Introduction

Japan under Tokugawa rule occupies a rather unique place in world history. For a little more than two centuries from the 1630s to the end of the 1850s, Japan was closed to the outside world; yet, her economic performance during much of this “seclusion” period was not necessarily bad. The conventional wisdom is that if there is no foreign trade, there will be no stimulus for growth. However, Tokugawa Japan achieved a modest but sustained improvement in living standards before the forced opening of the country into world trade in 1859 and managed to maintain the growth momentum throughout the subsequent periods of open economy.

How to make sense of Tokugawa Japan’s economic performance in this autarkic period is one of the main topics of today’s talk. After taking a look in section II at the medieval-early modern transition period (from the thirteenth to the seventeenth century), section IV explores this issue. According to the latest version of estimates of gross domestic product (GDP) per capita for Japan since 1600\(^1\), economic growth took off in the

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* This is a revised and enlarged version of the paper I presented at the Thematic Session held on 24 October 2017, organised in conjunction with the Union Académique Internationale’s General Assembly, Tokyo.

1 Throughout this paper, GDP figures are expressed in 1990 prices — in fact, in 1990 international dollars. The “international dollar”, also known as the “Geary-Khamis dollar”, is a hypothetical unit of currency adjusted to reflect purchasing power parity (for this measurement, see Maddison 2007, pp. 297-300). All estimates for Japan’s GDP per capita mentioned and tabulated in this paper are taken from Saito and Takashima (2016), for 1600-1874, and Settsu, Bassino and Fukao (2016), for 1874-1940. Note that per capita GDP figures quoted in Saito (2016) are estimates made before the 2016 revision. Some of the estimates in Settsu, Bassino and Fukao (2016) have been revised slightly since the publication; however, the differences are so slight that all the arguments made in this paper remain unaffected.
eighteenth century, not the late nineteenth. The average rate of growth was very modest initially but its level increased gradually by the time of opening up of the country for trade, suggesting that while overseas trade declined notably, domestic markets expanded. Thus, how the increased gains from domestic trade were distributed between the ruling samurai, metropolitan merchants, and rural traders and producers will be explored, which will show that it was the rural population who gained from the growth of the trade. This finding is substantiated by examining a late-Tokugawa “social table” — the table of household incomes by social status that I estimated elsewhere; then, this social table will be compared with those for Stuart England and Mughal India, suggesting that the late Tokugawa status society appeared surprisingly equal.²

Section IV places these early modern findings in a longer time-frame. Economic growth, which had taken off in the eighteenth century, gathered momentum after the Meiji Restoration. In modern circumstances, however, growth was accompanied by a sharp rise of inequality, in contrast with the Tokugawa pattern of slow growth and low and stable inequality.

In the globalising world of the nineteenth century, Japan’s pursuit for power and development begot two separate sets of potential tensions in domestic politics. One was the question of state projects and tax systems. The other was growing inequality between the social classes. As is well known, modern economic growth bred income inequality. Meiji Japan was not an exception. Income distribution, less skewed at the end of the Tokugawa period, became extremely skewed by the inter-war period. What Japan’s modern state inherited or did not inherit from the Tokugawa past is the issue to be addressed in section IV.

In the concluding section, all this will be summed up in terms of continuity and discontinuity between the early modern and modern period.

I. From the medieval to the early modern period

The Tokugawa regime was a product of several long-term forces that had been at work from the fourteenth century onwards.³ At the end of the twelfth century when the first samurai government, the Kamakura shogunate, was formed, settlements were still

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³ This paragraph draws on Saito (2016), pp. 167-71.
sparse. After the collapse of an ancient, Chinese-style centralised state system, population failed to increase for three centuries. Given the physical distance from the southeast coast of China, it took ages for lethal diseases such as smallpox to establish themselves lastingly among the island population. The implication of what we may call the McNeillian effect is that sporadic invasions of such pathogens may well have repeatedly taken a heavy death toll, and must have “held back the economic and cultural development of the islands in drastic fashion” —until about 1300. It was since the fourteenth century that population and settlements started increasing slowly. On the other hand, there is evidence that the inflow of Song coins increased from the thirteenth century onwards, while domestic trade began to change from the fourteenth. New market towns emerged, especially in the areas around the Inland Sea, creating archipelago-wide networks of commercial transactions. The period from the mid-fifteenth century saw the country thrown into political upheaval with a number of samurai powers rising to fill the regional vacuum left by the collapse of a second shogunate government and starting to wage a war with each other. Its immediate effect was political fragmentation. But scores of powerful warlords rose and pushed on with territorial consolidation; it was they who, probably for the first time in Japanese history, paid serious attention to their own power base, i.e. agrarian and commercial infrastructures of the regional economy. Political and administrative integration, therefore, progressed from below, paving the way for three successive unifiers to bring the civil wars to an end in the late sixteenth century.

