

Transformation of the Institutional Political Economy of Japan: From Rice Field Property Reform to the Zaibatsu

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ABSTRACT

This article examines the evolution of the institutional political economy of Japan from feudal to modern times and conceptualizes the origins of the Zaibatsu³ (financial clique of Japan) heritage, which has been around for centuries. The historical events were considered based on their impact on economic transformation while the methodology is based on the theoretical framework of institutional economics. In this way, the Japanese economy has been examined from a variety of angles within the contexts of the Edo Period, Meiji Reforms, and World Wars. We assert that there is a historical continuity between the rice field property reforms of the Edo Period and the success of the zaibatsu. The linkages between the state, business, and labor illuminate economic evolution of Japan, which is clearly stated throughout the research with regard to the material and nonmaterial components. As a result, while distinguishing itself from the enormous and present literature on the Japanese economy, this study stresses rice field reforms and their continued repercussions on the main institutions of Japan's economic miracle.

Keywords: Institutional Economics, Political Economy, Longue Durée, Development, Japan, Meiji Era, World Wars.

JEL Classification Codes: N00 · N01 · N15 · N25 · N70 · N85 · N95 · O25 · O38 · O53 · R58

INTRODUCTION

Japan is known for the ability to accommodate itself rapidly to new technologies and developments. In this way, Japan has become one of the greatest economic and technological powers in the world with politically oriented economic policies. From the beginning of the Meiji Restoration (1868-1912) to World War II (WWII), Japan was able to assort new economic developments with the help of the zaibatsu unexpectedly. The term zaibatsu refers to financial and industrial businesses of Japanese Empire whose dominance and scale allowed them to control large areas of the Japanese economy from the Meiji period to the end of WWII. A few attempts were undertaken to dissolve the power of zaibatsu during the American occupation following Japan's surrender in 1945. Yet, it is known that the new Japan has emerged from its legacy of the zaibatsu tradition (Addicott, 2017). The destruction of the manufacturing sector in the war did not restrain the economic and social development of Japan. This technological and economic leapfrogging of Japan was described as an economic miracle in the literature.

Yamada (2021) stated the theoretical clarification of the great economic development of Japan and underlined the importance of the political economy approach to Japanese modernization with a cite to Banno & Ōno (2010):

"...although a large body of literature on the Meiji Restoration already exists, the influence of the modernization paradigm and Marxism was strong in past studies, and its political process has not much been analyzed from the comparative perspective in relation to the political economy theories concerning developing economies. Only recently this under-charted sea has begun to be explored." (Yamada, 2021, p. 2).

The political economy of Japan is conceptualized under the "Institutional Political Economy of Zaibatsu (IPEZ)" dedicated to this gap in the literature in this research paper. The IPEZ refers to seeking to develop a new conceptualization of Japan's political economy and it links the Tokugawa period (1603–1867) through to the present, with a particular focus on Meiji-era tax reform for rice paddies. The conceptualization is broadly

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³ The term zaibatsu was used in the 19th century to refer to large family century to refer to a large family-controlled banking and industrial combines in Japan. One zaibatsu might operate companies in nearly all-important areas of economic activity.

institutional and draws on history, culture, and politics. Thus, the zaibatsu's institutionalization set the foundation for Japanese industrial prosperity. The success of the economic system, on which Japan laid the institutional foundations, can be an example, as countries are in search of new economic programs and models today.

In the second part of the paper, the institutional economics approach will be discussed and the relationship between economic development and institutions will be emphasized. In the third part, rice fields reforms in Feudal Japan will be discussed. The fourth part of the paper focuses on the Meiji Period. The development steps taken in the Meiji Period will be discussed in this part. The fifth part examines the reforms and transformation of the zaibatsu during the world wars. In this sense, the paper reveals the role of transformations in institutions in the historical process in the current economic situation of Japan in a broad and general sense.

INSTITUTIONAL ECONOMICS

Institutional economics concentrates on apprehension the function of the evolutionary action and the function of institutions in defining economic behavior. The wider study of institutions and scrutinizing of markets as a result of the complex interaction of these various institutions are being underlined mainly through these approaches (Samuels, 2008). As a put forth of the traditional theoreticians, institutions are not reduced to tastes, technology, and nature. Not only do societies' tastes, future expectations, habits, and historical motivations determine the nature of their economic institutions, and these institutions are constrained and shaped in this way (Malcolm, 2008, p. 374). The technological development and prosperity alone are insufficient to explain today's economic institutions for a country with developed institutions such as Japan. From a historical perspective, the characteristics of economic institutionalism and society's preferences that lie at the root of society are very important in explaining the economic institutions of today's Japan. Economic institutions have clearly positioned themselves for a progressive economy that is in sync with societal aspirations.

Some countries develop at a faster rate than others throughout history. The explanation behind this phenomenon is still one of the most significant topics in economics today. For example, Diamond (1997) claims that the geography can cause this difference and some countries are lucky to have suitable geography for developing (Diamond, 1997). According to Acemoglu

and Robinson (2008), the economic and political development of a society or country is closely related to institutions (Acemoglu & Robinson, 2008). Now, there is a consensus on that institutions are the rule of games in society (North, 1990). The political and economic factors determined by the institutions of a country, shape performance directly or indirectly. Institutional alteration and the performance of adapting innovations determine how societies evolved in time. Therefore, understanding historical change in the institutions is the suggested point for starting.

Institutions played an active role in the development of countries and societies throughout history and they have been apparent in the countries and societies where the central state is more important and stronger. On the other side, human behaviors and culture are constituted devised constraints that affect the political, economic, and social structure. These are both formal and informal constraints. Codes of conduct, culture, customs, sanctions, taboos, and traditions belong to the group of informal constraints. Formal rules can be described as constitutions, laws, and property rights (North, 1991, p. 97). Because people depend on customs as much as they are rational, as claimed by modern economic theory. Therefore, contrary to what institutional economics claims, concepts such as liberalism, free market and democracy alone do not provide economic development. In other words, economic development can be achieved in countries where the rules are clearly defined and the authority is strong.

