

Lecture: Contemporary Economic History of Japan

No. 11

**1-9 Conversion of Zaibatsu, and
Heavy Chemical Industrialization of Industrial Structure**

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9 Heavy Chemical Industrialization, and Conversion of Zaibatsu

9—1 Internal Circulative Expansion

- In the background of policies to expand an effectual demand from the fiscal side and the export expansion thanks to the low foreign exchange, the Japanese economy in the 1930s entered the economic recovery process in quick tempo.
- Characterized in this process was that, amid drastically declining competitive pressures from overseas, an “**internal-circulation-oriented economic expansion**” was materialized through an organic correlation among industries centering on the heavy chemical industry.
- It meant that the following relevancy was formed: As the expansion in output owing to the rise in the operation ratio gradually headed to capital investment, such capital investment per se served the domestic heavy chemical industrial sector as a new investment demand to result in expanding the market, and this market expansion called forth further investment by the heavy chemical industrial sector. (Investment inviting another investment.)

Heavy Chemical Industrialization

- Ratio of heavy chemical industrialization:
 - 30.7% in 1928
 - 35.5% in 1930
 - 49.3% in 1936

Change in Prices of Heavy Chemical Industrial Products

- Touched off by the revision of the customs duties in 1932, the substantial price hike for the products was realized, and the competitive environment and cost-price relationship that were advantageous to domestic corporations were put into place.
- As a result, the degree of self-sufficiency enhanced as seen in steel products and machinery.
- In such status, attributable to the climb in operational rate and the introduction of new facilities, the rise in labor productivity, expressed as “value-added productivity”, was observed in each industry, bringing about a cut-down in the labor distribution rate, and an increase in the corporate profitability.

Change in Prices of Heavy Chemical Industrial Products



Takahashi Minister of Finance

(from Wikipedia)



Inukai Prime Minister

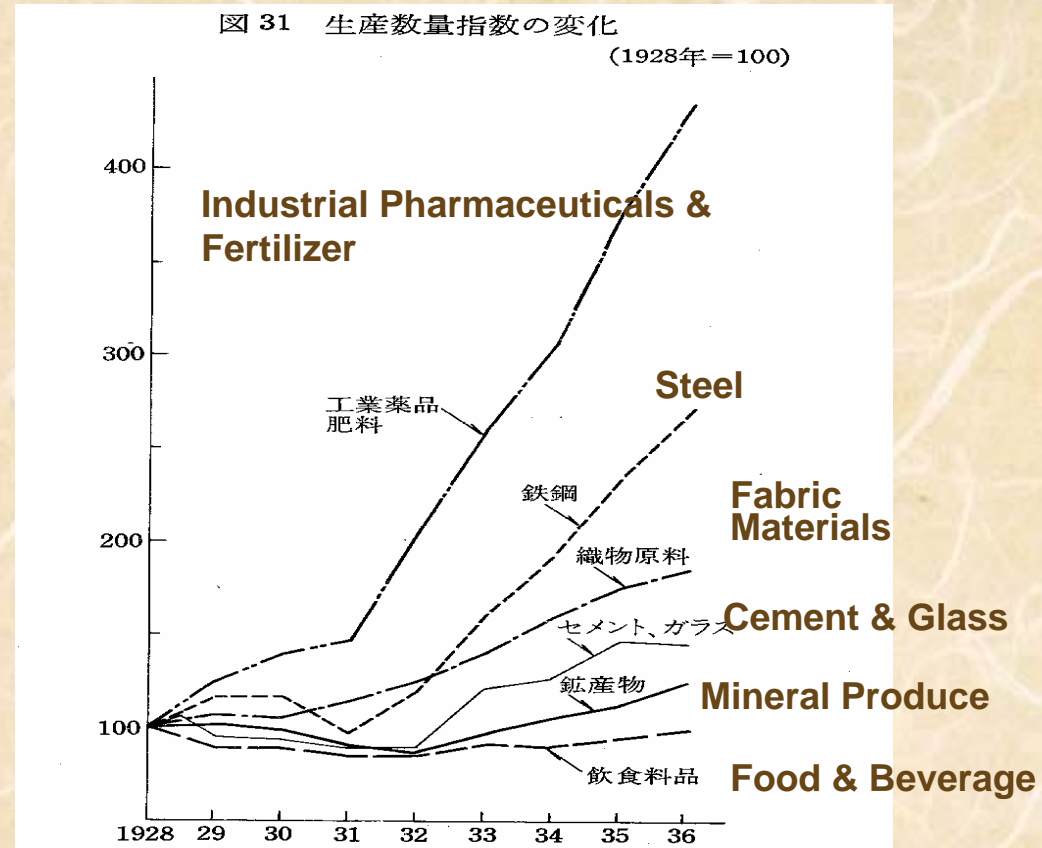
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Output Volume Index