The third unifier Tokugawa Ieyasu came to power after his victory at the battle of 1600. Administrative centralisation increased, but most of the former warlords were

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4 The ancient system is called *ritsuryō*; literally, *ritsu* means a criminal code and *ryō* an administrative code, transplanted during the seventh century from Tang China. Under this state system, administration was centralised while both land and people were considered “public property”.


6 See Farris (2006), and Saito and Takashima (2017a), table 1.1 on p. 61. As a result of this population increase, the landscape of rural settlements changed. The village took the form of a clustered rather than dispersed pattern. In advanced regions, the cluster became more compact; some were even moated.

7 By c.1500, towns whose population was in the range of 1,000–5,000 mushroomed, while the rate of urbanisation, if estimated with the threshold of, say, 10,000 inhabitants, is likely to have remained more or less unchanged (Saito and Takashima 2017a, pp. 68–79).

8 The seat of government moved from Kyoto to Edo (present-day Tokyo), with which the emperor
allowed to keep their territories as fiefs. While the shogunate claimed the powers of a central government, such as matters in specie reserves, diplomacy and general public order, it was daimyo who retained their rights in taxation: they kept broad authority over the assessment and collection of taxes. As time went on, therefore, their domains behaved just like mini-states under a Tokugawa-led federation.

Peace returned to the archipelago, which allowed the overlords to focus on the expansion and management of their own tax bases. New arable lands were reclaimed from low-lying river deltas or coastal plains. In medieval times, the marshy lowland was not necessarily ideal for wet-rice farming since water control was difficult, nor was it hospitable for humans because there were full of mosquitoes and parasites. The long-term trend of settlement history in the Japanese archipelago was, therefore, from intermontane basins to fertile, alluvial plains, not the other way round. With this move, the carrying capacity of the arable land increased substantially, making room for further growth of cities and towns. After 1603, in fact, many castle towns were built anew with more and more people moving into such towns and cities.

State formation in the sixteenth and seventeenth centuries coincided with the booming period of Asia’s maritime trade. Portuguese and Dutch as well as Chinese, Japanese and other Asian merchants were all involved in the Asia-wide transactions of spices, cotton, silk and silver. Japan entered this intra-Asian trade with a huge amount of silver in exchange for Chinese silk. In the beginning of the seventeenth century Japan’s supply of silver was so large that its total rivalled the mines of Spanish Mexico or Peru, and the total mining output is estimated to have amounted to about 4 per cent of the nation’s gross domestic output. However, the mining boom was short-lived. Silver production peaked in the 1620s and began to decline rapidly since then. In the following decade, the shogunate issued a series of edicts which are collectively called “seclusion” policy by later historians.

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10 The estimated proportion of population living in settlements with 10,000 or over is 6.4 per cent for 1600 bur rose to 13.6 per cent by 1650. Saito and Takashima (2017b), table 1.3, p. 77.
11 See Schreurs (2018). This implies that previous estimates are probably overstated. For example, the assertion that the average annual silver export in the boom period amounted to “about 10 per cent of the total agricultural output” (Shimbo and Hasegawa 2004, p. 167) was made on the basis of exaggerated estimates of silver output derived from unrepresentative years.
It is unlikely, however, that the shogunate’s intention was to “close” the country; it was to bring all the transactions and traffic under government control. In fact, even after the 1630s there existed “four channels”, through which commercial relations were kept alive. But it is true that the implementation of a set of tight regulations on overseas trade put an end to Japan’s involvement in the intra-Asian trade network. It is not surprising therefore that with the policy change, the total volume of the country’s overseas trade, both exports and imports, declined substantially and continuously over the subsequent period. By the time the Western powers knocked on the country’s closed door, the Japanese economy became more or less autarkic.