Bromley (1999) mentions six main sections for state's authority: (1) clear lines of authority and the division of responsibility among government units, (2) clarity and precision in legal rules, (3) mechanisms and processes for the protection of property rights, (4) procedures that offer stability and predictability, (5) a sense of fairness focused on law as a process rather than outcome, (6) accessibility of laws and regulations to the public.

Tabellini (2005) formulates the economic development process like Historical institutions => Culture => Economic development. It is very accurate that the economic miracle was closely related to Japanese social character. Japan is known as a mono-cultural society. Japan also is separated neighboring countries from its pre-modern feudal institutions and its modern economic miracle. Japan has its own original institutions and cultural structure that affects completely the economic, social, and political developments. Imperial tradition made Japan state-interventionist, unlike other developed countries. For example, the Japanese Empire has shown

outstanding development with the help of a powerful central government of the Meiji Era (Chalmers, 1987, p. 137). Like a late Mercantilist state, protectionism and government interference in certain economic areas were the determiners of Japan's great economic development (Akkemik, 2009; Niizeki, 2015, p. 61). Such imperial heritage and its traditions gave shape to the different forms of the trade market in Japan. These differences come from Japan's unique and mono-cultural structure. Japan has a homogeneous natural community, and this mono-racial state was accepted by government policies, intellectual establishment, and public consensus (McCormack, 2001, p. 1). The monocultural structure of Japan and monoracial status created convenience at identifying common goals. Japan's example demonstrates that a society's economic growth process is reasonably effective when its citizens have a common objective and successful economic outcomes may be attributed to appropriate institutional modifications. Japan has not resisted the requirement for change that has arisen throughout the course of history and has instead taken steps to maintain its own culture and values while being relevant to the modern day.

THE RICE FIELD REFORMS IN FEUDAL JAPAN

The Shogunate (bakufu-幕府) is one of the most prominent agents of Japanese economic and political history. It can be described as the dominator of lands and the hereditary military dictator of Japan from 1192 to 1867 (De Bary, Keene, Donald, Tanabe & Varley, 1983, p. 250). The central government was not able to collect taxes directly and rule all Japanese lands during the Shogunate times like other empires (Schubert, 2020). Japan's central government used local nobles and governors to take control of the country (Nakabayashi, 2009, p. 1). At the same time the local governors tried to avoid directly being ruled under the imperial government. Because, even if the Shogunates had wide powers, all Japanese lands belonged to the emperor. There was no property right about the land. Therefore, all taxes belonged to the central government indirectly (Steele, Paik & Tanaka, 2017, p. 357). Nonetheless, local leaders, the essential decision-makers of agricultural development, did not hold any residual claim over the rent from any piece of land. So that they did not have appropriate incentives to develop and manage paddy fields and farms. Thus, paddy fields and farms were naturally devastated and could not use effectively (Nakabayashi, 2009, p. 3). This devastation also shows the failure of economic development that only depends on agriculture.

All these reasons revealed the need of an institutional change in the understanding of administration in

Japan around the middle of the 15th century. This new institutional search was ended with the establishment of the manorial system (Reischauer, 1937, p. 78). All lands still belonged to the emperor in this new system. However, the taxes and other rental incomes were started to collect by intermediary agents. The new system encouraged local leaders to develop paddy lands and other farms. The samurai (侍) who was responsible for the security of paddy lands collected 9 liters of rice per 1,200 square meters of a field (Nakabayashi, 2009, p. 4). The production was raised with this new institutional logic. There was going to be a new transformation of the land system. The property rights started to be composed while the manorial system was getting worse, and the central government was losing its ruling power. As it said, no one had proprietary and heritage right under the former system. On the other hand, this method decreased the operation costs for collecting taxes for the state.

The Shogunate reigned from the 12th to the 19th centuries (De Bary et al., 1983, p. 417). This period is known also as the Feudal Period of Japan (Reischauer, 1989, p. 94). The military caste was at the top of the political hierarchy during this feudal period. The Imperial Dynasty was kept, and the emperor had been the titular head of the empire during that period (Aoki, 2008). Between these centuries, there were three rather effective feudal regimes. The last of these governments was the Tokugawa (1603–1867) and the main reforms were made under the Tokugawa management (Wolferen, 1989, p. 86-88). The central government gave the local lords the authority of ruling in their territories. There were about three hundred local authorities. The financial power of the empire depended on taxes that came from farmers. The feudal lords collected these agricultural taxes. The lords were under the central government, but they were independent on political and financial issues. However, the Tokugawa had faced some difficulties stemming from out of Japan (Duus, 1976). The Meiji Era began as a result of these changes, and Japan's tremendous transformation began. This system is also similar to the Ottoman *timar* (fief) system⁴. But this is the subject of a different study.

TERRITORIAL INSTITUTIONALIZATION AND INDUSTRIALIZATION WITH THE MEIJI PERIOD

The Meiji period (1868-1912) brought about the rapid modernization of Japanese economic, political (Inoguchi, 2002, p. 113), and social institutions (Esenbel,

⁴ The timar system is the land system that the Ottomans inherited from the Seljuks. Thanks to this system, while the tax system is being regulated, the needs of the state in terms of military personnel are also met.

2018, p. 9), which resulted in Japan's attaining the status of the leading country in Asia and a world economic and political power (Paine, 2017, p. 23). The Meiji government set up a central authorization, reformed the feudalistic system entirely, and benefited from the experience of prior times. The main aim was development and growth, and the fundamental transformation about the administration was arrangement at dividing the territories (Nakamura, 1966, p. 428-429). These territories were called hu (府), han (半), and ken (県). The central government managed important territories called hu. The less important lands were called ken. The local lords also managed the territories, called han. The central government tried to take control of these *han* territories, but local lords stood against the central authority in 1869. Finally, the central government took control, and these lords appointed as governors of their territories.

