

Lecture: Contemporary Economic History of Japan

No. 18

3-2 Postwar Reform 2: Economic Democratization

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Economic Democratization

1 Dissolution of Zaibatsu

- A series of reforms, known as the postwar reforms after the end of WWII, mainly targeted on preventing the revival of militarism by way of democratizing Japan politically and economically.
- The political reforms centered on sovereignty of the people (system that recognizes the Emperor as a symbol of the state), pacifism (dissolution of military and naval forces, renunciation of war), respect for fundamental human rights, which were consolidated in the formulation of the Constitution of Japan.
- On another front, the pillars to economic democratization were the three major reforms: Zaibatsu dissolution, the agrarian reform, and the labor reform.

- Of these three major reforms, the agricultural reform and labor reform were, besides being the economic institutional reforms, meant to be preventive measures against the recurrence of the autocratic and non-constitutional governance as in the prewar times by nurturing farmers and workers as the backbone to support a democratic political institution (an encouragement of democratic forces).
- Zaibatsu dissolution was also another reform which contained a political aim to demilitarize and democratize economy.
- At the same time, the dissolution of Zaibatsu exerted a significant influence on the fundamental framework of the Japanese economy and the way of being for Japanese corporations and industrial organizations after WWII, and formed the skeleton of a philosophy thereby to imposing restrictions on these entities.

- Zaibatsu dissolution was specifically directed to Japanese side on Sep. 6, 1945 in “the U.S. principle for Japan in the initial stage after the surrender” for the first time. Following the demilitarization of the economy, “the encouragement of democratic forces” was clearly stipulated therein: In order to broadly “split up” the ownership of means for production and distribution, “to support plans for liquidating industrial/financial ‘large-scale-enterprise combinations’ that controlled majority of commerce/industries of the country of Japan.” There was little room for doubt that ‘large-scale-enterprise combinations’ mentioned there pointed at Zaibatsu at the time.



The Daiichi Life Building where GHQ was established

(from Wiki Pedia)

Reasons for Zaibatsu Dissolution

- Fundamental objective of the occupation policy = To reform Japan never again to be an enemy of the U.S. as a militarist state
→ Need to preclude an excessive economic concentration
- This philosophy was adopted not only to Japan but also to Germany, based on the following perspective:
“Such a huge concentration of corporate capabilities is antidemocratic ‘by definition’; an enterprise employing a few hundred-thousand workers and containing all categories of modern sectors of economy cannot help representing values that are entirely different from those found in a free and competitive enterprise.”
- A free and competitive enterprise was assumed democratic, and one with concentration/monopoly in economic power was considered against it.
- One with a concentrated economic power was viewed to conduce to an unequal distribution of wealth, which was considered to have to be eliminated, be that may konzern, cartel, or trust. For Japan, such entities having concentrated economic power of all things were Zaibatsu.

- Against this kind of evaluation on Zaibatsu, among groups who were relatively familiar with state of Japanese affairs inside American policy planners, there were some people who held an understanding that Zaibatsu was critical of the military runaways and showed protest against them.
- This standpoint, however, was overruled by a perspective considered more reasonable that there was a common interest between Zaibatsu and the military based on situations where Zaibatsu made a large amount of investment in the military-affairs productive sector and gained substantial corporate profits in the occupied territories.
- According to Eleanor Hadley's *Zaibatsu Dissolution: Memoir of GHQ Economist*, (Toyo Keizai, 2004), "The fact that during 1941 through 1945 the three Zaibatsu groups doubled their standings in the economy constituted a great evidence, which alone made it difficult to consider that they really moved against the war." (p.141)
"Large-sized enterprises received the full benefit of supporters' positions." (p.165)

- It was certain that such an idea was not formed based on a sufficient research on Zaibatsu. But the U.S. side had in advance possessed a rather clear-cut image on roles Zaibatsu had played.
- One typical example was a report by Pauley with the reparations delegacy toward Japan: “Japanese Zaibatsu was a group of relatively small number of people tightly conjoined as a homolog or a corporation body, and, throughout Japan’s contemporary history, was the most tremendous war-capability potential which controlled not only the nation’s finance and commerce/industries, but even its government.”