Both the loss of foreign trade and the continuing increase in population totals had a negative impact on the domestic economy of the seventeenth century. However, the negative consequences were counterbalanced by a simultaneous increase in farm output and an urbanisation-induced rise in non-farm production. On the other hand, the declining imports of raw silk from the late seventeenth century posed a serious problem for the domestic weaving industry. The eighth shogun Tokugawa Yoshimune’s administration made an effort, as part of his Kyōho reforms of 1716–45, to substitute domestically produced goods for imports. Although it is difficult to say whether the policy change had a visible effect, domestic silk reeling revived during the first half of the eighteenth century and grew in the subsequent periods.¹²

II. Early modern economic growth and inequality levels

The rise of such cottage industry marked the beginning of a new era. While the country’s population no longer grew, the distribution of population totals between the urban and the rural sector changed unmistakably. What urban population statistics reveals is that the aggregate population in large cities with 50,000 or over declined between 1750 and 1873. On the other hand, while the city population in the intermediate category of 10,000–50,000 managed to grow marginally, small towns in the category of 2,500–10,000 grew strongly.¹³ Behind such a differential evolution was a structural change in the net-

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¹² Totman (1993), p. 312, and Tashiro (2004), pp. 109–11. Kyoto’s Nishijin had occupied a central position in silk weaving since ancient times. Its position remained unchallenged throughout the Tokugawa period, as far as high-quality fabrics are concerned. The market for lower-quality *kimono*, however, became diversified towards the end of the period.

¹³ The average decadal rate of growth was −3 per cent for the category of 50,000 or over, 0.9 per
work pattern of inter-regional trade. From the mid-eighteenth century onwards, food processing, paper making, textiles and the like proliferated; and it was rural industry and commerce that outperformed the urban counterparts. Particularly hard hit was the Osaka-centred system of commercial networks. In the first half of the period, provincial economies “exported” their products to the Osaka market with advance loans from Osaka wholesale merchants, who then supplied the commodities to Edo as well as to other consumer markets on deferred payment. From about 1750 onwards, however, provincial dealers sent their shipments directly to the Edo market and also started trading with other provincial customers. The late-Tokugawa commercial transactions were thus re-structured with the two metropolitan cities of Edo and Osaka functioning as hub markets. The key to understanding why such a re-structuring was possible is the lack of tariff and non-tariff barriers between daimyo domains. Despite an unmistakable tendency that the daimyo governments regarded their domains as quasi-“states”, no domanial governments came up with an idea of setting up of a customs office to charge incoming goods at the borders of the domain. This meant that a country dealer’s change in marketing strategy was not particularly costly. The re-structured commercial networks acted just like an international market where free trade prevailed. Domanial governments often introduced hands-on measures to promote trade and some of them were successful. But what they organised in the domains was not monopolies but monopsonies: merchants of the castle town were given exclusive rights to buy up targeted products to sell in the metropolitan markets. However, they were not in a position to influence market prices in Osaka or Edo, where competition became even fiercer with the increased supplies from the domanial economies.¹⁴

Thus, what happened in the second half of the Tokugawa period was rural development at the expense of Osaka and other metropolitan wholesale merchants. Another losers was the samurai class who failed to gain from rural development — their source of income coming almost exclusively from the more or less fixed land tax while the share of indirect, non-agricultural taxes remained marginal; in fact, according to data on shogunal holdings, the estimated effective tax rate declined from about 30 per cent to

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¹⁴ See Miyamoto (2004), Nishikawa and Amano (2004), and Shimbo and Saito (2004).
16.27 per cent over the 200-year period. This suggests that income differentials between the social statuses narrowed during the Tokugawa period, a proposition which can be substantiated from studies on one daimyo economy called Chōshū in the 1840s.

Table 1a. A social table for Chōshū, Japan, 1840s

<table>
<thead>
<tr>
<th>Population share (%)</th>
<th>Household income per capita</th>
<th>Nation income (Chōshū village = 1)</th>
<th>Class share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(a)×(b)</td>
</tr>
<tr>
<td>Samurai</td>
<td>10</td>
<td>1.2</td>
<td>12</td>
</tr>
<tr>
<td>Urban</td>
<td>15</td>
<td>1.1</td>
<td>16</td>
</tr>
<tr>
<td>Village</td>
<td>75</td>
<td>1</td>
<td>75</td>
</tr>
<tr>
<td>Total/ average</td>
<td>100</td>
<td>1.0</td>
<td>103</td>
</tr>
</tbody>
</table>

Source: Saito (2015), table 3. See also its Online appendices S1 and S2.