The local lords were responsible for collecting tax and other military issues at first, but after the centralization, the Meiji government transformed these territories as ken. The central authority started to appoint the governors. Therefore, there was a centralization in Japan in these years (Kitaoka, 2018, p. 7). As an administrative development, the government established the distribution systems consist of the cities, towns, and villages. Japan was divided into prefectures and then prefectures were subdivided into counties and cities. Counties were divided into towns and villages (Aoki, 2008) where the autonomy of prefectures is stronger. Thus, a system established for security and military purposes formed the basis of a long-term development period in economic terms.

As the main discussion of this paper, the novel system in Japan was formulated over the previous period. Old habits and their sense of rule did not exclude them while they have been constantly reforming. For example, the Meiji government took over the Tokugawa government tax system as the fiscal aspect (Beasley, 1960, p. 255; Bird, 1977, p. 166). Okazaki stated in a historical institutional analyzing work about the crucial role of the merchant coalition as (*kabunakama* - 株仲間); "*Economic growth in Japan started around 1790, before the Meiji Restoration. At the same time, public enforcement of contracts was poorly implemented*" (Okazaki, 2005, p. 198). However, the government needed some reforms to stabilize the revenue. The government stabilized the tax rate at three percent of the land price and started to collect it cashes in 1873 and gave a land certificate to every farmer to establish land ownership.

Moreover, the Meiji government also permitted freedom for her citizen to establish companies basically in any field. Capitalists were allowed to produce any product they like and to set the price freely for their products and merchandise as well as sell them in any place they like. Even foreign capitals were invited to invest in Japan, especially in the field of the electric industry. For where big companies like General Electric came to invest in this period (FEPC, 1972). In addition to this, Japan also sent attaches for observing the US and European countries' economies, education, laws, and systems. The attaches had a mission that gave the Japanese the opportunity to change and transform Japan and made foreign countries believe in the inability of Japan for achieving enlightenment (Keene, 2002, p. 207). It was a method followed in other states of this period as well. For example, the Ottomans also tried to transfer beneficial practices by sending attaches to Western countries during this period. That was, interestingly, the beginning of the IPEZ logic's evolution based on accumulated experiences. The adaptability of the Japanese economic philosophy facilitated the transition for society and the state. This resulted in higher production and growth (Table 1), and Japan was able to maximize the productivity of its workforce from 1886 to 1913 with the assistance of the enterprise booms during the time. In addition, the consistency and continuity in the growth and development are highly distinctive.

The lifetime employment attempted during this period was also quite successful. Ito & Weinstein (1996) claims that lifetime employment had a great effect on this high production. This lifetime employment also provides labor mobility along with sectors. Moreover, the educated and unionized labor force made private-sector firms' rationale for adapting economic conditions. The workers exposed to market competition and the big companies had to cooperate (Suzuki, 2000, p. 91)⁵.

⁵ Education is the main vector behind the qualified labor forces. Historical records of the Tokugawa and Meiji periods tell us that there were developments and reforms in education too (Kobayashi, 1965). High literacy rates of these periods provided human resources for development. However, following WWII, Japan faced a lack of human resources, and the experience of the education system in Japan closed the gap in a short time. Kimura (2009) stressed the quantitative growth of Japan's educational system until the 1970s, the illiteracy rate was quite low, and elementary and high school education was enough to give basic skills. The university admissions process was always competitive (Ito & Weinstein, 1996, p. 228). These are the primary characteristics of Japan's educational system, which delivered highly qualified people resources through compulsory schooling. This education also created a conscious working class. They established labor unions and started to make their demands accepted. They became energetic and committed to the job and wanted to work long hours with their new skills (Gordon, 2003, p. 249). And the *zaibatsu* and *keiretsu* were their state-sponsored and unwavering employers.

Table 1. GDP Growth Rates during the Industrial Revolution of Japan (1886-1913)

Terms	GDP Growth		GDP Year on Year Growth Rate		Per Capita GDP Growth		Rate of Population Increase (%)
	Nominal	Real	Nominal (%)	Real (%)	Nominal (%)	Real (%)	
Overall (1886-1913, average)	6,33	1,98	6,25	2,55	5,27	1,52	1
Mid Meiji (1886-1899, average)	2,89	1,55	7,13	3,4	6,31	2,54	0,9
Late Meiji (1900-1913, average)	2,1	1,3	5,37	1,69	4,23	0,51	1,2
First enterprise boom (1886-1889)	1,19	1,16	4,09	4,96	3,38	4,25	0,7
Second enterprise boom (1896-1899)	1,39	1,09	9,42	2,06	8,43	0,99	1,1
Third enterprise boom (1906-1909)	1,14	1,09	4,99	2,21	4,01	1,21	1

Source: Compiled by the authors from Byoungki, 2006; Fukao & Settsu, 2021.

The industrialization of a nation is more accurately described as a process than an event. Thus, it can be said that Japanese industrialization was a process that began in the late Edo Period and continued after WWII (Clawson, 1995). This era is known as the age of the industrial revolution for Japan (Table 1). Japan's economy shifts upward in this revolution era (Nakamura, 2015, pp. 26-27). This era provided capital accumulation for the years between 1909 and WWII and knowledge for an economic miracle after the war. As shown, the Meiji industrialization era served as a staging ground for the postwar economic miracle. Table 1 shows clearly that the Meiji Period and its reforms were behind the Japanese economic success (overall growth was 6.3%). In this period Japan was able to find a political agenda to collect knowledge from the West (Paine, 2017, p. 23) and use it for economic growth and development. As a result of such a well-planned transformation process, Meiji and its reforms laid the groundwork of the Japanese economical and unique development since the last quarter of the 19th century.

Kimura and Yamada found Japan's growth narrative remarkable because of its geographical position. Japan was able to escape from colonization and imperial activities (Yamada, 2021, p. 2-3) of the West. It started Meiji Restoration and established a modern nation-state. It took a long time to applied new reforms from the 1850s to 1910s (Kimura, 2009, p. 1). In addition, Japan began fast industrialization, modernization, and Westernization in social and economic life. Therefore, the capitalist mentality and structure penetrated and diffused in economic structure (Okazaki, 2005, p. 189).