- There was some opposition to such an evaluation centered in the Japanese corner.
- Mitsubishi's Koyata Iwasaki offered a counterargument, "We at Mitsubishi yet have no recollection of conducting treachery against the res publica, or provoking war in collusion with military bureaucrats. We just followed whatever was ordered as the national policy, did the best we could to fulfill righteous duties as citizens of the state, thus no shameful conduct existing whatsoever on looking back."
- While there was some deviance in the awareness regarding the role Zaibatsu fulfilled about the war, what the U.S. wanted to do was transplant in Japan an American economic system viewed ideal by dissolving Zaibatsu. It has been dominant in the U.S. up until now to regard a free competition as an ideal status of a democratic economic system.



岩崎小弥太(1879～
1945) 三菱の中興

Specific Content of Dissolution Measure

- Based on the aforesaid perspectives, the dissolution of Zaibatsu was not to simply demolish Zaibatsu organizations, but was extended to cover a permanent preventive measure, in addition to one-time step leading to the elimination of the concentration of economic powers.
- First step, in order to dissolve the organization of Zaibatsu, was to cut down ligaments connecting corporations under Zaibatsu through stock holdings and dispatches of board members, and for realizing this, it was necessary to liquidate a holding company positioned in the heart of the same organization and to ban families of Zaibatsu assuming board-member positions.
- Second requirement was to dissolve large-scale corporations considered to be ones with concentrated economic power, and further to knock down such monopolistic organizations as cartels and control corporations.
- Thirdly, some provisions were called for to maintain a “democratic” economic structure attained through these measures and to prevent a revival of Zaibatsu and a formation of monopoly.
The dissolution of Zaibatsu contained such specific policies as in the above .

- The first task for Zaibatsu dissolution was to break up a headquarters = holding company, the linchpin of its organization.
- The concrete measure was taken in Nov. 1945 by enacting “the rescript concerning the restriction on corporate dissolutions,” whereby putting limits on changes in status quo of corporations which were designated as so-called restricted concerns,
- and moved on to designating special companies by establishing “the decree on the holding companies liquidation committee” in Apr. 1946 .
- Among designated special companies, headquarters of Zaibatsu had to dissolve themselves by devolving valuable stock certificates to the disposition committee for holding companies.
- Other holding companies must devolve possessing valuable stock certificates to the same committee, and were given instructions to annul a dominance relationship over their subsidiary companies, and if afterward identified as monopolistic large-scale business corporations, they were to be forced into the restructuring of their businesses.
- Stock certificates devolved to the disposition committee through these steps amounted to 150 million shares valued in excess of 6.8 billion yen that were disposed of by the sales to employees and public tenders in order to disperse the ownership of stocks.

- Regarding the stock possession, families of Zaibatsu were designated the same way as holding companies, and were directed to devolve stocks under their possession to “the holding company liquidation committee.”
- Furthermore, “the memorandum on the dissolution of holding companies” of October 1945 by the General Headquarters set out the resignation of Zaibatsu families from corporate board positions,
- and “the law on the expulsion of Zaibatsu-affiliated controls” of January 1948 enforced the resignation of Zaibatsu board members who were closely related to Zaibatsu families, and also took a measure to ban on holding the concurrent board posts of their affiliated companies.
- In these steps, the personnel/capital ligaments centered in headquarters of Zaibatsu were cut down one right after the other, and the organized dissolution of Zaibatsu was in progress.

- The second important measure was to dissolve/restructure monopolistic large-sized corporations.
- It began with the liquidations of Mitsui & Co. and Mitsubishi Corp. that were directed by “the memorandum on the dissolution of commercial companies” in July 1947.