● Rank of output expansion tempo

- ① Industrial medicals
- ② Steel
- ③ Fabric materials
- ④ Cement/glass

Diagram 31 Changes in Output Volume Index (1928 = 100)



資料：東洋経済新報社『経済年鑑』各年版。

注：鉱産物 = 金，銀，銅，石炭，石油。鉄鋼 = 銑鉄，普通鋼。
織物原料 = 綿糸，人絹，生糸，絹，紡糸，毛糸。工業製品 = 肥料，苛性ソーダ，ソーダ灰，晒粉，硫酸，石灰，窒素，過磷酸石灰。飲食料品 = 清酒，焼酒，麦酒，砂糖，小麦粉。

Data: *Economic Yearbook*, Toyo Keizai Shinpo Sha, annual edition

Steel Industry and Machinery Industry

- In steel industry, during the period of 1931-36 across “Japan-Manchuria-Korea”, territories governed by Japan, the production capacity of pig iron increased from 2.15 million tons to 3.0 million, and that of steel products from 2.91 million to 5.45 million.
- But, as the difference in capacity outputs between pig iron and steel products did not diminish, steel products continued to be largely produced in open-hearth process using raw materials such as pig iron imported from India and scrap iron from the U.S.
- Steel products in demand were channeled into the production of machinery for capital investment and the war supplies, which positioned the steel industry as the key sector for industrial development.
- In machinery industry, the sector sequentially made progresses in the domestic manufacturing of advanced machinery in fields of machine tools and electric machines, and gained control of domestic demand. But as for a portion of machinery, the domestic production was delayed because of a domestic supply problem of materials like special alloy steel.

Chemical Industry and Cotton Industry

- In chemical industry, chemical fertilizer (ammonium sulfate) and rayon, which made a sudden rise in the late 1920s, reached a period of their full-fledged growth. Regarding metal industry, such as aluminum in demand for manufacturing aircraft, started on its development path by leveraging surplus electricity.
- Cotton industry expanded its fabric exports to the Asian markets which were sustained through aggressive market development efforts, under the condition of low-cost material in line with the cotton prices globally declined initiated by the American depression.
- Shares of the Japanese products climbed not only in India and Dutch India but also in various regions, and invoked trade frictions between Japan and its partner countries. It was not that these trade conflicts immediately provoked such international tension that would lead to a world war. But, amid the international finance system being ceased to function properly, the expansion in exports as such faced with a strong resistance of the trade partners, and involved restraining factors on the export amplification.

9-2 Heavy Chemical Industrialization and Fund Procurement

- Thus the weight of the heavy chemical industry in the manufacturing industry's value of production went up from 32.8% in 1930 to 49.3% in '40, showing a sudden progress of this sector.
- This structural change involved the following:
 - The capital investment increased 40% in 1932-36 over 1928-32;
 - During this period, the industry relied on its internal funds of depreciation and accumulated earnings, and its external debt decreased despite the increase in investment.
 - The investment of the heavy chemical industry occupied more than 60% of the industrial enterprises' investment, and the dependence on its internal fund was relatively small as the procurements by its corporate stock played a greater role.