The entrepreneurs and capital owners developed in this period and became one of the main driving forces in Japanese economic welfare. At the same time, as part of their capitalist activity, members of the middle-class group tacitly and openly declared their differentiation from and superiority to other classes in terms of values, everyday habits, and technical expertise. In order to implement the policies and practices they saw essential to achieve the dual goals of national progress and self-empowerment, new groups of professionals tried to capture key sectors of public opinion and create coalitions with governmental institutions. Furthermore, this process determined not only the late Meiji era but also imperial Japan's whole history (Ambaras, 1998, p. 30).

The other important feature of this period is that Japan did not transfer only technology but also Western institutions (Yukichi, 1860; 1866). This institutional transformation in social and cultural values happened under the legacy of the isolation (*sakoku*-鎖国) strategy of the Tokugawa government until 1854 (Tunçoku, 2013, p. 11-12) and the suspicion of the conservationists of the Meiji Era Japanese. There were also other states that evolved in the same period as the Japanese Empire. For example, the Ottoman Empire used the comprehensive framework and concept of "the millet system"⁶ (Aviv, 2016) to identify common goals for that multinational Sultanate. The Great Britain used commercial ideas and objectives for providing harmony between the state's

⁶ The Millet System is the system in which the Ottomans, who ruled over a very wide geography, governed all religious, ethnic and cultural subgroups living in the country with tolerance.

goals and the expectations of the people. In this way, identification of all citizens' savings and industrialization culture was one of the most important factors that affected the development and increased efficiency of workers. The same situation applied in the Meiji era. The Meiji era transformed the Japanese people's everyday life. The methods of making farms even changed and transformed. The traditional land ownership system was altered, and the Japanese development stage was beginning to evolve into an industrious spirit by huge holdings (zaibatsu). Moreover, in this making a new civilization era, Japanese people were tending to make undesirable racial research to build a modern-nation-building (Morris-Suzuki, 2001, pp. 86-87), and they were faced with its tragic result in WWII.

WORLD WAR(S), REFORMS AND TRANSFORMATION OF ZAIBATSU

The triumph of the Russo-Japanese War (1904-1905) provided immediate confirmation of the Meiji restoration's enormous impact (Kazuo, 1966, p. 537). For the first time, an eastern power challenged western power, once Russia was defeated by Japan (Ringmar, 2019; Aydın, 2007, pp. 14-88-90). After this victory, Japan focused on the state-promoted development model which means the military-oriented war/defense industry at that time (Schiltz, 2012). This expansion in the industry brought need into raw materials. Thus, big loan debt had been one of the agendas of the Japanese Emperor. Meanwhile, the help of the Grand Strategy of Japan (Kösebalaban, 1998) that is being next to Hegemonic powers (in that time was Great Britain) gave a chance to take the helm of the colonies of Germany. Economic and industrial progress achieved in the interwar period will be the "know-how" of the post-war period. The large Japanese family companies (Mitsui, Sumitomo, etc.), whose owners were grandsons of the rice field landowners of the Tokugawa period, called zaibatsu were in the background of it (Nakamura & Morck, 2003, p. 6). Although there are similar companies in many countries, which make the Japanese economic model different from the others is that they have a story dating back to the Tokugawa Era. "The merchant class, which happened to also be the lowliest and most frowned-upon social class in Tokugawa Japan, formed the backbone of the primitive economy that existed during the Edo period" (Addicot, 2017, p. 3). Thus, this merchant class can be correlated with zaibatsu, which is historically backed and keeps these financial backbones strong in modern times. This proves the need for leading groups and companies for the development of countries.

As illustrated in Figure 1, there is a steady increase from 1890 to 1990 except the period of 1945-1950 (Kōsai & Goble, 1989), and this growth should be addressed in order to understand Japan's advancements in the context of the zaibatsu's institutionalization. As can be seen, the growth trend before the destruction caused by the war was caught again by Japan.

Throughout WWI, Japan's foreign and balance policies kept it out of devastating conflicts. The production facilities were transformed for military objectives before and during WWII while colonialism and industrialization policies coexisted. Despite its free enterprise and market economies, the Japanese government gained its influence and weight following the Great Depression which began in 1929 and continued until the late 1930s. Before and throughout WWII, it was a paradigm in which all vital sectors and industries were preserved under government control (Morley, 1971). The Japanese government again played a significant role in the change and growth of the economy, such as during the Meiji period. However, by the end of WWI, the country had developed into a significant colonial power, and the cost of keeping control over the captured lands had risen as well (Shizume, 2009).

The colonial expansion policy resulted in ultimate devastation and the production factors and other production mechanisms were destroyed by the atomic bombs and with other attacks during WWII. However, the Japanese economic miracle resurfaced shortly after WWII, and the country swiftly recover the economy. Despite of the heavy defeat of Japan, the allied forces did not avoid applying reforms (Reconstruction of Japan, 2010) in Japan after the war. Some of these reforms are outlined as follows; 1) anti-trust measures prevented collecting capital in the hands of a limited class, 2) land reforms protected middle-class rights, 3) labor democratization is provided by union law, 4) education system is emulated to the American system, 5) governmental reform made the status of the emperor as a symbol.

In the economic dimension, Japanese industrial power was weakened by the break-up of the zaibatsu (pre-war industrial conglomerates) which were at the economic heart of the war effort. Land reform was implemented in the countryside in order to destroy the feudal system of land tenure, creating a new stratum of small-time, land-owning farmers in its place. Social, educational and other reforms were carried out, as in the purging of militarist teachers and the revision of school textbooks that had been used to indoctrinate the youth into the militarist ethos and loyalty to the emperor and state" (Hook, Gilson, Hughes, & Dobson, 2011, p. 85).

