

***INSTITUTIONAL CHANGE IN MEIJI JAPAN: IMAGE  
AND REALITY***

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## *Institutions and Organisations*

Defining exactly what we mean by 'institutional change' is not always easy. Advocates of the need for institutional change in contemporary Japan invariably mean organisational change, a change in the system, although inherent in that call is a recognition of the need to change the way that people think about things, and go about doing them. In much of the current literature the terms 'institution' and 'organisation' tend to be used interchangeably, in a way that does indeed accord with the considerable identity between the way that people think and behave, and the way that they structure and organise their activities. History, as Paul David has noted, matters profoundly to the evolution of both organisations and institutions, although it is the institutions that are the 'carriers of history', as the effectiveness of the larger organisation is shaped by factors such as mutually consistent expectations, shared information channels and codes, and collectively recognised constraints (David 1994). It is unlikely to be valid, therefore, for an empirically minded economic historian to seek to divorce the analysis of institutions from the study of the organisations that are their historical manifestation, and which mediate their impact on longer term historical development. Like the problematic attempts to analyse the role of 'culture' in economic development, the historical analysis of institutions and institutional change can only really be undertaken by looking at outcomes.

This paper embraces this broader understanding of 'institutional change'. It takes as its starting point North's definition of institutions as the formal and informal 'rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction [and]...structure incentives in human exchange, whether political, social or economic' (North 1990:3). However, it also aims to explore the formal structures that were shaped by these formal and informal rules, articulated by Johnson as 'formal institutions' (Johnson 1992:26) or by North and others as 'organisations'. In North's words again, 'organizations and their entrepreneurs engage in purposive activity and in that role are the agents of, and shape the direction of, institutional change' (North 1990:73).

Identifying the sources of institutional change is not easy. It is apparent, however, that the process of change and adaptation is contingent on a capacity to acquire new knowledge and information, and the making of innovations on the basis of that new knowledge. In that sense change can be associated with a process of

‘institutional learning’, defined as an economy’s capacity ‘to learn about, adapt and change’ its institutional framework (Johnson 1992:24). Identifying the sources of organisational change has proved somewhat less elusive. As Fruin has observed, ‘organizations can and do learn, from others and from themselves’ (Fruin 1992:63). Through its capacity to ‘collect and understand inside and outside information and address problems properly on the basis of acquired knowledge’ (Suzuki 2002:4), an organisation goes beyond being a simple agent of institutional change, taking on a particular evolutionary path dictated in line with its own imperatives. This process of ‘organisational learning’ has been explored in Douglas’ work (Douglas 1985), and lies at the core of Westney’s study of organisational transfer in Meiji Japan (Westney 1987). What is important in both institutional and organisational learning, though, are the human agents of change. Any more concrete analysis of the possibilities or process of change needs to consider *who* might be the agents of change, *why* they might seek to bring it about and *what* might constrain or promote its success.

The experience of institutional and organisational change of Meiji Japan highlights a number of factors of considerable relevance to contemporary debates, but care needs to be taken in drawing any clear analogy across a time span of well over a century. Firstly, as historians of technology emphasize, there are major differences between incremental changes on the same trajectory and a shift to a completely new trajectory. While many would argue in the early 21<sup>st</sup> century that some Japanese organisations or institutions should shift to a new trajectory, it would be unrealistic to expect a trajectory shift on the scale that faced late 19<sup>th</sup> century Japan. Secondly, innovation and learning are a social process, and the possibilities are conditioned by institutions such as property rights or the norms of distribution (Johnson 1992: 36). In that respect institutions can provide the stability needed for change, impede it, or promote it. Since human behaviour is inherent in institutions and organisations, borrowing them from elsewhere is inherently complicated and difficult. Finally, there is the importance of what has been called the ‘institutional cluster’, in which ‘each new component that is added must be adapted to interlock with elements of the pre-existing structure’. The consequence is a favouring of stasis and incremental change, and a tendency to respond conservatively to dysfunctional aspects in the existing system (David 1994:215). To put it a different way, ‘inertia is a basic feature of institutions’ (Johnson 1992:26).