9-3 Downslide of Labor Cost and Labor Relation

- Reflecting the heavy chemical industrialization on the employment aspect as well, the composition ratio of those employed in the same sector shot up to 57.1% in 1940 from 23.8% in '30.
- The change in labor market and downslide of wage and salary costs fulfilled a great role in this industry's growth.
- On the premise of displacement of workers that surged in the Showa depression period = increase in unemployment, the reversal took place in the factory sector from 1932, turning to an expansion of job opportunities.
But the real wages decreased during 1930-35 albeit only slightly.
- This point was distinctive to Japan in contrast to the U.S. where, in spite of the long-lasting stagnation, wages that sharply slipped off under the depression showed a sign of touching bottom and backward rising in 1933.
- The background was that, although there was a partial problem of shortage in skilled workers starting around 1934, across the board, an excessive untrained labor was available in huge quantity under the setting of the recession in farm villages. But there was another condition peculiar to the depression that was involved in the wage downslide.

Stability of Labor-Capital Relationship

- Amid declining wages, the labor-capital relationship was stable since the depression period, and by way of furnishing certain amount of severance allowances, the quantitative adjustment of employment was being made.
- The stabilized labor-capital relationship indicated that “the confabulation system”, based on “labor-capital isonomy” = the acknowledgment of individuality, which was developed by large corporations in the 1920s, was effective.
- Disputes, albeit increased, were mostly disposed of peacefully based on Conciliation Act.
- In management of medium and small size companies, labor conditions deteriorated and disputes continued in small scales and dispersive shapes.

Mechanism of Wage Downslide

- Wages went down due to the following:
 - ① Wage standard declined in the depression period;
 - ② Elder highly-paid employees were discharged;
 - ③ Job opportunities expanded chiefly in young people during the recovery period, and the change in age composition of persons in employment worked toward lowering average wage;
 - ④ Reduction of cost was experimented by the temporary-laborer system and outsourcing, and a production configuration leveraging the lower wage level came into wide use, which lowered the wage standard at the industry's level.

Temporary Laborers' Wages

- Wages of temporary laborers were 10-20% lower than those of regular workers (medium-grade job).
- Their job number was on an increasing trend, and particularly rose sharply in 1936-37.
- Their proportion was especially big in large-scale factories. — Dual structure within a single corporation

Outsourcing in machinery industry

- In small-scale factories, the dependence on subcontracting was 30%.
- This degree of dependence on subcontracting was high in factories with scales of 200-500 head-counts.

9-4 Conversion of Zaibatsu and Monopoly

Conversion in Reality

- “Conversion” was said to be brought forward against the background of “criticism of Zaibatsu” symbolized by the assassination of Mitsui Partnership’s board chairman Takuma Dan in Ketsumeidan incident. As banks of Mitsui and other Zaibatsu groups played the major part of buying dollars under the depression, the base of the “criticism” was that they coveted their own profits against the national policy, and showing a clean pair of heels to the public in poverty. For this reason, their foray into Manchuria that was looked for as a new investment opportunity right after the nation-building came to be rejected by the military.

- In response to the criticism, these Zaibatsu groups, trying to make their social contributions stick, went ahead with the “conversion” of returning their profit to society by such moves as offering their stock holdings to the public and making donations to charitable causes. They also decided to step aside a top position of each affiliated company, hence assuming a top specialist-management post, and to implement a retirement age system for executives.

Profit of Zaibatsu's Core Business

- Profits of Zaibatsu corporations burgeoned.
- Mitsui in particular turned out high profits even under the depression, but the extent of its recovery thereafter was drowsy compared to Mitsubishi and Sumitomo.
- Mitsui continued on its investment centering on produce and mines, whereas Sumitomo expanded its investment in heavy chemical industrial sector. Thus, these Zaibatsu-affiliated corporations gained relatively high positions in major industries.