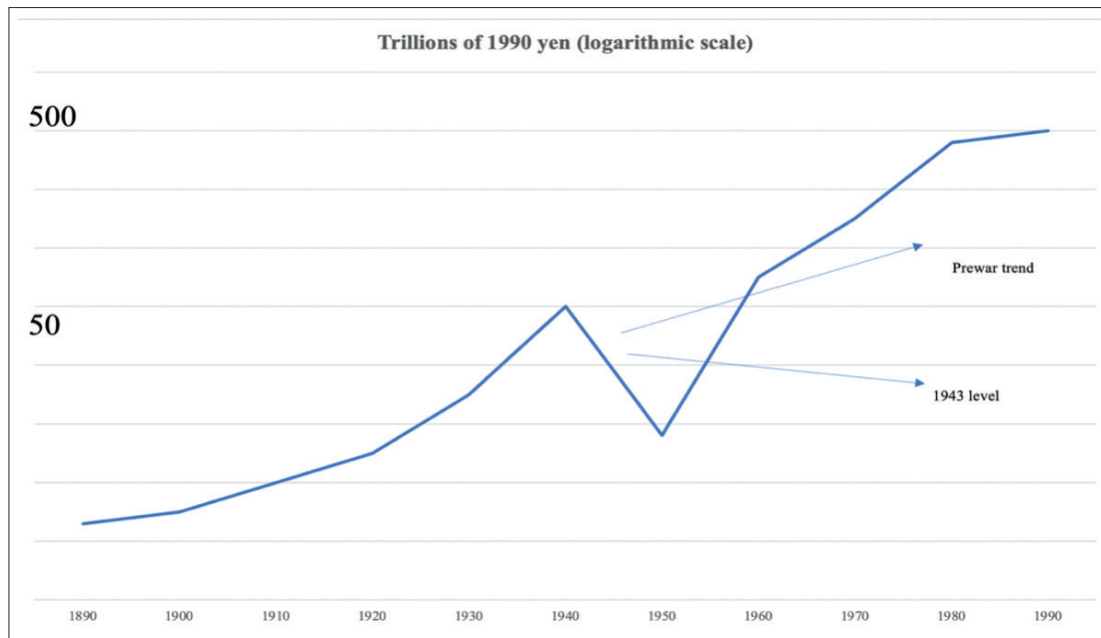


Figure 1. Real GDP of Japan, 1880-1995 (Ito & Weinstein, 1996, p. 208).

That is, economic development is possible with a total movement. Changes cannot be imposed on the society without bringing awareness of reform in schools at a younger age. Japan has also initiated a wide and multidimensional transformation process to implement this. At the change stated above, these reforms, which can call as the second stage of the zaibatsu, were not only economics but they were also political, and there was a transformation in the understanding and philosophy of zaibatsu. The colonial and militarist perception of zaibatsu has evolved into modern economic corporatization. The militaristic mindset was forced abandoned, and following WWII's multilateral accords, the US military was stationed on Japanese territory to assume responsibility for the country's defense (Johnson, 1990; Funabashi, 1992; George, 1992). Japan, which started calling as a peaceful nation (heiwai kokka-平和国家) (Miyaoka, 2011), only had a legitimate defense force for logistical support. Because Japan has renounced its right of war with the constitution revision and article 9, turned into a pacifist state⁷. According to Gordon (2003), one of the reasons for Japan's economic miracle is that the Japanese did not have to bear hefty defense costs. Yet, this opinion is quite narrow to explain the economic miracle of Japan. The U.S. wanted to restrict

the military power of Japan in 1945s, and then Japan was described as a "civil power" (Pehlivan Türk & Demirtaş, 2018, p. 3-4). Shortly after, when the Korean War (1950-1953) began, the United States wanted the Japanese to have additional capacity to fight the socialist menace in this region. Prime Minister Shigeru Yoshida (1948-1954) and his developmental economy-based doctrine provided direction to the country's political economy during the time (Dower, 1979). It is well known that the government is again one of the most important players in fast economic development after WWII in Japan. The government did lead and restore many industrial sectors (mainly dominated by zaibatsu) and successfully brought about the economic development of the country to the level of one of the most powerful economic powers of the modern world (Imagawa, 1993, p. 35).

Following WWII, the politicization increased its importance because the two economic and political views, socialism/communism and capitalism/liberalism, separated the world into two parts. These two sides can be compared with their economies. While the other economies in East Asia had more governmental control over the economy, Japan was able to arrange a kind of best-mix of state intervention in the economy and free-market economic system that accepted the most favorable pattern for economic development in almost all countries in the present world (Imagawa, 1993, p. 50). As Leonard Lynn analyzed in his paper:

Researchers have drawn conflicting conclusions about Japan's experience with government controls over technology imports in the 1950s and 1960s.

⁷ Article 9: Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized. Constitution of Japan," Prime Minister of Japan and His Cabinet, accessed June 14, 2020. https://japan.kantei.go.jp/constitution_and_government_of_japan/constitution_e.html