This measure was drastic in that it demanded the two trading companies to be thoroughly segmentalized, which brought about Mitsui & Co. split up to more than 220 companies and Mitsubishi Corp. into more than 130.

- Compared to this, what remained to be a lukewarm measure in hindsight was one for the dividing/restructuring large-size corporations based on the Elimination of excessive concentration economic power Law, enacted in Dec. 1947.
- Corporations initially designated by this law covered a wide range of 325 companies, but as the U.S. subsequently eased its principles on dividing/restructuring, the final directive resulted in: the corporate breakup for 11 companies such as Nippon Steel, Mitsubishi Heavy Industry, Oji Paper; the restructuring for 3 companies in disposal of factories/facilities and for 4 in disposal of stock holdings.

Application of Elimination of Excessive concentration of economic power Law

	Designated Firm	Firms after Restructure	Subsequent Changes
Intra-Group Divide			
	Nippon Steel	Yawata Steel/Fuji Steel, 2 others	Shin Nippon Steel in '70
	Mitsubishi Heavy Industries	Higashi Nihon H.I., Chu Nihon H.I., Nishi Nihon H.I.	Mitsubishi Heavy Industries in '64
	Oji Paper	Tomakomai Paper, Jyujō Paper, Honshu Paper	Consolidation announced in '68, but halted
	Dai Nippon Brewery	Nihon Brewery, Asahi Brewery	Sapporo, Asahi
	Hokkaido Dairy Co-Op	Hokkaido Butter, Snow Brand Milk	Snow Brand Milk in '58
	Teikoku Textiles	Teikoku Hemp, Chuo Textiles, Toho Rayon	Tikoku/Chuo consolidated in '51
	Toyo Seikan	Toyo Seikan, Hokkaido Seikan	

	Designated Firm	Firms after Restructure	Subsequent Changes
Cross-Industrial Divide			
	Mitsubishi Mining	Mitsubishi Mining, Taihei Mining	Mitsubishi Material in '90
	Mitsui Mine	Mitsui Mine, Kamioka Mining	Mitsui Mine/Mitsui Metal
	Seika Mining	Seika Mining, Besshi Mining, 2 others	Sumitomo Coal Mining/ Sumitomo Metal Mining
	Daiken Co.	Kureha Spinning, Itochu, Marubeni, Amagasaki Peg Co.	
Disposal of Factories/Facilities			
	Hitachi, Tokyo Shibaura Elcetric, Nippon Express		
Disposal of Stocks			
	Nippon Kayaku, Toho, Shochiku, Teikoku Oil		

	1937	1950
Steel	97.8	88.7
Hot-rolled Sheet Steel	56.2	49.6
Galvanized Iron Sheet	48.1	34.0
Electrolytic Copper	74.9	73.4
Aluminum	91.8	100.0
Steel Vessel	67.5	39.1
Ammonium Sulfate	60.0	41.2
Cotton Yarn	33.9	35.1
Pulp	65.2	39.5
Foreign Paper	83.1	57.0
Beer	99.4	100
Cement	40.1	55.9
Coal	35.4	35.9
Banking	25.8	21.8
Life Insurance	41.4	47.2

Degree of
Concentration in
Superordinate

(%)

Top 3

- In conjunction with this measure, various kinds of cartels/control companies were set to be broken up in line with lifting of wartime regulations, and
- as the closing organization act was issued in Mar. 1947, the economic control associations during the war got appointed as organizations to be closed down for the dissolution and special liquidation.
- In this way, large corporations and variety of control organizations, used to hold overwhelming powers in various industrial sectors, were dismantled, getting a competitive market environment in place.
- However, due to a steep inflation caused by supply shortage, the government continued on the path of controlling the demand/supply and prices. GHQ regarded the control associations as private monopoly organizations to be dismissed or shut down, but acknowledged the necessity for the government controls per se so as to overcome an immediate economic crisis. Thus, it was not that a market-oriented economy came to be readily restored.