Bearing these caveats in mind, this paper will focus on three particular aspects of the Meiji experience of particular relevance to the current situation. The first is the extent to which there may have been particular pressures that pushed towards effective institutional change in the late 19<sup>th</sup>-early 20<sup>th</sup> centuries. It will be argued that contemporary change may prove more difficult in the absence of these, or equivalent, pressures. The second is the fact that institutional change which with benefit of hindsight appears both rapid and effective is often at the time perceived as both slow and difficult. One of the most important of these is the role that can be played by the government. The historical record suggests that while organisational change can be relatively abrupt, it is far harder to discern discontinuity in institutions. Ways of doing things and thinking about things do not change overnight, although sudden shifts in the environment or circumstances can generate relatively rapid institutional change. For the most part institutional change is a continuous, dynamic process, characterised by both continuities and discontinuities. It is only by retaining that understanding of institutional change as process that organisational and legislative changes currently proposed for the Japanese economy and polity can be properly embedded in a way that will lead to their being effective. Thirdly, the Meiji experience demonstrates the fluctuating nature of the relationship between government initiatives, legislation and regulation, and institutional and organisational change. We need to ask, for example, how far it lies within the capacity of the law-making authorities to pave the way for institutional change, and how far efforts that are too far out of tune with the force of public opinion and publicly recognised need are doomed to failure or, at the best, a lukewarm measure of success. Is institutional redesign, as Cargill suggests in this volume, ultimately a matter of will and political leadership? We need at the same time to consider effective institutions of the kind articulated by North may exist without state involvement, indeed, how far such institutions may substitute for a regime that under other circumstances might be articulated through a central authority. This might relate, for example, to institutions promoting contract enforceability of the kind analysed by Greif (1989, 1993)

The paper starts by giving an overview of institutional change in Meiji Japan, suggesting that the reality was in many ways rather different from the image that is often portrayed. This overview focuses on the role of the central government, often depicted as the key agent in the Meiji transformation. The central section of the paper looks in more detail at the process of institutional and organisational change in three

areas that are at the heart of current debates in Japan, namely financial institutions, business enterprises, and labour market and the employment system. Analysis of these three areas shows that in all three cases the process of institutional and organisational change was slow and sporadic. The conclusion offers some tentative observations on the ‘lessons’ the Meiji period may have for contemporary debates.

### *The Meiji Transformation: Image and Reality*

European visitors to Japan in the late nineteenth century were often struck by the country’s ‘backwardness’ in relation to the industrialised economies of Western Europe or the United States. By contrast, much of the subsequent historiography lauded the rapidity and clarity of a transformation that had established Japan as a regional superpower by the end of the first decade of the twentieth century, and a serious economic competitor to Europe soon after. In particular, the ‘modernisation’ school of historians focussed on internal dynamics as the key to change, and established an image of the historical process of change that has left a lasting influence. Japan benefited, it was claimed, from the external pressures for change that were imposed upon it. The clear-sighted political leadership that held power in the wake of the Meiji Restoration of 1868 was not only intent on preserving its own power, but recognised that a failure to bring about substantive change would at best lead to economic and political subservience to the Western powers along the lines experienced by China, and at worst to Japan’s becoming subject to colonial status. The overriding imperative behind change was the need firstly to achieve the ending of the extraterritoriality and unequal treaty system imposed in the 1850s, and secondly to build up Japan’s political and economic power to bestow equal status with those Western industrial powers. Driven by this stimulus, the members of the ruling elite carefully examined the possible alternatives for change, looking closely at Western institutions and models, and making judicious choices as to what would best suit the Japanese environment. It was recognised that to some extent the process of change built on developments during the Tokugawa period, but the overwhelming emphasis was on the across-the-board institutional transformation, much of it along Western lines. For some scholars and for many contemporaries modernisation was, indeed, Westernisation. By the time of the First World War Japan possessed not only factories and joint stock companies, but Western style legal infrastructure, bureaucracy and political structures. While the ‘rules of the game’ and the related

organisations clearly owed something to the distinctive Japanese environment, they were also sufficiently different from their Tokugawa predecessors to bring an emphasis on discontinuity rather than continuity.

It would be a mistake to dismiss this assessment of what was by any standards a remarkable period in Japan's history. That Japan almost alone in Asia was able to offer effective resistance to Western imperialism, and to become in her turn an imperialist, testifies to the validity of many of these claims. If we look more closely at this transformation as a process of institutional and organisational change, however, our judgement of 'success' has perforce to be a rather more muted one. We may argue with benefit of hindsight that on balance the process of institutional change was relatively successful, but that does not mean that it was easy at the time, nor that its success was at all predictable. Research by a number of scholars has demonstrated that institutional and organisational change in the Meiji period was rarely smooth, and in most cases it was several decades before changes became well-established. The early 1870s was devoted in large part to dismantling key elements of the existing system. Establishing a legal and political framework that was recognised by the Treaty Powers as justifying the repeal of the unequal treaties took around thirty years, and creating the infrastructure for industrial capitalism took considerably longer. Even this may have been a remarkable achievement, but it left many areas of Japanese life relatively untouched even by 1914.