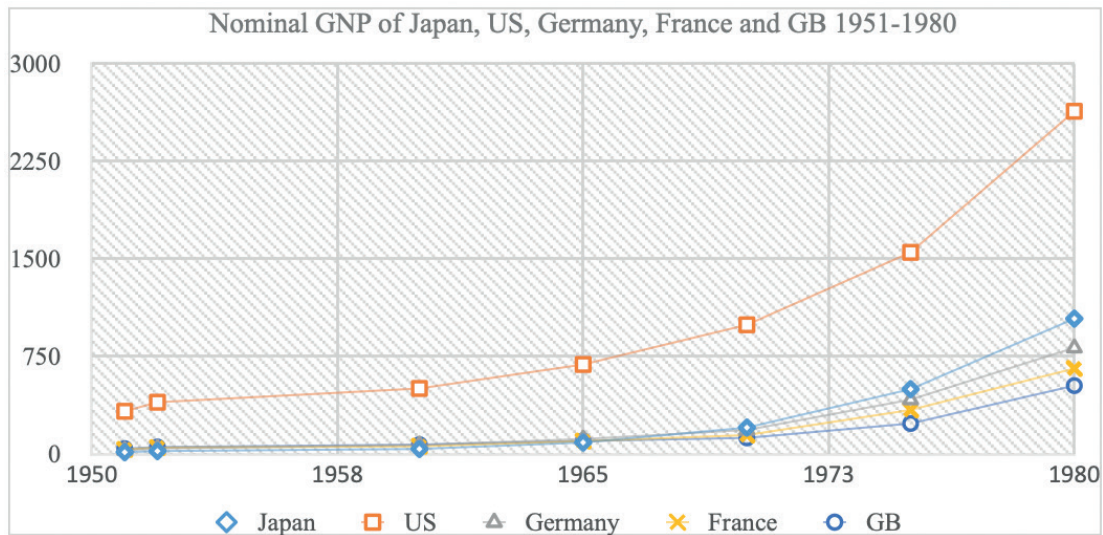


Figure 2. Nominal GNP of Five Major Nations, 1951–80 (amounts in \$U.S. billion) (Gordon, 2003, p. 248)

Some suggest that these controls helped Japan get foreign technology at a low cost. The imports of basic oxygen steelmaking and various computer technologies seem to support this position (Lynn, 1994, p. 16).

The Fiscal Investment and Loan Program (FILP) was a way of government intervention in the economy. This program has a historical context. The founder of the Japanese postal system Hisoka Maejima (1835-1919) applied postal savings and money remittance services in 1875. The main objective was providing thrift to Japanese people. The government put saving education into the school curriculum in 1885. The Deposit Bureau was founded in the Ministry of Finance in the beginning. The Deposit Bureau started to include direct loans to the national treasury's accounts in 1907. This structure was composed of the main origin of FILP that was started after WWII (Tanaka, 2010). Thus, the government made interventions to savings and investments directly. The FILP has been used in Japan since 1951.

The Japanese economic miracle is neither entirely attributable to the free market and liberal system nor does it result from the US-Japan agreement. It was also about the distinctive effect of the state on the economy in Japan. Yet, it cannot be said that the system was similar to a communist or a socialist system like the Soviet's command economy model. The management of the state developed naturally before and during the war even in postwar periods. It is necessary to state here that the Japanese governments did not interfere in the economic system directly. The state worked with trading institutions like zaibatsu that give direction to the market with a comforting influence. Government policies were

more equal than in other industrialized nations, and growth rates were higher than in the United States, the United Kingdom, France, and Germany (figure 2). Japan was certainly not similar to the classical *laissez-faire* type of capitalism (Krämer, 2013, p. 133) while directing the industry with zaibatsu. As seen in Figure 2, Japan could follow a growth path as rich western countries.

The state also dealt with the unemployment issue using the 'soft authoritarian capitalism' strategy (Johnson, 1987, p. 137), which was a comparable interventionism method prior to WWII. To combat unemployment, the government devised a Japanese-style policy tool. These programs included tax breaks and incentives for Japan's traditional major enterprises (zaibatsu) that were battling unemployment. Following WWII, the Japanese government and businesses did not implement progressive unemployment policies, instead of relying on conventional answers to current challenges. Despite low-wage worker exploitation in the 1950s, these strategies produced knowledge for production and capital accumulation during the postwar era (Kazutoshi, 2004, p. 217).

The Role of Private Property Rights in the Institutionalization of Zaibatsu and Keiretsu

Throughout history, the protection of private property rights has resulted in long-term economic growth and progress. Property rights that are well established are one of the most essential aspects that contribute to economic freedom. Thus, economic freedom and decentralized decision-making authority based on private property ownership are possible explanatory variables for Japan's and other East Asian nations' different economic performance (Weede, 2004, p. 73).

Table 2. The Structure of Keiretsu (Watkins, 2016).

Industry	Mitsui	Mitsubishi	Sumitomo	Fuyo	Sanwa	DKB
<i>Banking</i>	Sakura Bank	Bank of Tokyo-Mitsubishi Bank	Sumitomo Bank	Fuji Bank	Sanwa Bank	Dai-ichi Kangyo Bank
<i>Trust Banking</i>	Mitsui Trust & Banking	Mitsubishi Trust & Banking	Sumitomo Trust & Banking	Yasuda Trust & Banking	Toyo Trust & Banking	
<i>Life Insurance</i>	Mitsui Mutual Life	Meiji Mutual Life	Sumitomo Mutual Life	Yasuda Mutual Life		Fukoku Mutual Life Asahi Mutual Life
<i>Marine & Fire Insurance</i>	Mitsui Marine & Fire	Tokio Marine & Fire	Sumitomo Marine & Fire	Yasuda Marine & Fire		Nissan Marine & Fire Taisei Marine & Fire
<i>Trading Company</i>	Mitsui Bussan	Mitsubishi Shoji	Sumitomo Corporation	Marubeni	Nissho Iwai	Itochu
<i>Steel</i>	Japan Steel Works	Mitsubishi Steel Manufacturing	Sumitomo Metal Industries		Nakayama Steel Works Nisshin Steel	Kawasaki Steel Kobe Steel
<i>Chemicals</i>	Mitsui Toatsu Chemical	Mitsubishi Gas Chemicals	Sumitomo Chemical	Kureha Chemical Industries	Sekisui Chemical	Asahi Chemical Industries

Farmers and villagers had no private property right in the early medieval period in Japan. The farmers who wanted residual claims in Japan were quite a few, and they had to make contracts of taxation with the governors (Nakabayashi, 2009, p. 8). The most well-known Shogunate that managed the feudalistic land system was Tokugawa. The system provided stable growth in the economy with agricultural development during this period. This legacy of private property rights not only became institutionalized and constituted the cornerstone of Meiji modernization, but it also provided opportunities to promote private business and firms after WWII. Private firms in Japan expanded quickly and they were permitted to borrow large sums of money from banks. Private banks and government banks collected individuals' savings and transferred these savings to private companies from small ones to big ones. The ratio of debt for a normal Japanese company became 75 percent in the rapid growth era. This rate was 40 percent before WWII. Thus, they were able to repay their debt because of the quick expansion of output and revenue (Gordon, 2003, p. 248).

