sites and Wanishi. NKK was owned by Imaizumi Kaichirō and Shiraishi Motojirō, however, Shiraishi was the son-in-law of Asano Sōichirō, the founder of Asano *zaibatsu*. Wanishi was owned by the Hokkaido Coal and Shipping Company (HCSC) and in 1913 became affiliated with Mitsui *zaibatsu*. Of the remaining companies that were to receive subsidisation, Kamaishi was owned by Tanaka Chōbei, an entrepreneur, though was purchased by Mitsui *zaibatsu* after the war, and Nihon Seikō-sho was owned by HCSC and Armstrong and Vickers. Sumitomo Copper, Kobe Steel, Kawasaki Hyogo, and Nihon Seikō-sho 'all had strong ties with the Navy and the NRB [National Railway Bureau], developing to supply their special needs'.⁷³ Though there were a significant number of sites which would receive the benefit of the law that were *zaibatsu* affiliated or had close connections with government, six of the 15 were not. Among the crude steel producers, the non-affiliated held 12% of the market share, when factoring out Yawata's contribution, and finished steel producers held 13%. Independent pig iron producers held 28% of the share without Yawata's contribution considered. Thus, the market share of non-affiliated independent producers was low, and much lower if Yawata were included, and if influence in the decision making process is judged in terms of market share, then it stands to reason that the limit should have been higher. When considering that the economic clout of the *zaibatsu*, who figured large in the production of Japan's steel either through direct ownership or otherwise, stemmed from their panoply of holding companies, one imagines that they would have had considerable say in the tonnage limit. Further, given that the government position was rooted in the argument of efficiency and that such small producers as Tokyo Kozai Company, Nihon Chūkō and Osaka Steel were to benefit from the proposed law, it seems likely that other factors were at play in the tonnage decision beyond big business influence. The selected tonnage figure does not seem, therefore, to have been specifically chosen according to a *zaibatsu* or big business versus small business delineation.

The background of committee members, in particular the more vocal ones who took leading roles in the discussions, is an important component in trying to evaluate how decisions were reached. The positions members held could conceivably have been a function of their particular interests. Bureaucrats, for example, might adopt a stance close to the position outlined by the leading government speaker at the outset of the committee meeting. Businessmen, on the other hand, might be concerned with maximising their personal financial interests, while politicians might normally be expected to toe the party line. However, such delineation is too neat to adequately describe the situation in Japan during the first decades of the 20th century. One of the most striking characteristics of the twenty members who made up the Joint House Committee is that in almost all cases their career paths traversed the boundaries between politics, the civil service and business. It was not uncommon for a civil servant to rise through the hierarchy and later either move into business and assume a leading role in a company, or follow a political path. Equally, businessmen sought election and, wearing two hats, pursued a political career. These observations apply to the sub-committee as well.

A close look at the make-up of the 8-member sub-committee that made the final decision may serve to underscore these points. The following table gives an indication of this diversity of interests.

Table 2: Members of the Sub-committee**a) House of Peers**

Name	Primary Occupation	Cabinet Appointment	Business Connection	Academic Connection	Other
Baron Matsuoka Yasutake (1864-1923)	Lawyer	Minister of Agriculture and Commerce 1906-1908		President of Nihon University 1920	Privy Councillor, Baron 1917
Viscount Inoue Tadashirō (1876-1954)	Businessman		President of Anshan Iron and Steel Works, and Fushu Colliery	Professor Tokyo Imperial University	
Ichiki Kitokurō (1867-1944)	Bureaucrat / politician	Minister of various departments including Home Affairs 1915-16 and Education 1914-15		Professor at Tokyo Imperial University 1894	Privy Councillor 1917
Fujita Shirō	Businessman	Director-general of Agriculture and Commerce 1900	Business appointments, not specifically related to the iron and steel industry	Tokyo Imperial University Alma Mater	