According to column b of table 1a above, the average household income of the samurai in that domain was 20 per cent higher than that of the rural sector and only 9 per cent higher than the urban average (all calculated on a per capita basis). In Stuart England, on the other hand, the elite class’s income level was nine times higher than that of the lower class and three times higher than that of the middle class, while in Mughal India the corresponding ratios were 26 times and seven times (both from column b of table 1b below). As an early modern status society, therefore, Tokugawa Japan was exceptionally equal.

How can this contrast be translated into per capita GDP statistics? According to our recent estimates (table 2), the 1600 figure of 659 dollars is one-fourth higher the previous Maddison estimate and the 1874 figure of 1,011 dollars one-third higher than the previous one, which implies that the later the higher the level of growth rate became (it now stands at 0.01 per cent for 1600‒1721, 0.2 per cent for 1721‒1846, and then 0.4 per

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15 See Smith (1988), pp. 37-40. “For one thing, although ‘premodern growth’ brought gains to the Western bourgeoisie, it unquestionably imposed losses on the urban class in Japan” (p. 37). The decline in the number of castle-town merchants was probably “more than matched” by the rise in the number of rural entrepreneurs, but the samurai class, who were also town dwellers, “fell on the hardest times for reasons linked to the decline of towns” (p. 39). For the estimates of effective tax rates, see Imamura and Nakabayashi (2017), pp. 35-38.

16 The “previous” estimates refer to those reported in Maddison (2001), table B.21, which are reproduced in Maddison (2007), table A.7.
cent for 1846-1874). Of interest is that the 1846 level of 896 dollars was more than
double the supposed subsistence level, which is likely to have enabled common people
to spend for things other than food, clothing and shelter.

Economic growth in early modern Japan was thus market-led rather than technology-
led, and also rural-centred rather than urban-centred. In other words, it was Smithian
rather than Schumpeterian. Her rural-centred growth, though very modest, was enough
to surpass the levels of Asian superpowers such as China, India and Ottoman Turks be-
fore 1800. Even compared with west European countries, her growth performance was

### Table 1b. Social tables for England and India, 1688 and 1600

<table>
<thead>
<tr>
<th>Populationshare (%)</th>
<th>Household income per capita (Chōshū village = 1)</th>
<th>Nation income (a)×(b)</th>
<th>Class share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>England, 1688</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aristocracy &amp; the gentry</td>
<td>5 7.3</td>
<td>36</td>
<td>20</td>
</tr>
<tr>
<td>Middle class</td>
<td>44 2.4</td>
<td>107</td>
<td>58</td>
</tr>
<tr>
<td>Lower class</td>
<td>51 0.8</td>
<td>40</td>
<td>22</td>
</tr>
<tr>
<td>Total/ average</td>
<td>100 1.8</td>
<td>183</td>
<td>100</td>
</tr>
<tr>
<td>India, c.1600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elite</td>
<td>1 13</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Non-elite, non-village</td>
<td>17 1.9</td>
<td>32</td>
<td>37</td>
</tr>
<tr>
<td>Village</td>
<td>82 0.5</td>
<td>42</td>
<td>48</td>
</tr>
<tr>
<td>Total/ average</td>
<td>100 0.9</td>
<td>87</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Saito (2015), table 3. The English table is calculated from Gregory King’s table and the Indian table from Angus Maddison’s estimates.