Along the way there was a significant process of trial and error. The Japanese leadership was often divided. While there is no doubt that the external threat was often a compelling factor in the imposition of unity, and the revision of the unequal treaties a common objective, there was far less agreement on how to achieve this ultimate goal. Friction and disagreements were common, and the political history of the Meiji period is characterised by the presence of a number of disenchanted former government members whose views could no longer be accommodated within the decision-making process. Nor was the process of change the consequence of a clearly thought through line of action. The extent of information and knowledge possessed by all those involved in the process of change was limited, and decision-making at all levels from central government on down was undertaken on a pragmatic, day-to-day basis. Some of the institutions and organisations adopted can be seen as failures, and were subsequently replaced by other ones that proved more successful.

Overall, the transformation during the Meiji period was essentially a partial one. While there were some conspicuously dramatic changes, large areas of national life remained relatively untouched. Elsewhere the changes were much more subtle and much longer term, becoming obvious only at a much later date. This was in substantial part due to physical and psychological constraints on what was possible, but also to the complex interaction between indigenous and imported institutions in the borrowing process. Many Tokugawa institutions and organisations possessed a considerable degree of sophistication. The level of national market integration was already considerable, and in most areas monetisation and commercialisation was a fact of life. Economic actors had become accustomed to the forms of regulation and practices that had accompanied market penetration, which were invariably distinct from their Western counterparts. This sophistication of indigenous institutions could be both beneficial and disadvantageous for institutional change. On the one hand, it could lay the foundations for further evolution and development. A peasant farmer accustomed to the use of money and to paying tribute in the form of rice to the domain lord might find the post-Restoration transition to an obligation to pay rent in kind to a landlord or money tax to the state relatively easy. A commercial elite that dealt in futures and had developed advanced accounting practices would not find Western commercial practices totally unfamiliar. In other respects, though, complex and well-established indigenous patterns of behaviour and operation might come into conflict with Western alternatives. An emphasis on consensus, collectivity and mutual obligation was potentially antagonistic to any emphasis on self-centred individualism. As Weber had suggested (ref.), East Asian societies influenced by the Confucian ethic judged behaviour with reference to discharging an expected role in society, and not with reference to some extraneous, universal yardstick laid down by an all-powerful deity. Such conflicts had to be tackled by compromise, pragmatism and rhetoric. The analysis of particular areas of national life in the second half of this paper will make this very clear.

### *The Meiji Government and Institutional Change*

Given the significance of agents of change in any institutional transformation, the Meiji government has, not surprisingly, been the focus of much analysis. Any government making a decision that a concerted effort is required to bring about institutional change, and then seeking to implement that decision, is faced with two



interrelated tasks. The first is the need to dismantle or modify existing unwanted institutions, removing impediments to industrialisation (Gerschenkron 1962). The second is the establishment and development of new, wanted institutions. The Gerschenkronian paradigm is in many ways appropriate in the case of late 19<sup>th</sup> century Japan. The tension between where the country was and where its leaders wished it to be was obvious. The concept of ‘relative backwardness’ is an appropriate one for a country in which recognition of an inferior international status became the driving force of national policy, although the policies pursued by the regime did not necessarily accord with those articulated by Gerschenkron. The Meiji regime itself identified the need for state action to redeem the situation, and accepted the overriding responsibility for the achievement of success.

In seeking to engineer change the Meiji regime had the support of history. It was an elite government that could build on a strong tradition of intervention in many areas of national life, and not least in economic activity. National and local authorities in the Tokugawa period had not contented themselves with political dominance and control. They had also engaged in extensive regulation of and intervention in the economy, for example through domain monopolies of production, regulation of guilds, and monitoring of the all-important rice market. While the regulation may not always have been effective, the right to intervene was rarely questioned. Indeed, the ethic of mutual responsibility between ruler and ruled even made such intervention an obligation. Providing the new government could consolidate its political and military control, therefore, its right to direct change would not be fundamentally questioned. However, as noted above, post-Restoration governments were rarely completely united, and while members were brought together by a single overriding objective, it was the choices that were made in relation both to dismantling old institutions and building new ones that were the main sources of conflict. Friction was generated by both processes, and was articulated with particular vehemence in the rebellion of 1877, led by Saigō Takamori, a former member of the ruling group, but was also manifest in the political crisis of 1881, with the ousting from the regime of Ōkuma Shigenobu and his supporters, as well as the popular rights movement of the 1870s and 1880s, and subsequently the small left wing movement. Internal conflict was never far away, and opposition came from both within the regime and without, and from both conservative and progressive viewpoints.