(Tabel 2 continued)

b) House of Representatives

Name	Primary Occupation	Cabinet Appointment	Business Connection	Academe	Other
Motoda Hajime (1858-1938)	Politician	Minister of Communications in 1913-14 and Railways 1920-22		Graduated in 1880 from Kaiseijo (later Tokyo Imperial University)	Privy Councilor
Tokonami Takejirō (1867-1935)	Bureaucrat/ politician	Home Minister 1918-22		Graduated from Tokyo Imperial University in 1890	President of Imperial Government Railways in 1913
Suzuki Umeshirō (1862-1940)			Mitsui Bank and Ōji Paper Manufacturing Company	Graduated from Keio Gijuku in 1887	editor of <i>Jiji Shinpō</i>
Furuya Hisatsuna (1874-1919)				Professor at Tokyo Higher Commercial School	Imperial Household Department in 1909

Information extracted from: 1) *The Japan Biographical Encyclopaedia & Who's Who 1964-65*; 2) *The Who's Who in Japan 1937*; 3) *The Japan Year Book 1916 & 1918*; 4) *Nihon Rekishi Jinbutsu Jiten*; 5) *Seijika Jinmei Jiten*; 6) *Asahi Jinbutsu Jiten*.

The sub-committee members appear to have established close connections in the upper circles of government. Four members had at some point held one or more ministerial positions. They were senior figures in their respective fields, and their careers, which had commenced in the early formative period after the Meiji Restoration, were varied. In terms of education, there were several graduates of Tokyo Imperial University, most having studied law. Though not necessarily classmates, their early institutional development was a shared one. Notwithstanding the zigzagged paths that their careers followed, there was a certain homogeneity of background.

In trying to establish any links between sub-committee membership and the decision to go for 5250 tons, we need to ask who might have represented the state and who represented big business. We know the sub-committee was numerically equally divided

between the Upper and Lower Houses, but should not assume that all Upper House members voted for a figure that was in accordance with the government position. One factor that might have influenced Upper House members against voting in line with the government position was their business connection(s). Viscount Inoue, a high ranking member of Japan's nobility appointed by the emperor, was president of the Anshan Iron and Steel Works. Anshan was part of the South Manchurian Railway Company, and also linked to Yawata through technological support.⁷⁴ Fujita Shirō had numerous connections with business, but no direct links with the iron and steel industry. Based on business connections, neither Inoue or Fujita would seem to have had reason to vote against the government position. The other two Upper House members, Matsuoka Yasutake and Ichiki Kitokurō, were both members of the Privy Council. It seems not unlikely that they had a vested concern in advancing government interest, and might vote in line with the government position. The remaining member with business connections was Suzuki Umeshirō, a member of the House of Representatives. He was linked to Mitsui *zaibatsu* which did have an interest in the iron and steel industry through Wanishi, one of the firms above the cut-off point. If all four members of the House of Peers had voted in accordance with the government position, and Suzuki to have voted similarly, then the government position would have triumphed regardless of the sentiments of the remaining Lower House members. Even such a scenario cannot, however, explain the specific choice of the figure of 5250.

The close associations and overlapping backgrounds of many committee members might suggest that positions in the debates would not be particularly divergent. However, as we have seen, this was not the case. The composition of the subcommittee was split between the Houses, and this was a determining factor in shaping the argument. Two leading voices in the debates were Motoda of the Lower House, who argued for the reduction of the tonnage figure, and Inoue of the Upper House who pushed for the government position. The debate was not obviously shaped by the personal interests of the members, though this factor cannot be eliminated, but seems to have been more influenced by which half of the bicameral structure they occupied. The members from the House of Representatives seem to have represented the interests of the steel and iron industry as a whole. This ran counter to the government aim, represented by the House of Peers, of fostering the development of the larger sites.

Conclusion

How the compromise figure of 5,250 tons was arrived at therefore remains unanswered. Critical, though, is that the result was achieved through a formal procedure. The process of position formulation transpired over 18 months, during which investigations were conducted and committees met. As the positions of government and the private sector became clearer and the debates approached the final days, arguments became increasingly heated. For both sides the stakes were high. Government had a vested interest in seeing that national resources be directed to the largest sites, including its own Yawata, while the private sector feared that the small capacity iron and steel mills would disappear without appropriate measures in place. The adoption of a low capacity tonnage would not jeopardise the larger sites, but government did firmly believe that this was not in the interest of Japan as a whole. Certainly many of the smaller sites had only just appeared and their viability, particularly in the absence of war demand, was questionable. Furthermore, given that the passage of bills required the approval of both the Upper and Lower Houses, pressure was placed on committee members to work out their differences in the relatively favourable setting of a *shingikai* rather than risk the proposal's becoming ensnared in house debates, which could mean either collapse or alteration in a way disadvantageous to one of the sides. It was in this committee setting that the critical compromise occurred. Once agreement had been reached here, passage through the Houses could be expected to be a largely perfunctory process.