### Table 2. Estimates of Japan’s GDP per capita and the changing rates of growth, 1600-1940

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP per capita (1990 international dollars)</th>
<th>Period</th>
<th>Average annual rate of growth in GDP per capita (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1600</td>
<td>659</td>
<td>1600-1721</td>
<td>0.01</td>
</tr>
<tr>
<td>1721</td>
<td>669</td>
<td>1721-1846</td>
<td>0.2</td>
</tr>
<tr>
<td>1846</td>
<td>896</td>
<td>1846-1874</td>
<td>0.4</td>
</tr>
<tr>
<td>1874</td>
<td>1,011</td>
<td>1874-1909</td>
<td>1.2</td>
</tr>
<tr>
<td>1909</td>
<td>1,467</td>
<td>1909-1935</td>
<td>1.9</td>
</tr>
<tr>
<td>1935</td>
<td>2,406</td>
<td>1935-1940</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Sources: Saito and Takashima (2016), table 2, and Settsu et al. (2016), table A.9. The 1874 estimate has been slightly revised. The above reflects this most recent revision.
not bad. Japan’s 0.2 per cent growth was unmistakably higher than the corresponding average of 0.13 per cent for twelve west-European countries (see figure 1 below), although the per capita GDP level relative to the west-European average changed little – at the end of the 1700-1820 period the ratio stood at 0.55, marginally higher than 0.51, the ratio at the beginning.

Figure 1. Growth rates of GDP per capita, 1700-1820: Japan and other countries compared

Sources: Table 2 for Japan; Bolt and van Zanden (2014) for 12 West European countries; Broadberry, Custodis and Gupta (2015) for India; and Maddison Project (2013) for Britain and Ottoman Turks.

III. Modern economic growth and inequality trends

In order to place the early modern pattern of change in a longer time-frame, let us have a cursory look at what happened in the subsequent periods. From 1874 the average annual rate of economic growth increased until the 1930s, with GDP per capita reaching the level well over 2,000 dollars in 1935 (see table 2 above). Consequently, people’s standard of living more than doubled in real terms over this 61-year period (the average annual rate of growth between 1874 and 1935 was 1.4 per cent): the ordinary men and women in the inter-war years were able to say that they were better off compared with the situation in their childhood.

This is the achievement that has long been considered “spectacular” by both Japanese and overseas observers. However, a few reservations may be made. The first is that the rate of growth calculated from the latest estimates (1.4 per cent) is a little lower than the
one derived from the previous estimates (1.7 per cent), precisely because the 1874 level of GDP per capita is revised upwards. In other words, the achievement in the early modern period carried comparatively more weight. Secondly, Japan’s catch-up with the West was hardly taking place. Between 1870 and 1913, as figure 2 shows, Japan’s rate of growth was lower than the west-European average, not to mention that of USA: the gap with the West widened rather than narrowed. Only after World War I, the per capita GDP level relative to the west-European average went up from 0.43 to 0.55, bringing the country back to the 1820 position. What this implies is not that Japan’s growth was retarded, but that much of its performance was still on an early modern growth trajectory. The newly introduced “modern” sector was not quite dominant yet. It was only in the inter-war period when fully fledged industrialisation took off.

Figure 2. Growth rates of GDP per capita, 1870-1913: Japan and other countries compared

Sources: Table 2 for Japan; Broadberry, Custodis and Gupta (2015) for India’s 1870 estimate; and Maddison Project (2013) for other countries.

Finally, there is the issue of income inequality. As we have seen, late-Tokugawa growth was not accompanied by widening inequality between the social statuses. Of course, the low income-differentials calculated from between-class inequality data do not necessarily imply that the actual inequality level evaluated by taking within-class inequalities into consideration, would also be low. In the Tokugawa society, income inequality within the samurai class was high while that in the urban sector was probably moderate, but the differentials among rural households remained substantially low before the impact of the nation’s entry into world trade was felt. Given the size of the rural sector (about 75 per cent), therefore, it is likely that Japan’s “true” inequality level was
on the low side. From tables 1a and 1b above, it is evident that the Japanese peasantry earned 73 per cent of the total income, only marginally lower than its population share, whereas in England, whose economy was growing, the lower class, occupying 51 per cent, earned only 22 per cent and in India, where per capita GDP was likely to be declining, the village sector occupied 82 per cent and earned less than half of the national income. In the early modern Japanese case, modest growth was compatible with low and stable inequality levels, and the key to an understanding of this finding is probably the performance of the agrarian economy.