There was a successful harmony between the state and private sectors, especially in the second half of the 20th century. The state organized the private sector relationship between each firm. This relationship provided

the institutionalization to the and zaibatsu (財閥) and keiretsu⁸ (系列). The zaibatsu were mainly large family-owned businesses, but the keiretsu were more professional and mostly founded after WWII. They were pioneers of growth and main factor of Japanese economic success. Under the Keiretsu structure, Table 2 shows the primary heading firm and business groups. They operate in the banking, insurance, trading, steel, and chemical industries, which drive the Japanese economy internationally. It should be recalled that these organizations played a leading role at the beginning of the twenty-first century in Japan. In accordance with the times, their working style and organizational structure underwent a process of evolution (Akkemik, 2022, p. 29-30).

It can be seen in Table 2 that the main keiretsu formed the backbone of the private sector and also the economy. The banks located in the center and other sectors spread around, and they were in cooperation (Watkins, 2016). The companies decreased the asymmetric information and moral hazard problems by professionalism with this structure and nested size. Thus, trust between states and

⁸ Keiretsu is a business network composed of manufacturer supply chain partners, distributors and financiers who remain financially independent but work closely together to ensure each other's success. In Japanese, the word keiretsu means "group". In business, the word is often used as a synonym for partnership, alliance, or extended enterprise.

Table 3: Growth rate (%) of GNP for Japan (Byoungki, 2006).

Development Phase	Gross Investment Rate of GDP	GNP per Capita	Communication	Electricity	Transportation
1887-1904	9,7	1,5	-	-	10,1
1904-1919	14,8	2,1	16,7	15,3	5,1
1919-1938	18,4	3,5	6,5	16,5	9,7
1954-1965	27,0	8,6	11,6	11,3	8,9
1965-1975	33,4	5,1	15,4	7,5	5,6
1975-2001	29,3	2,4	2,4	3,2	0,8
TOTAL	21,7	3,4	9,0	10,2	6,2

enterprises allowed for the establishment of a healthy market system. The guarantors of these companies were Japanese administrations. The system in the country has been transparent and the laws have given confidence that can call as regulatory capitalism. Except for WWII, the Japanese government was able to avoid all political moves that would hinder these companies and their profits. In Japan, the government continues to lead the industry with its own guiding role until now (Johnson, 1982). In other words, the institutionalization in the economy strengthened with assistance to private property with economy-centered wisdom.

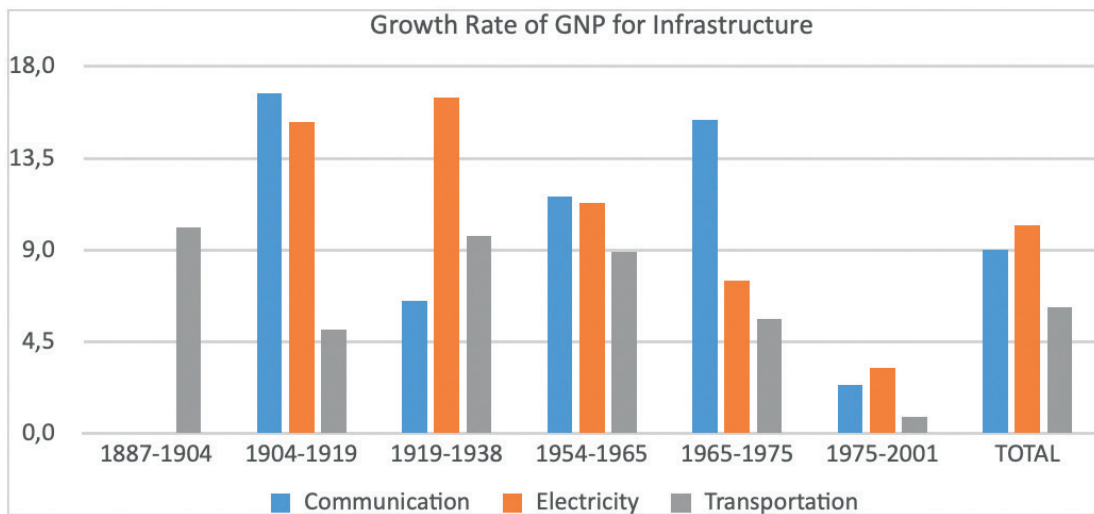
Infrastructure as an Area of Continuous Economic Restructuring

It is known that the reconstruction of Japanese economic infrastructure is one of the important factors provided by the USA and the World Bank after WWII like the Marshall Plan (Tarnoff, 2018). However, manufacturing knowledge was also vital for recovery and is referred to as know-how. Byoungki (2006) divided Japan's GDP developments into six periods and five sectors comparatively to show how

fast and continuous reconstruction it was (Table 3). The growth rate of electricity is higher than other sectors. It shows the improvements in production sector.

Japan gives importance to the competition of the private sectors very early after the Meiji term for infrastructure works. The first electricity service began in 1886 and the private sectors (mostly zaibatsu, table 2) started to give this service in 1890. This enabled further growth of the economy through capital accumulation, and absorbed surplus labor in rural areas, as well as raising the real wage rates of laborers (Byoungki, 2006, p. 18). This increase has brought not only growth but also development.