There are at least two ways of judging the degree to which business influenced the outcome of the Promotion Law by results and by process. In terms of results, given that the bulk of sites were below 5,000 tons, then one might argue that only a small percentage benefited and therefore the aim of promoting the industry as a whole failed. Strictly speaking this is true. The Industry Club of Japan sought a result that would promote the industry as a whole, and, through this law, help foster the fledgling private sector. That fewer than one third of the sites remained in 1923 does not necessarily mean that if the law had been more generous a greater number would have survived, as post-war economic contraction was severe.

A process based assessment must note that the position of the industry was so fervently argued by its representatives that it was only through the 8 member committee that

agreement could be reached. The fervour with which both sides defended their positions suggests that the process was not an orchestrated facade with a predetermined outcome arranged through informal channels. Clearly informal means may have been exercised, but even if they were, the critical compromise position was achieved in the context of the final sub-committee. Since the debates of this sub-committee are not on record, it can be argued that in the final analysis it was still 'back-room dealing' that resolved the issue. However, this was resorted to only because an outcome had not been reached elsewhere, and because members tenaciously held to their positions, which they had been granted a right to express and defend through the institutionalisation of the formal committee process. It would be dangerous to push this position too far. A network existed between elite businessmen and politicians, and it would be incredible if informal discussions had not occurred. Nevertheless, the evidence on these debates supports the argument that business did effectively use formal channels to exercise its influence.

There remains the larger question of why business and government used the *shingikai* forum to seek a compromise on such an important issue. Given the financial stakes and the historical legacy of close government and business interaction, it might be reasonable to expect greater reliance on behind the scenes negotiation. The answer to this question is problematic. We have limited detailed knowledge of how the two operated together in this period, and this case study is limited to the decision making process concerning just one law. Despite these shortcomings, this case study suggests that neither was government controlled by business, nor business controlled by government. Moreover, there is no evidence of a sense of reciprocity or tacit agreement of a *quid pro quo* way of interacting. It could, of course, also be argued that the conflict was not indicative of the relationship in general, and that there may have been an overall understanding which framed the interaction of the two sides in this specific case. The formal process, the *shingikai*, may have been seen as a forum for the resolution of conflict located within the larger context of a harmonious relationship.

I would suggest here that one important factor in the establishment of any relationship between government and business is the extent of stability in the political world. In the case of Japan's early years of party development, such stability was lacking. Between

the first Itō cabinet in 1885 and the Terauchi cabinet (1916-1918), there were 18 new cabinets. Nor had government been inclined to intervene in the market to bail out ailing businesses. Bankruptcies were widespread. Taking into consideration these factors, politico-business relations in this period can perhaps be best characterized as in a period of transition, during which both government and business were learning to operate in a new economic and political environment. The historical legacy of their relationship undoubtedly persisted into this period, and informal personal contacts remained important. However, this was also a period in which some major business interests tried to maintain a degree of distance from government. This is not to say that they left government to make decisions alone, but rather that business maintained sufficient contact to have access to key figures when necessary, but sufficient distance not to be dictated to by government. The *shingikai* provided a forum for both sides to come together without reverting to the closed door format. The impact of World War I on Japan's iron and steel industry created a situation in which their economic interests collided. The fact that the *shingikai* forum was used as a means of resolving these differences indicates that it was perceived as a suitable arena for such a resolution.

With the passage of time, government and business managed to establish an understanding. As Miles Fletcher has noted:

'The business community during the interwar era gradually became convinced of the need for what scholars would now label a corporatist relationship in order to pursue effective trade policy [and].... By the mid-1930s executives envisioned a formal structure of mutual consultation with the government'.⁷⁵

In the Taishō period, that corporatist relationship had not yet developed. What we have seen here is one step in learning how to operate together. The *shingikai* was in this case seen by business as a forum which offered it the chance to express its views and have an impact on the policy making process.