In contrast, modern Japan exhibited a totally different pattern. As is well known, economic growth since the industrial revolution bred income inequality. Meiji Japan was not an exception. Recent estimates of Ginis and other measures of inequality confirm that income distribution became extremely skewed by the 1930s. The Gini coefficient estimated stood at 0.43 in the 1890s, which increased to 0.57 in 1937. Another measure is the income share of the superrich (top 1 per cent tax-payers), which stood at a little lower than 14 per cent in the 1890s and increased to 19 per cent in the early 1920s; there was a slight dip after the Great Depression, but the percentage soon climbed back again and reached the all-time peak of 19.9 per cent in 1938. Over the period since the Meiji Restoration, there was the rise of the superrich who earned as much as 20 per cent of the nation’s income.\(^\text{17}\)

In short, modern Japan was characterised by better performance in growth but also by a sweeping rise in the level of inequality. The period saw many Western countries launching state-funded welfare programmes. But in Japan it’s increased government revenue went to finance other projects.\(^\text{18}\) Pre-war Japan was one of the few countries that are said to have “firmly resisted” the long rise of social spending.\(^\text{19}\)

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\(^\text{17}\) Minami (2000), p. 44 (which is a revision of Minami 1998), and Moriguchi and Saez (2008), p. 720. Minami’s estimate of the Gini for the 1891–1900 period is derived from series I’ and the 1937 estimate from series II. According to Moriguchi and Saez, inequality levels measured by the top 1 per cent share were also high in advanced countries of the inter-war period; the Japanese top 1 per cent shares are comparable to those found in France, Germany, UK and USA, as far as the period until the Great Depression is concerned. After the Depression, the levels in the four Western countries declined but not in Japan. In the Japanese case, it was the adoption of a command economy that brought the share of top 1 per cent income down.


\(^\text{19}\) Lindert (2004), p. 15.
IV. State projects and fiscal systems

All this, on the face of it, gives us contrasting pictures for the Japanese past: a gloomy one for the post-Meiji and a rosy one for the Tokugawa past.20 What is missing in this kind of interpretation is fiscal history, without which it is difficult to account for the changed relationships between growth and inequality. About a century ago Joseph Schumpeter argued that “common exigencies”, such as territorial defence, enabled princes and overlords to tax people, out of which “the state was born”; but “once the state is recognized as suitable for many things”, the state soon takes on something else “for which the finances become a serving tool”, suggesting that interactions between projects the state took on and the form and level of taxation agreed with the individuals shaped fiscal history.21 Historic states took on various activities such as town building, settlement development, infrastructure building, and war-making. Of those, war-making was the one most of the early modern European states were preoccupied with, and it was this that gave rise to fiscal states — states that institutionalised the ways in which a state project was financed. The warring state in post-1688 Britain, for example, opted for the use of indirect taxation, i.e. excise duties, with Parliament functioning as the safeguard against the state’s arbitrary attempts to increase tax revenue. This political settlement led to the emergence of what is now termed “fiscal-military state”. Later, this fiscal constitution was “reborn in a new form” when the nation set on the path to a “welfare state”. Other west-European countries adopted similar state-funded welfare programmes; and in the early twentieth-century context, it was progressive taxation that made the implementation of the welfare programmes possible.22

In the world outside the West, on the other hand, there are nations that chose “economic development” as a national goal: in countries that were late to industrialise, the state took on developmental functions. Political economists call such countries “devel-

20 Indeed, one historian wrapped up her comparative essay by saying that “if I had to choose where to live in 1850, I would rather live in England if wealthy, and in Japan if working-class” (Hanley 1983, p. 192).
Growth, Inequality and the State

While most of the cases studied are twentieth-century phenomena, the earliest of all is nineteenth-century Japan. But was Meiji Japan really a developmental state?

In fact, the Meiji state was rather unusual in that they tried to take on two agendas simultaneously — developmental functions as well as military build-up. The first programme the new government adopted was to set up state-run factories and railways, a development policy for import substitution. For East Asian diplomacy, at the same time, high-handed plans surfaced in the government, such as a “conquer Korea” proposal. However, both moves were impossibly expensive for a new-born state. A few years later, the government shelved the pro-military plans while the hands-on development programme was replaced by a hands-off policy of export promotion via monetary easing. This new economic policy seems to have worked for the time being, but ended up with inflation. After the collapse of these two development policies, there was a change of government and the new finance minister Matsukata Masayoshi introduced an austerity budget causing a serious deflation. In the 1890s when the depression was over, the economy took off.