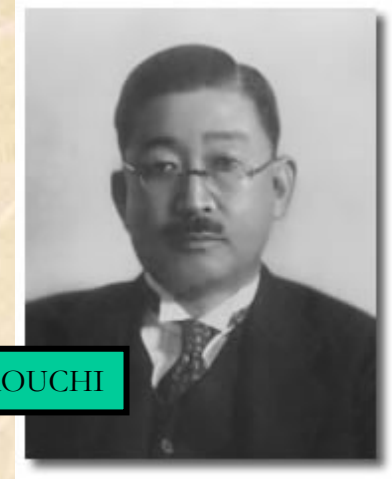
Newly-Risen Financial Cliques

- “Conversion” of Zaibatsu, while equipped with an aspect to pacify social criticism, at the same time had another phase to positively reorganize their corporate frameworks so as to correspond to new economic circumstances.
- For, in the 1930s when the heavy chemical industrialization was unfolding, a new group of enterprises sprouted up, such as Nihon Sangyo, Nihon Nitrogen, Nihon Soda, Mori = Showa Denko, Riken, etc., and Zaibatsu’s investment expansion in the heavy chemical industrial field tended to be late.
- A part of the reasons for such delay in the investment was seen in the limitation possessed by “feudal nature” which was a distinction existing in the ownership by Zaibatsu= structure of financial contributions.
- Among measures for conversion, the recruitment of management and delegation of authorities had been in progress since the WWI period, and the endowment acts had been long conducted, and furthermore, public stock offerings were not something that started in the 1930: Reality of the “conversion” was nothing new in particular.

Newly-Risen Financial Cliques

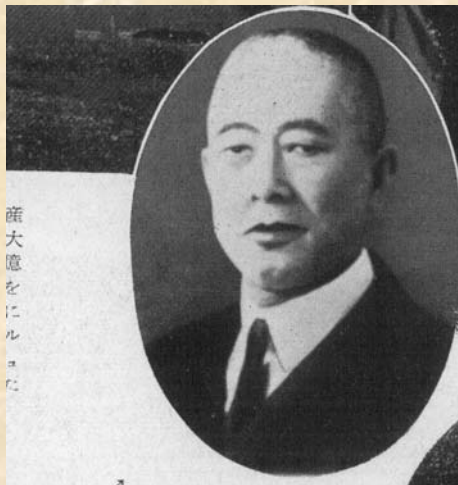
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we omit the picture;
“SYouwa Hiryou”.

Syouwa Hiryou



Masatoshi OUKOUCHI

(Source): Foundation of OUKOUCHI Commemoration association



Noguchi SHITAGAU of NIHON CHISSO

野口 謙 日本窒素の社長で、鮎川磨介
氏、梅田の昭和電工とあわせて
興コンツェルンの雄であつた。

(Source) Japanese Contemporary History Studies, *one hundred year of pictures vol. 14*, p.1052



(Source) Independent administrative agency of
Science and Chemistry Institute

Science and Chemistry Institute

Harunio Takeda

Trustification and Cartelization

Great changes in industrial organization in parallel with reorganization in Zaibatsu:

- Strategic Industries Control Act instituted in 1931 had the characters as an antidepression policy and a cartel-promotion legislation.
- Cartels were formed in various fields.
- Also in electric power and petroleum, measures like business laws entailed to strengthen cartel arrangements, such as Electricity Enterprises Law and the petroleum industry law.

Designated Industries Under Strategic Industries Control Act

- cotton spinning, silk spinning, rayon, foreign paper, hardboard, carbide, bleaching powder, sulfuric acid, oxygen, hydrogenated oil, cement, flour, pig iron, alloy iron, bar steel, angle iron, sheet steel, wire rod, rolled sheet of copper and brass, etc.
- Downward rigidity of cartelized prices
- Upward rigidity after the recovery

Trustification and Cartelization

- Large-scale corporate consolidations were implemented, such as:
 - Oji Paper and Sanwa Bank in 1933
 - Nippon Steel and Mitsubishi Heavy Industry in '34
 - Sumitomo Metal in '35
- Thus, along with the progress in the heavy chemical industrialization, by and large, an oligopolistic industrial structure was strengthened.
- The steel cartel led by Nippon Steel continued its activities in the 1930s: The prices were stable after '33, but dropped away since the foundation of Nippon Steel.
- Even in consideration of the factor that the company was a national policy concern, it was untrue to say that the trust let the company take such price moves as to bring about monopolistic high margins.

Dawn of NIPPON STEEL