At a national level the imperative was clear, however. The only way that treaty revision would be achieved would be to establish in Japan institutions along Western lines that would obtain the confidence of Western powers and their citizens. Extraterritoriality would only be ceded once Europeans and Americans believed that Japan's legal system would safeguard their rights and welfare at least as well as the one they possessed at home. In such cases, therefore, Japan had no choice but to follow Western practices. Elsewhere there was less compulsion to copy Western practice; the choice to do so was more of a pragmatic response. However, Western practice was never uniform, and the political and economic leadership was faced with often difficult choices between Western alternatives.

While the key criteria for making these choices were what was acceptable to the industrialised countries of the West and the extent to which imported practices could be accommodated to the reality of Meiji Japan, it is difficult to discern any consistent and unifying pattern behind the choices that were made, not least because many choices were delegated down from the top level of the regime, or made by individuals completely outside it. The selection of models or institutions to adopt was eclectic and often fortuitous, and the lack of complete unanimity in government guaranteed the diversity of choice. Mistakes were made, as will be demonstrated below in the case of the financial system.

Moreover, the requirement to borrow from outside practices was associated with a high degree of ambiguity in the minds of Japan's leaders. Ideology was important. Even before the Meiji Restoration intellectuals such as Sakuma Shōzan had come up with the concept of *wakon yōsai*, literally Japanese ethic (spirit) and Western technology. For many of the Meiji leaders the superiority of Western technology and knowhow was undisputable, but that of Western institutions and organisations far more questionable. In as far as Western institutions dictated the power structure of international economic and political relations they would have to accept some accommodation, but there was a considerable reluctance to countenance any wholesale imposition of a completely different institutional set-up, even in the absence of the imperatives of the 'institutional cluster' that was likely to render such a thing impractical. Distinguishing between the adoption of Western technologies and knowledge and the adoption of Western institutions was, however, often impossible. The import of Western technologies invariably involved in addition a degree of institutional change. Mechanised methods of production, for example, gave rise to

factories and new ways of working, while the introduction of a Western-style postal and telegram system facilitated much more rapid information flow, in turn influencing factors as diverse as family relationships, internal migration patterns and market responses. Moreover, the interaction of organisations imported from outside with the indigenous Japanese environment could, through a process of organisational learning, generate significant deviation from the original model and the indigenous one, in the process generating a completely new institutional form (eg. Westney 1987).

The overall process was therefore a complex and difficult one, in which the chances of long term success were unclear and the leading role of the government often ambiguous. This complex reality will be explored in the remainder of this paper by looking at the course of institutional and organisational change in three particular areas of the economy that are also at the core of debates over institutional and organisational reform in contemporary Japan: financial institutions, business institutions and labour market institutions. They are also areas that demonstrate a spectrum in relation to the ability and willingness of government to bring about institutional and organisational change. It must be accepted that the nature of political institutions is also at the heart of the contemporary debate, but even a brief discussion of political change in Meiji Japan lies beyond the scope of this paper.

### *Reform of the Financial System*

The financial and fiscal systems of the Tokugawa period were characterised by the ability to engage in complex dealings utilising sophisticated financial instruments, but in many respects it was incapable of coping either with the revenue demands of the new government or the requirements of industrial capitalism. A major weakness with the existing set-up was its dependence on the *ancien regime*. Through the guild system, through the operation of the rice market, and through lending to the governing class, the economic power of the commercial elite was closely associated with the pre-1868 status quo. Already under threat from the fall-out of the opening of Japan to international trade, the financial system came under even greater pressure around the time of the Restoration. Extensive gold exports due to a different gold-silver ratio from that operating outside, rapid inflation stimulated by the pressures of export demand, civil war and heavy government expenditure, a devolved fiscal system that limited the income available to the new central regime, were all problems that could only be resolved by dismantling the old political institutions pivotal to the

old financial system, and this inevitably took considerable time. The 1870s were associated with major financial and fiscal problems. Attempts at currency stabilisation proved uncertain and often abortive.