- The third measure was something to present a long-term vision.
- While the mutilation of Zaibatsu organizations and the restructure of large corporations constituted a one-time reform measure to bring forth a democratic economic institution by dragging down the dominion of corporations or corporate groups which reigned supreme the Japanese economy since the prewar periods,
- in order to sustain its effect and to prevent a revival of Zaibatsu and a formation of monopoly, there was a need for another measure, as a consummation of the Zaibatsu dissolution.
- This was taken on a concrete form in the formulations of :
 - ① Act concerning Prohibition of Private Monopoly and Maintenance of Fair Trade (so-called the antimonopoly law) in Apr. 1947
 - ② The employers' organization act in Jun. 1948.

- **A matter of special importance was the antimonopoly law. The antimonopoly law was instituted to take preventive measures against a revival of Zaibatsu-style organization by way of :**
 - ① **prohibiting the establishment of a holding company like Zaibatsu headquarters, and**
 - ② **setting up restrictions on a stock holding among corporations.**

In addition, while Strategic Industries Control Act, a cartel control legislation in the prewar period, fundamentally admitted the formation of an exclusive organization (the government intervention authorized if judged hazardous to public interests), the antimonopoly law fundamentally

 - ③ **prohibited cartels,**

thus converting the framework of economic regulations by 180 degrees.
- **This was what those reform-policy planners who came from the U.S. enshrined into law in their complete configuration the American-style antitrust policy which they had brought with them.**
- **It is due to this law providing a fundamental framework of the economic system which is entirely different from one in the prewar times that problems in the development process of industrial policies after the war repeatedly have become subjects of discussion.**

Structural Change in Stock Ownership Due to Zaibatsu Dissolution

- Stock certificates collected in the Holding Companies Liquidation Committee were disposed by sale through the coordination council on securities disposition giving priority to employees and regional inhabitants.
- As the result, in 1949, the personal ownership ratio went up sharply to show a dispersion of ownership in progress.
- But this did not go beyond a temporary phenomenon, and corporate ownership ratio enhanced in the early 1950s.

In particular, the unlawful possession incurred in stockbrokerage firms.

For, there were no substantive grounds for reforms amid an immature market and the lack of personal savings.

Distribution Status of Stocks

	1945	1949	1950	1951	1952	1953
Government/Public Entities	8.3	2.8	3.2	1.8	1.0	0.7
Financial Institutes	11.2	9.9	12.6	18.2	21.8	23.0
Investment Trusts				5.2	6.0	6.7
Bill Brokers	2.8	12.6	11.9	9.2	8.4	7.3
Other Corporations	24.6	5.6	11.0	13.8	11.8	13.5
Foreigners					1.2	1.7
Individuals & Others	53.1	69.1	61.3	57.0	55.8	53.8
No. of Shares Issued (million shares)	444	2,000	2,581	3,547	5,365	7,472

Transit of Major Shareholders of 30 Influential Corporations

Unit: 1000 Shares

	1949		1952	
Securities Firms		24,007	Securities Firms	33,585
Holding Companies Liquidation Committee		18,322	Life Insurances	29,381
Life Insurance Companies		9,615	Banks	21,933
holding Companies		4,337	Trusts	19,464
Disposition Committee for Closing Organizations		4,124	Business Corporations	15,473
Financial Minister		1,581	Foreign Individuals/Firms	7,175
Individuals		1,508	Casualty Insurances	6,796
Banks		1,288	Individuals	479
Casualty Insurances Company		1,237	Employee Associations	311
Wartime Finance Bank		974	Others	390
Trusts		554		
Employee Associations		185		
Financial Institute Closing Committee		72		
Public Entities		60		
Others		16		