Since then, competition between the pro-growth and the pro-military camp became vigorous once again. As noted earlier, growth was sustained but remained moderate. An important event in this period was the adoption of the gold standard in 1897. The decision was political, made against the business community’s will, since the Japanese silver yen had continuously depreciated relative to gold making the Japanese exports cheaper abroad. One reason why the government pushed for the gold standard was a prestige associated with membership of the first-class nations’ club. Another reason was the cost of buying battleships and munitions — they would be cheaper under the gold standard. It is also expected that the adoption would open access to the European capital markets. The signing the 1902 Anglo-Japanese alliance was an accomplishment made in line with this thinking, and both are said to have helped Japan winning the war against Russia. One unforeseen consequence of this decision-making, however, was that Japan’s economic growth under the gold-standard regime may well have been lower than one had expected, because it would no longer possible for the government to reflate the economy. A mechanism at work, although it was overshadowed by the Russo-Japanese war,

23 The term was coined by political scientist Chalmers Johnson. See Johnson (1982).
24 This paragraph draws on Saito (2014), section 4.
was similar to today’s Eurozone structure imposed on poorer members of the EU — the single currency took away its member states’ policy instruments of fiscal and monetary adjustments.\textsuperscript{25} For more than twenty years from 1897, none of finance ministers of the successive governments ran a heavy budget deficit while the Bank of Japan refrained from increasing money supply. Under this constraint, therefore, the government could not meet the demands from the pro-growth and pro-military camps simultaneously; thus, periods of military and civil engineering investments alternated. It was only after the nation’s permanent abandonment of the gold standard in 1931, especially after the outbreak of the second Sino-Japanese war in 1937, that government budgets skyrocketed, enabling the state to pursue both military expansion and industrial growth. A military-developmental state was born. As table 2 above shows, the average annual rate of growth reached the 5 per cent mark in the late 1930s. This boom was very much short-lived, however. From 1941 the economy plunged to negative growth.

Who lost out while the pro-military and pro-industry groups competed with each other was the poor. The speed with which the Japanese society became unequal was unprecedented, but the level of state spending on welfare provisions remained very low. In 1886, the share of social welfare spending in the government’s total expenditures was 2 per cent as against 25 per cent and 14 per cent for military spending and non-military, capital expenditures. In 1935, the corresponding percentages were 5 per cent, 30 per cent and 23 percent. This category of social welfare spending included annuities and pensions for civil servants and soldiers. If we exclude those public-sector annuities and pensions, not much was left for the poor — the share of social welfare spending in this narrow sense was 1 per cent in 1886, which went down to 0.5 per cent in 1935.\textsuperscript{26}

Given the low level of social inequality under Tokugawa rule, one might argue that good old Tokugawa legacies were deliberately set aside by the modernisation advocates. On the contrary: there were not many good institutional legacies the new Meiji state

\textsuperscript{25} This is the argument put forward by critics of the current Eurozone structure, such as Stiglitz (2016).

\textsuperscript{26} Calculated from Ohkawa and Shinohara (1979), tables A44, A45, and Emi and Shionoya (1966), table 13 (all figures are three-year averages centred on the year indicated). In this respect, it is interesting to note that the early Meiji government did introduce a set of centralised “relief regulations” (decreed in December 1874), which reorganised what had been done by village and town authorities under Tokugawa rule. Judging from the low percentage for social spending in 1886, however, the Tokugawa level of relief spending must have been equally low.
Tokugawa Japan was a strange state. For the shogunate, first, international relations did no longer occupy a central place in policy-making as they cut off trade with most of the Western countries. It is true that Tokugawa Japan kept relations with Qing China, Joseon Korea, the Ryūkyū kingdom, and the Netherlands, so that the reception of envoys carried a diplomatic and political importance. But such diplomacy did not offer the shogunate anything comparable to long-distance trade or war-making in the early modern West. There was no incentive for Tokugawa Japan to try to transform itself into a different type of state. Second, the Tokugawa state adopted Confucianism, under which “benevolent rule” became the keyword for maintaining good relations with the ruled, especially the peasantry. Benevolence could be expensive since it was the kind of virtue which should be expressed in the form of tax reduction when harvest was poor. A granary system was introduced, but demographic casualties were dealt with through kinship and adoption, rather than by setting up a formal institution. Finally, formal provisions for the poor did not exist either. Although Japanese were generally poor by Western standards, pauperism did not surface as a serious social issue. There were always poor families taking great pains to make a living, but there seems to have been a tradition of self-help (emphasised by authorities, but it is suggested that some of the destitute tried to meet that norm). Those considered “deserving” could receive assistance, which came almost always from the village community; only when the problem became too acute or grave, negotiations with the overlord started. Even when relief was granted from the domaniaal government, it was considered a temporary expedient. Neither at the shogunate nor daimyo levels was any kind of tax-funded poverty reduction system tried out. Nowhere, therefore, was any attempt to overhaul the taxation system made. Thus, the land tax remained the principal source of samurai income for more than two centuries. In the Chōshū domain of the 1840s, for example, as much as 97 per cent of their tax revenue came from agriculture, mostly in the form of land tax, despite the share of the