While it was widely recognised that a new financial system and new kinds of institutions were necessary to stabilise the economy and support Japan's international economic integration, the environment surrounding the first attempts at reform in the 1870s was not obviously conducive to success. Efforts to establish a Western style banking system and achieve currency reform both demonstrate how easy it was to take a misguided decision. As early as 1872 the government sought to facilitate the development of currency-issuing national banks modelled on the United States, but the initiative took several years to get off the ground, and even then those national banks that appeared remained highly dependent on government funding. If anything, the national bank system exacerbated the inflationary situation, and in the early 1880s the whole system was abandoned in favour of a completely different set-up with a central bank with sole right of note issue. The Bank of Japan was established in 1882, and under new banking regulations in 1890 all other banks became ordinary banks. National banks had all disappeared by the turn of the century. The process of achieving a coordinated nationwide banking system that could provide a firm foundation for economic growth and fiscal stability had therefore taken thirty years (Tamaki 1995).

Provision of a stable and internationally accepted currency took equally as long, and was similarly contingent on national political unity. The identified need was for a unitary currency to replace the multiple coins and notes issued by local authorities and the commercial elite for transactions in the Tokugawa period. While the new government from early on issued coins and inconvertible paper currency, it was only from 1872, with the consolidation of central control through the abolition of the old feudal domains, that the new national currency, the yen, was established. The yen operated on a *de facto* silver standard, but, as noted above, inflation remained an ongoing problem. In 1878 came the formal adoption of bimetallism, with silver confirmed as the main medium of circulation, but it was not until the introduction of a stringent policy of deflation in the early 1880s under Finance Minister Matsukata Masayoshi that inflation was brought under control. The establishment of the central bank system was critical to this domestic stabilisation, but more was required to inspire international confidence. The aspirations of the Meiji authorities extended

beyond a stable banking system and a stable currency to putting Japan on the gold standard, the internationally recognised ‘Good Housekeeping Seal of Approval’ (Eichengreen ?). The extent to which going on the gold standard was crucial for any inflow of foreign capital into Japan is debateable (see eg. Yafeh 2001), but there is no doubt that the symbolic significance of putting the yen on the gold standard was enormous. Going on gold was perceived as showing that Japan had become a full member of the Western-dominated club (Hunter 2003). Aspirations, however, were not easily translated into reality in a capital-scarce economy. That Japan accumulated sufficient gold reserves to peg the currency to gold in 1897 was in large part due to China’s payment of a large gold indemnity in the wake of the Sino-Japanese War of 1894-5. The achievement of international monetary respectability, too, had taken around thirty years.

One other aspect of the development of Japanese banking currently under particular scrutiny is the role of commercial banks as lenders to private enterprise. In some respects this particular role of financial institutions does have Meiji roots. The period witnessed the emergence of a range of financial institutions geared to the provision of scarce capital to the private and public sector. These included the so-called special banks set up by government to achieve specific objectives, such as the Yokohama Specie Bank, set up around 1880 to finance foreign trade, the Hypothec Bank, whose purpose was to make long term loans to the industrial and agricultural sectors, and the Industrial Bank of Japan. Their activities were supported by other government financial institutions, such as the Post Office Savings system, and the colonial development banks. Local private banks also appeared which over time played a significant role in lending to local economies, while large commercial banks, often under *zaibatsu* control, helped to fund associated enterprises. However, although state and private sector financial institutions of this kind did play a role in Meiji Japan in funding new enterprises, it was a very minor role compared to that which evolved later. While it is clear that post office savings or local banks were effective vehicles for the pooling and mobilisation of small savings, and that the government could be the key to large scale investment, most capital was raised through personal contacts, informal networks or through the often speculative stock exchanges. Reinvestment of profits and private wealth of individuals and families was the major source of capital. Not until the interwar years did the big *zaibatsu* banks really consolidate their role as key players in the financial market, when their

financial weight was utilised both to support affiliated enterprises and to bring new firms under the *zaibatsu* aegis.