Table 3 and Figure 3&4 show the growth rate of demand for infrastructure is very high in the early development period. It can also be understood from figure 3 that the accumulative growth rate of electricity, communication, and transportation was growing each period. On the other hand, the demand for electricity had a much higher rate than others. Byoungki (2006) interprets this situation as there is a strong relationship between the demand for

**Figure 3.** Growth Rate (%) of GNP for Infrastructure of Japan (Byoungki, 2006)

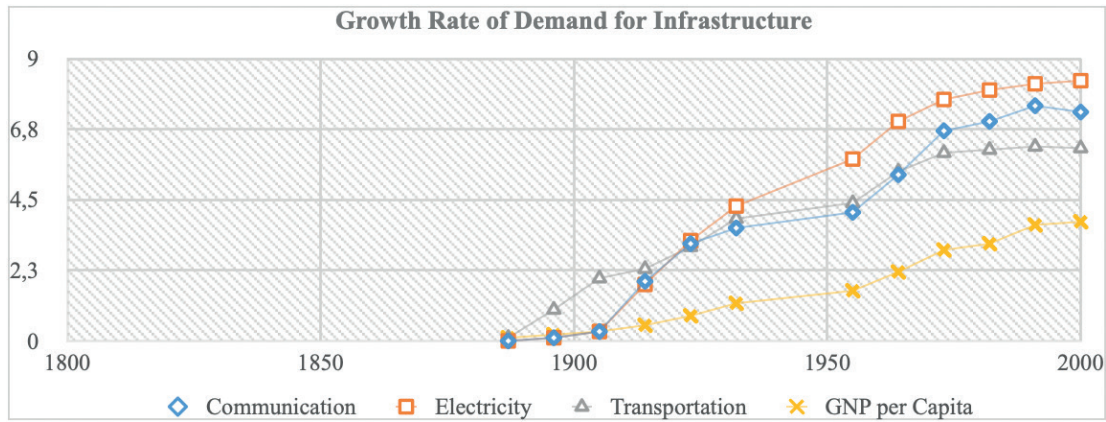


Figure 4. Growth rate of (%) demand for infrastructure in Japan (Byoungki, 2006).

infrastructure and the growth rate of GNP per capita so economic growth rate.

Figure 4 shows that the government invested a very big share of the budget for the development of infrastructure in the development period, 1887-1973. The infrastructure policies of Japan increased domestic demand and provided continuity in economic growth. According to the figures, the help received for economic restructuring during WWII increased economic growth and institutionalization. However, there is no starting from scratch here. From the beginning of the Meiji, it is known that the Japanese state communicated with the other world countries and it has remained open to technology and inventions (Hayashi, 1984). This situation brought the Japanese to become users of technology even in the most difficult times of war (IDE-JETRO, 2008). Behind the aforementioned infrastructure and equipment, the government promised to constantly prioritize these areas, and technology was at the center of Japanese economic policies even in the most difficult times.

Integration to the World Trade with Zaibatsu

Japan experienced many economic crises in history and was one of the most affected countries of WWII. Because Japan met depression in the supply of goods that was caused by decreased capital stock demilitarization of industries, and shortages in raw materials and equipment in 1940s (Kimura, 2009, p. 3). Macroeconomic stability is one of the important factors to provide sustainable economic development and growth (Belostecinic, 2013, p.21). With these problems, it is common to experience a loss of stability. However, the allied forces occupied Japan and applied an economic stability plan after WWII. This plan foresaw a disciplined budget and provided macroeconomic stability (Komiya & Itoh, 1988, p. 176).

The banking system, led by zaibatsu/keiretsu, played essential roles in the macroeconomic stability of Japan. The banking systems were created by national and institutional memory of the zaibatsu which is elucidated above. For example, banks gave instructions to firms because the bank met firms that had difficulties in surviving. Thus, the banks found a chance to understand these economic issues and problems for development and helped firms. Even, they have sent a managerial team for firms (Ito & Weinstein, 1996, p. 224). The existence of institutional harmony behind every economic success cannot be denied. The reason for economic success for Japan is the badge of harmony between many sectors and institutions.

Thus, the process of incorporating enterprises that are developing in tandem with the country's economic harmony and stability into global commerce has begun. International trade is one of the factors that helped the economic development of Japan, yet Japan had trouble with it after WWII. After regaining independence, it implemented a new tariff system. In terms of economic policy, Japan has shifted to a more pragmatic axis. It began using GATT regimes in 1953 (Özşahin, 2017, p. 112) and essentially pioneered regional free trade agreements (Uyar & Taniguchi, 2013). Zaibatsu, the country's largest financial clique, backed foreign commerce, and it was seeking to integrate the country into world trade.

CONCLUSION

Japan has a distinct economic development structure and is regarded as the first non-western country to reach such high levels of industrialization. Japan also owes its evolutionary industrialization to a strong institutional political economy rooted in the Tokugawa period. Trying to conceptualize the distinctive implications of the zaibatsu in the Japanese economy helped to figure out six striking causalities; (i) The industrialization of Japan is

a long process, and the wars were temporal slowdown in this process, (ii) There is no rupture or an inexplicable miracle in the Japanese economic model. On the contrary, there is a historical development starting from the shogunate, (iii) The importance of high technology in industrialization was realized for successful economic development in the Meiji Era. The private sector was promoted by the incentives and assistance of free trade agreements to bring and produce technology constantly after the Edo Era, (iv) The strong education system and high literacy rate provided opportunities to grasp the reforms and development. The process which started with the Rice Field Property Reform continued with the institutionalization of the zaibatsu.

The original contribution of this paper is in objectively demonstrating the economic institutionalization success of Japan. Japan's economic success has not always resulted in a good way. Unfortunately, the economic progress of societies after uniting around a shared aim did

not ensure world peace. Many economic advances that have disrupted the world's equilibrium have resulted in terrible conflicts. Japanese economic institutionalization is important in that they portray a community centered on a single aim of growth. The international economy perspective of the new century, after the global disruptions and outbreaks, is seeking ways for countries to attain self-sufficiency in all aspects of their lives. As a result, the political economy of Japan, which has uniquely allowed the nation to improve its institutional economic structure from history to the present, sets as a model for other countries to follow.

Statements and Declarations

Funding and/or Conflicts of interests/Competing interests

The authors declare no competing interests in any part of paper and research period.

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