27 There is consensus that the so-called seclusion policy was a calculated announcement of their rejection of a China-centred order in East Asia. The international relations Tokugawa Japan had are summarised as a diagram set out in Tashiro (1982), p. 290.

28 The notion of “benevolence” or “benevolent rule” was linked to another set of notions, “honourable peasants” and “continuing as farmers”. See Scheiner (1978) and Vlastos (1986), pp. 14–18.

29 See Kinoshita (2017), especially chs. 4 and 6.
non-agricultural sectors in the region’s total output being nearly 40 per cent.\textsuperscript{30}

What the Meiji government inherited was this rudimental state of taxation and social welfare institutions. The government tried hard to expand a revenue base by introducing, for example, business and commodity taxes. The tax revenue did increase, but while the increased revenues were distributed to military build-up, infrastructural investments, and other undertakings, the tax burden remained light on the expanding “modern” corporate sector (i.e. white-collar workers and company executives) in comparison with the old middle-class (i.e. owner farmers and small businesses).\textsuperscript{31} Strangely no one seems to have openly proposed to tax the urban rich in order to finance state-funded welfare programmes. In early days of parliamentary politics under the 1889 Meiji constitution, the opposition were insistent on tax and spending cuts. When there was a surge of popular, pro-democracy movements in the 1910s, they too demanded for lower taxes, suggesting no option for raising tax rates to introduce new social programmes. Taxing the rich started only when war-time economic management started; and it was in 1938 that a new ministry responsible for health and welfare was set up. In other words, both did never materialise until the birth of the short-lived military-developmental regime.\textsuperscript{32}

V. Continuity and discontinuity

According to the conventional periodisation in Japanese history, the early modern regime ends with the Meiji Restoration of 1868. However, in all the areas under review it is not difficult to find a firm line of continuity. In the case of economic growth, despite the unmistakable impact of the opening of the Treaty ports, the underlying trend was much continuous. The early-Meiji developmental regime was so short-lived that the impact of state-led attempts to promote industrialisation was limited. As a result, Japan at the time of World War I was still on the early modern growth trajectory.

On the international front too, the policy change of the late 1850s exerted an unprec-

\begin{itemize}
  \item \textsuperscript{30} Nishikawa (1987), pp. 325, 329. Tax revenue represented 33 per cent of the domain’s gross regional product.
  \item \textsuperscript{31} See Jinno (1999), section 3.
  \item \textsuperscript{32} It is interesting to note that the military received tacit support from a moderate leftist party, Social Mass Party. According to Andrew Gordon’s interpretation, leaders of the labour movements decided to “ride the tiger of bureaucratic-military rule and imperialist expansion” (1991, p. 332).
\end{itemize}
edented pressure on the state: they had to act in order to survive a confrontational world of the nineteenth century. In the early seventeenth century, the Tokugawa shogunate brought cross-border trade and traffic under tight control in order to buttress Japan’s ideological pretensions to centrality in East Asia. It is worth emphasising, however, that even when the circumstances changed, that ideology continued to function and did, as Ronald Toby argued, “ultimately propel Japan into the twentieth century”.33 The military regime of the 1930s and 40s was backed up by this continuing impact of ideological promises.

Finally, income inequality never surfaced as a political and social issue under Tokugawa rule. Hence, no incentive to introduce schemes to tackle poverty and other social problems, nor to overhaul an age-old taxation system to finance the new programmes. Even in the post-Meiji Restoration period when the level of inequality started rising sharply, not much was done by the state either. There was no political will to define the agenda and to push for reform. In that sense, there was continuity from the Tokugawa past. The real break with the past came after 1945.

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