Unlike currency and banking reform, the emergence of the institutions of capital provision in Meiji Japan was neither a necessary consequence of the unequal treaty system, nor even a requirement of stabilising international economic transactions. It was never a question of making a specific choice between available institutional models. More than anything else the appearance of institutions of this kind was a function of late development, the consequence of a response by both government and private sector to the constraints imposed by late industrialisation and the desire to achieve rapid economic development. The significance of this imperative was equally important in the development of the institutions of business, which will be discussed in the next section.

### *Business Institutions*

The development of new ways of business organisation and operation during the Meiji period was something in which the central and local authorities had a far more limited involvement. Certainly the Tokugawa regime and domain authorities had been concerned to maintain a degree of control over business activity, but the actual forms of business organisation, as well as the attitude to commercial activity, were dictated by factors such as the technology of production and the prevailing modes of social convention and interaction. The social appraisal of commercial activity and profitmaking was a relatively negative one, as members of the merchant class had been designated as the lowest of the four main strata of Tokugawa society. While the commercial elite had in many cases achieved considerable economic power, this was not necessarily reflected in enhanced social status or political influence. The predominance of the family business, for example, was closely related to the emphasis on the family as the pivotal unit in society, the limited means of pooling capital in the relative absence of reliable financial intermediaries, and the limited geographical range of most economic activities. In this Japan was no different from many other pre-industrial economies. However, while these forms of organisation had offered many strengths, they also posed limitations in the changed economic context of the late nineteenth century. Capital requirements were considerably greater for new manufacturing enterprises, while technological knowhow and information to deal with international markets were in scarce supply.

The ability of the Meiji state to address both of these issues was limited. Popular perceptions could not be changed overnight, and the government did not see it as its responsibility to intervene in the organisation of private firms. While pilot factories might be appropriate for technology transfer, state-owned firms could not necessarily offer an organisational model for the private sector. There are two respects, perhaps, in which the government did seek to facilitate change and adaptation in this area. One was in its collusion in what might be called the ‘myth’ of the ‘unique’ nationalist entrepreneur. Recognising the need to rehabilitate the validity of economic activity as a national project, a recognition reinforced by the growing overt involvement in economic activity of former members of the elite samurai class, the state not only sought to give positive encouragement to specific initiatives, but also employed a powerful rhetoric to stress the extent to which entrepreneurship, investment and profitmaking were just as valid expressions of nationalism and patriotism as political or military service. It was business leaders themselves who were the most powerful advocates of this view, but they were able to count on government support in articulating it.

This concept of the ‘nationalist’ entrepreneur was taken up by a number of economic historians of Japan (eg. Ranis 1954; Hirschmeier 1964), and at one point was even considered one of the keys to the supposed ‘unique’ pattern of Japanese development. The extent to which the Meiji commercial elite was driven by nationalism rather than the hope of profits has, not surprisingly, been questioned (eg. Yamamura 1974), but what is important here is that this exercise in rhetoric and persuasion was a powerful tool in changing institutions in North’s sense of informal rules governed by mental models. It demonstrates the strength of ideology as well as the ability of the ruling elite in Japan at this time, including the state, to exercise a major influence over hearts and minds in a process of ‘institutional learning’. Recent work has suggested that the post-Pacific War Japanese state retained a considerable expertise in moral suasion (Garon 1997), and we perhaps need to ask how far that ability still rests with the Japanese authorities, should they seek to utilise it.

The second key area of government involvement lay in establishing the legal framework for the operation of a modern company system. While the first joint stock companies predated legislation, it was only when such legislation was established that they could become the widespread norm in company formation. Legal infrastructure allowing for financial institutions such as banks and stock exchanges, much of it

copied from the West, inevitably shaped the forms of business organisation. However, as Fruin has shown, the specific ways in which firms and factories came to be organised were very much a response to the particular Japanese environment and the imperatives of late development. Entrepreneurs needed in particular to address the need to address the scarcity of the various resources required for the growth of an internationally competitive manufacturing sector, notably capital, knowledge and information (Fruin 1992). The best example of this response is perhaps to be found in the emergence of the *zaibatsu*, the great conglomerates that played a critical role in Japan's early industrialisation and reached their apogee in the interwar years. Usually family-owned, these concerns were held together by finance rather than any technological or organic interconnectedness. By internalising their needs for scarce resources, they were increasingly able to achieve substantial economies of scope and reduce transactions costs to a level far lower than normally achievable in late industrialising economies. Family networks allowed for an initial pooling of capital, later supported by the evolution of powerful in-house banks, while possession of a single trading corporation within the group allowed for a focussed development of knowledge about dealing with external markets. These organisations too, though, were strongly embedded in accepted social practice, that is, in pre-existing institutions. Constituent companies were held together not just by economic means such as cross-shareholding, but also by mechanisms such as strategic marriages and regular personal meetings (Morikawa 1993). In fact, much of the Japanese economy remained dominated by pre-existing forms of business organisation. Small and medium firms, invariably owned by families and working mainly with family labour, continued to account for a high proportion of all enterprises. By the end of the Meiji period, over forty years after the initial commitment to change was publicly made, only a minute proportion of all enterprises had taken on even a modified Western form of corporate governance. The picture is thus a complex one, in which imported institutions only slowly made inroads into the traditional modes of operation, and even those imported institutions could only be of use in a context of adaptation.