Endnotes

- ¹ Seiichiro Yonekura, *The Japanese Steel Industry, 1850 - 1990: Continuity and Discontinuity* (London: Macmillan Press Ltd., 1994), 78.
- ² Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, CA: Stanford University Press, 1982). Bai Gao, *Economic Ideology and Japanese Industrial Policy: Developmentalism from 1931 to 1965* (New York: Cambridge University Press, 1997), 7.
- ³ Kent E. Calder, *Crisis and Compensation: Public Policy and Political Stability in Japan* (Princeton: Princeton University Press, 1988), 22
- ⁴ For further details refer to Tetsuji Okazaki and Masahiro Okuno-Fujiwara, 'Japan's Present-Day Economic System and Its Historical Origins', in *The Japanese Economic System and Its Historical Origins*, ed. Tetsuji Okazaki and Masahiro Okuno-Fujiwara (New York: Oxford University Press, 1999).
- ⁵ Takafusa Nakamura, *A History of Shōwa Japan, 1926-1989*, trans. Edwin Whemmouth (Tokyo: University of Tokyo Press, 1998), 4.
- ⁶ G.C. Allen, *A Short Economic History of Modern Japan 1867-1937* (London: George Allen & Unwin Ltd., 1972), 134.
- ⁷ Takeda Haruhito, *Zaibatsu No Jidai: Nihonkei Jigyō No Genryū*, 3rd ed. (Tokyo: Shinyōsha, 1997), 108.
- ⁸ Arthur E. Tiedemann, "Big Business and Politics in Prewar Japan," in *Dilemmas of Growth in Prewar Japan*, ed. James W. Morley (Princeton: Princeton University Press, 1971), 276-77.
- ⁹ Takeshi Ishida, "The Development of Interest Groups and the Pattern of Political Modernization in Japan," in *Political Development in Japan*, ed. Robert E. Ward (Princeton: Princeton University Press, 1968), 307.
- ¹⁰ John G. Roberts, *Mitsui: Three Centuries of Japanese Business* (New York: Weatherhill, 1973), 210. Hara became Prime Minister in 1918.
- ¹¹ Tiedemann, "Big Business and Politics in Prewar Japan," 278.
- ¹² Ibid. Toyokawa Ryōhei participated in the final Joint House Committee on the Proposed Law for the Future of the Iron and Steel Industry which will be examined later.
- ¹³ After graduating from MIT, Dan returned to Japan and found work teaching English. Two of his students were Hamaguchi Osachi and Shidehara Kijūrō, both of whom later became prime minister.
- ¹⁴ Horikoshi Teizō, ed., *Keizai Dantai Rengōkai Zenshi* (Tokyo: Chūō Kōron Jigyō,

1952), 42.

¹⁵ Johannes Hirschmeier and Tsunehiko Yui, *The Development of Japanese Business 1600 - 1980*, 2nd ed. (London: George Allen & Unwin Ltd., 1981), 247.

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ikeda Seihin Denki Kankōkai, *Ikeda Seihin Den* (Tokyo: Keiō Tsushin Kabushiki Kaisha, 1962), 210-11.

¹⁹ Kō Dan Danshaku Denki Hensan linkai, ed., *Danshaku Dan Takuma Den*, 2 vols. (Tokyo: Kō Dan Danshaku Denki Hensan linkai, 1938), vol. 2, 132.

²⁰ Ibid., vol. 2, 130. Article 6, Point 1 of the Mitsui Constitution 1900 states that 'The members of the House are forbidden to do the following acts: 1. To join any political party or to associate themselves officially with any political activity'. (Roberts, *Mitsui: Three Centuries of Japanese Business*, 519).

²¹ Hidemasa Morikawa, *Zaibatsu: The Rise and Fall of Family Enterprise Groups in Japan* (Tokyo: University of Tokyo Press, 1992), 21.

²² Matsuura Masataka, "'Zaisei Sewagyō' to Keizai Shisutemu No Kiki: Senzen Nihon 'Zaikai' No Keisei to Soshikika," in *Hokkaidō Daigaku Hōgakubu Raiburari - 3: Jōhō to Chitsujō to Nettowaku*, ed. Tamura Yoshiyuki (Hokkaidō Daigaku Tosho Kankōkai, 1999), 314-15.