2 Agrarian Reform

- The agrarian reform targeted at the dissolution of the parasitic land owner system was launched based on a reform proposal planned out by Ministry of Agriculture and Forestry. Its context was to have nonresident landowners sell out all of their tenancy , and to **set the maximum limit of ownership at 5 cho (1 cho = 2.45 acres) for a resident landlord, and to change the payment of the tenant rent to cash.**
- This initial round of the reform proposal received a criticism on account of being halfway measures,
- and in Oct. 1946, the second phase reform came to be pushed ahead under the GHQ leadership.
- The second proposal ruled: ①The government conducts the buyout/transfer of farmlands, not approving direct dealings between parties concerned, ②**Not only all the tenancy held by nonresident landowners, but also farmlands beyond 1 cho possessed by resident landlords are subject for takeover.**
- As its result, landowning farmers who used to occupy about 30% of the total farm households reached 60%, and the tenancy ratio across the country went down to some 10%.

- A short-term recovery in output was attributable to the weather condition and an enhanced motivation for production of farmers possessing own new lands.
- While the collection delivery system covered almost half of the produce, it was not that the rest got into circulation in black markets: That became self-supplied food for farmers. In contrast to urban residents being terrified with food price hikes due to the increase in retail prices, this meant that farmers became relatively affluent .



Result of Agrarian Reform

Unit:1,000 *Cho* & %

	Before Reform		Tenancy Ratio	Takeover/Jurisdiction Shift by Reform				After Reform		Tenancy Ratio
	Total Farm Area	Tenancy Area		Takeover Area	Tenancy of left	Release Ratio	Release Ratio	Total Farm Area	Tenancy Area	
	A	B	B/A	C	D	C/A	D/B	E	F	F/E
Total Number	5,156	2,368	45.9%	1,933	1,896	37.5%	124.9%	5,200	515	9.9%
Hokkaido	726	354	48.8%	345	329	47.5%	107.6%	748	46	6.1%
Tohoku	813	392	48.2%	329	325	40.5%	120.6%	822	68	8.3%
Kanto	874	442	50.6%	345	343	39.5%	128.9%	882	108	12.2%
Hokuriku	426	209	49.1%	174	171	40.8%	122.2%	425	39	9.2%
Tosan	298	130	43.6%	102	100	34.2%	130.0%	299	31	10.4%
Tokai	343	139	40.5%	100	99	29.2%	140.4%	346	43	12.4%
Kinki	352	158	44.9%	118	116	33.5%	136.2%	352	47	13.4%
Chugoku	398	160	40.2%	124	121	31.2%	132.2%	400	39	9.8%
Shikoku	220	96	43.6%	76	75	34.5%	128.0%	219	22	10.0%
Kyushu	706	289	40.9%	222	217	31.4%	133.2%	709	73	10.3%
Prefectures Total	4,430	2,015	45.5%	1,588	1,567	35.8%	128.6%	4,453	469	10.5%

3 Labor Reform

- Touched off by the institution of Trade Union Law in Dec. 1945, the development of labor union movements was aspired along with legislative measures to protect workers' rights. This Trade Union Law was a revised version of a draft law conceived in the 1920s, thus purported as a “homebred” reform bill.
- Subsequently, the labor relations adjustment law was instituted in 1946, and Labor Standards Law in 1947.
- Then, there would come an epoch of fierce labor-capital confrontations: Evolution of large-scale disputes toward the mid-1950s, among which were hostile relations over workers' demand for rights and “managerial prerogatives” such as struggles for workers' control of production.
- Significance of the labor reform and the agrarian reform: To provide the foundation for a domestic demand-oriented growth attributed to the rise in income.

- Real wages dropped away to 30% of the prewar level, and it was in 1952 that they retrieved that standard.
- Decline in productivity and climb in prices were the factors to hamper a substantive recovery of wages.
- Against the background of GHQ's incentive measures, the number of unions increased at a high speed and the unionization rate exceeded 50%.
- Disputes out of difficulty of earning a livelihood sharply increased, which severely disturbed corporate productive activities.



Poster of General Strike
(Source) Institute of Ouhara