### *Change in the Labour Market*

Meiji period changes in the labour market and employee-employer relations take on a renewed topicality in the light of current discussion about the need to accelerate changes in Japanese employment practices. Again the picture is a highly



complex one, particularly in view of the persistence of many small scale family enterprises. It is clear, however, that the need to respond to the demands of mechanised factory production, and the employment within a single entity of labour on a larger scale than even the biggest ‘manufactories’ of the late Tokugawa period required new modes of labour organisation. In principle the government throughout this period maintained a hands-off approach to the institutions of labour management, although concern over the effects of deleterious working conditions in factories did eventually lead the authorities to intervene to change the rules of the game in the labour market, in particular through pushing through protective legislation in the form of the first Factory Act right at the end of the Meiji period in 1910. Up until then large employers had consistently resisted what they saw as encroachment on their rights as employers.

This strong resistance did not mean that the process of change in labour and employment relations was a smooth or rapid one. Historical evidence suggests quite the opposite. Many early employers complained about the ‘confused’ state of employment relations consequent on the demise of the old employment and apprenticeship system, and even called for its reinstatement. Concerns about the unreliability, mobility and low quality of all workers were widespread, giving rise to fears of the potential for anomie and social upheaval inherent in the transition from the old to the new. The clash between the political and economic elite advocating change and the extent of social inertia that they often felt that they faced is well summed up in comments made by factory owners, who in the 1890s considered their workers as a race apart, benighted by barbarity, ignorance and idleness. The task of ‘educating’ the mass of the Japanese population in new ways of doing things was for this group at least a very real one. Overt conflict between factory employers and employees was recurrent through much of the Meiji period, taking forms that ranged from strikes and violence through to absenteeism and absconding. That the majority of employers were reluctant to countenance any external imposition of a clearly defined set of rules would seem to have been largely due to a reluctance to accept that inherent in regulation was the principle of mutuality of rights and obligations. The principle of mutual obligations between different groups in society had been widely accepted in earlier times, although the existence of hierarchy or patriarchy, and the actual allocation of power, might often act to distort and conceal the principle of mutuality. However, whereas Tokugawa employer-employee relations had also

acknowledged this principle to some extent, the pronouncements and actions of many Meiji employers suggest that what they sought was a relationship in which the employer had the rights and the employee the obligations. Any legislation aimed at protecting the welfare of the workforce, and hence constraining the absolute authority of the employer, was strongly contested on the grounds that Western-style labour legislation was unnecessary in Japan, which was following its own development path in which the interests of both employers and employees were guaranteed by the utopian paternalistic, familial way in which enterprises were organised and managed. More cogent, perhaps, was the argument that such were the economic pressures on Japan's infant industries that changing the institutions of the labour market was an expensive luxury that neither state nor entrepreneurs could afford (Hunter 2003).

There are examples of employers themselves seeking to address the problems of transition in the labour market through collective action. In the textile industries, for example, employers tried to regulate the movement of labour between enterprises by adherence to an agreed set of practices which in many ways tried to deal with labour as it were an inanimate commodity that could be bought or sold. Scholars who have looked at these attempts to influence labour market institutions are disagreed as to their effects (eg. Tōjō 1992?; Kanbayashi 2001; Nakabayashi 2001), but we can be sure that rapid economic expansion, and agency and enforcement problems invariably rendered these attempts less than fully effective. If we look at labour market institutions, therefore, the picture from the Meiji period is one of a considerable degree of continuity in large parts of the economy, and enormous upheaval in the sectors that were spearheading economic change, characterised by an absence of both formal and informal rules. Even by the end of the Meiji period most large employers, whether in the commercial or manufacturing sectors, were far from achieving a stable and widely accepted pattern of employment practices (Gordon 1984). A situation more different from the 'Japanese employment system' of the second half of the twentieth century is hard to imagine. Rhetoric and the recreation of tradition may well have been a powerful tool in linking this famed system to its Meiji and pre-Meiji heritage, but its reality can be dated back at the very earliest to the 1920s, with the sporadic appearance of some of its constituent elements in response to the constraints of labour supply faced by some enterprises.