²³ Tiedemann, "Big Business and Politics in Prewar Japan," 281.

²⁴ Also translated as 'advisory body' (Abs)

²⁵ Ogita Tamotsu, "Shingikai No Jittai," *Gyōsei Kenkyū Nenpō* 7 (1969): 22.

²⁶ Frank J. Schwartz, *Advice and Consent: The Politics of Consultation in Japan*, 1st ed. (Cambridge: Cambridge University Press, 1998), 48.

²⁷ Ehud Harari, "The Institutionalisation of Policy Consultation in Japan: Public Advisory Bodies," in *Japan and the World: Essays on Japanese History and Politics in Honour of Ishida Takeshi*, ed. Gail Lee Bernstein and Haruhiro Fukui (London: The Macmillan Press Ltd., 1988), 147.

²⁸ Ibid.

²⁹ Ibid., 148.

³⁰ Ibid., 153.; for commentary on the 'bureaucratic dominant' and 'ruling triad' models

see Michio Muramatsu and Ellis S. Krauss, "Bureaucrats and Politicians in Policymaking: The Case of Japan," *American Political Science Review* 78, no. 1 (1984): 126.

³¹ Ehud Harari, "Turnover and Autonomy in Japanese Permanent Public Advisory Bodies," *Journal of Asian and African Studies* 17, no. 3-4 (1982): 238-39.

³² Yonekura, *The Japanese Steel Industry, 1850 - 1990*, 79.

³³ Nihon Kōgyō Kurabu, "Seitetsu Jigyō Hogo Shōrei ni kan suru Kengisho," (Located at Nihon Kōgyō Kurabu, Tokyo, 1919).

³⁴ Yonekura, *The Japanese Steel Industry, 1850 - 1990*, 79.

³⁵ Nagashima Osamu, *Senzen Nihon Tekkōgyō No Kōzō Bunseki* (Kyoto: Minerva, 1987), 46.

³⁶ *Ibid.*, 151.

³⁷ Tsūshō Sangyōshō, ed., *Shōkō Seisakushi: Tekkōgyō*, vol. 17, *Shōkō Seisakushi* (Tokyo: Shōkō Seisakushi Kankokai, 1970), 177.

³⁸ Yonekura, *The Japanese Steel Industry, 1850 - 1990*.

³⁹ Tsūshō Sangyōshō, ed., *Shōkō Seisakushi: Tekkōgyō*, 178.

⁴⁰ The following description of the policy formulation process has benefited from Teratani Takeake's article on the Iron and Steel Industry Promotion Law of 1917. Teratani Takeake, 'Dai Ichi Daisenki ni Okeru Tekkō Seisaku', in *Nihon Keizai Seisaku Shi Ron*, ed. Andō Yoshio (Tokyo: Tokyo Daigaku Shuppan Kai, 1973).

⁴¹ Tsūshō Sangyōshō, ed., *Shōkō Seisakushi: Tekkōgyō*, 176.

⁴² *Ibid.*, 177.

⁴³ *Ibid.*, 178-79.

⁴⁴ *Ibid.*, 177.

⁴⁵ *Ibid.*, 179.

⁴⁶ *Ibid.*, 180.

⁴⁷ Yonekura, *The Japanese Steel Industry, 1850 - 1990*, 84.

⁴⁸ *Ibid.*

⁴⁹ Tsūshō Sangyōshō, ed., *Shōkō Seisakushi: Tekkōgyō*, 100.

⁵⁰ Nihon Kōgyō Kurabu, "Honpō Seitetsu Jigyō Hogo Shōrei ni kansuru Ikensho," (Tokyo: Located at Nihon Kōgyō Kurabu, Tokyo, 1917).

⁵¹ Yonekura, *The Japanese Steel Industry, 1850 - 1990: Continuity and Discontinuity*, 21.

⁵² The following section is taken from Teikoku Gikai Shūgiin linkai, ed., *Seitetsu Jigyō Sokushin Oyobi Shōrei ni kansuru Kengian linkai Giroku (Hikki) Dai Ichi~Go Kai, Dai 37 Kai Teikoku Gikai (1916)*, vol. 11, *Teikoku Gikai Shūgiin linkai Giroku - Dai 37 Kai (4)~38 Kai Gikai (1915~1917)* (Kyoto: Rinsen Shoten, 1981), 248-74.

⁵³ *Ibid.*, 265.

⁵⁴ Teikoku Gikai Shūgiin linkai, ed., *Seitetsugyō Shōrei Hōan linkai Giroku (Sokki) Dai Ichi~Go Kai, Dai 39 Kai Teikoku Gikai (1917)*, vol. 13, *Teikoku Gikai Shūgiin linkai Kaigiroku - Dai 39 Kai Gikai (2) (1917)* (Kyoto: Rinsen Shoten, 1981), 289. During the third sitting of the committee, Nakakōji offered encouragement to the private sector that if the current high demand for steel carried on, then both small and large sites would continue to grow. Nonetheless, the position of government remained clearly in favour of promoting large scale mills. Teikoku Gikai Shūgiin linkai, ed., *Seitetsugyō Shōrei Hōan linkai Giroku (Sokki) Dai Ichi~Go Kai, Dai 39 Kai Teikoku Gikai (1917)*, 301.

⁵⁵ Teikoku Gikai Shūgiin linkai, ed., *Seitetsugyō Shōrei Hōan linkai Giroku (Sokki) Dai Ichi~Go Kai, Dai 39 Kai Teikoku Gikai (1917)*, 289.

⁵⁶ He was director of Japan Gas Company, director of Japan Steel Foundry, president of Kyoto Electric Railway Company and president Hokkaido Coal & Steamship Company in 1910. He was vice-president of the Tokyo Chamber of Commerce between 1890-1915 and a member of the Lower House. He was also known for sarcastic wit during diet sessions.

⁵⁷ Teikoku Gikai Shūgiin linkai, ed., *Seitetsugyō Shōrei Hōan linkai Giroku (Sokki) Dai Ichi~Go Kai, Dai 39 Kai Teikoku Gikai (1917)*, 298-99.

⁵⁸ *Ibid.*, 299.

⁵⁹ *Ibid.*, 317.

⁶⁰ *Ibid.*

⁶¹ *Ibid.*, 292.; Teikoku Gikai Shūgiin linkai, ed., *Seitetsugyō Shōrei Hōan linkai Giroku (Sokki) Dai Ichi~Go Kai, Dai 39 Kai Teikoku Gikai (1917)*, 296-98.

⁶² Teikoku Gikai Shūgiin linkai, ed., *Seitetsugyō Shōrei Hōan linkai Giroku (Sokki) Dai Ichi~Go Kai, Dai 39 Kai Teikoku Gikai (1917)*, 290.

⁶³ Ibid.

⁶⁴ Ibid., 324-25.

⁶⁵ Ibid., 325.

⁶⁶ In the record, written in vertical format, there is a line to the left of the figure 3,500 and to the right the revised 35,000 inserted. The first figure is the amount that was proposed by the Lower House and the second figure is the amount that was proposed by Upper House Teikoku Gikai Kizokuin linkai, ed., *Seitetsugyō Shōrei Hōan Tokubetsu linkai - 1917*, vol. 7, *Teikoku Gikai Kizokuin linkai Kaigiroku - Dai 38~39 Kai Gikai (1916~1917)* (Kyoto: Rinsen Shoten, 1981), 475.

⁶⁷ Teikoku Gikai Kizokuin linkai, ed., *Seitetsugyō Shōrei Hōan Tokubetsu linkai Giji Sokkiroku Dai Ichi Gō - 1917 Dai 39 Kai Gikai*, vol. 6, *Teikoku Gikai Kizokuin linkai Giji Sokkiroku - Dai 39 Kai Gikai (1917)* (Kyoto: Rinsen Shoten, 1981), 589.

⁶⁸ Ibid.

⁶⁹ Ibid., 448.

⁷⁰ Ibid., 449.

⁷¹ Ibid., 450. There were other revisions but these two are germane to our purposes.

⁷² Ibid.

⁷³ Yonekura, *The Japanese Steel Industry, 1850 - 1990: Continuity and Discontinuity*, 65.

⁷⁴ Ibid.

⁷⁵ William Miles Fletcher, *The Japanese Business Community and National Trade Policy, 1920-42* (Chapel Hill: The University of North Carolina Press, 1989), 6-7.

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