### *Institutional Change in the Meiji Period: Implications for the Early 21<sup>st</sup> Century*

It is not easy to draw out any implications that an analysis of late nineteenth century changes may have for Japan's current dilemmas. It has been emphasised here that there existed no single coherent pattern of institutional and organisational change in Meiji Japan. Change was a highly complex and patchy process, which in many cases took decades rather than years. The extent to which organisational or legislative change was able to lead institutional change in the Northian sense was at best unpredictable. The ability of the political and economic leaders to engineer and accelerate reform was often limited, and it was often the pragmatic response to the imperatives of late development that was a more powerful force for change than sophisticated debates or the presence of viable foreign models. Japan is clearly no longer 'relatively backward', and the catch-up imperative has ceased to obtain. A number of tentative conclusions may, however, be offered.

Firstly, the major stimulus driving institutional change in the Meiji period was an awareness of national crisis and overriding threat reflected in the ability of the Western powers to impose on the international autonomy of Japan. Awareness of this threat was initially restricted to the ruling elite, but the effective manipulation of nationalist sentiment was a powerful tool in building and sustaining any momentum for change. It is for others to judge how far that particular tool for articulating a unified national response is still a viable one, but it is apparent that the sense of urgency that might be applied to the cause of reform has remained muted, perhaps because of the cushion offered by Japan's reserves of wealth.

A second factor relates to the issue of political will. It is apparent that despite its problems the Meiji government possessed both the desire and ability to override and dismantle vested interests when it took the view that it was essential to do so. The abolition of the old domain system and the pensioning off of the former ruling warrior class was achieved within a decade of the Restoration, albeit at considerable political and economic cost. Whether or not this is interpreted as a process of breaking down institutional sclerosis (Olson 1982), it does point to the presence of that rather nebulous entity, political leadership. The Meiji period demonstrates the significance of political decision-making and political resolution in promoting institutional change, and also in not impeding it.

The complex picture that emerges of institutional change in the Meiji period suggests not only that it is unrealistic to expect fundamental institutional change

within a very short time span, for example a few years, but also that where there is institutional borrowing and institutional choice, there has to be accommodation with the existing institutional cluster or clusters. It is this that renders institutional change as process rather than event. It also means that the extent of institutional change that has taken place may only become apparent over a sustained course of time.

The Meiji period also suggests that the relative merits of importing institutions and modifying existing ones vary according to each specific case. It may be that institutional transfer can signal a desire to embark on a completely new trajectory, but it can also be risky and just as time-consuming as efforts to grope for a new system based purely on what already exists. With appropriate modifications borrowed institutions can over time be made to work, but they can also be so unsuited to the receiving environment that appropriate adaptation is impossible. As in the case of technology transfer, a successful process of institutional learning in Johnson's sense is related not just to economic and political needs, but to social capability more broadly. Where 'culture' is regarded as impeding institutional change, we also need to ask whether it is the way that culture is constructed that is the real obstacle, rather than the culture itself.

Compared with the Meiji period, what happens in Japan's economy now is of critical importance well beyond Japan's borders, and yet the process of globalisation may in some ways have made it more difficult even for wealthy countries to implement the safety net required to protect the most vulnerable losers of the process of institutional and organisational change (Rodrik 1997). The dilemma that faces would-be reformers in Japan is also more intangible. The tenet of Western technology and Eastern spirit embraced a recognition that in practical terms Japan had a great deal to learn, but that it was possible even in this context to retain a degree of confidence and belief in the Japanese intellectual and social tradition. While that confidence and belief was often distorted and mis-used in subsequent decades, it supported the existence of an ongoing self-respect in relation to Japan's position in the world, shaken but not destroyed by defeat in the Pacific War. Contemporary Japan is the world's technological leader, but it has not seized the international ascendancy commensurate with its enormous economic power. It is the need to respond to pressure to combine Japanese technology with a Western spirit that is the greatest challenge for institutional change in Japan.

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