

Profitability in Privatization: Railroads and Capitalism in Meiji Japan

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Contrary to the common notion that the Tokugawa bakufu (the system of government controlled by the shogun from the 17th to the late-19th centuries) shunned any and all conventions of modernism and progress, a proposal to construct the first railway in Japan was actually considered by the last shogun (the hereditary military dictator of Japan), Tokugawa Yoshinobu, in the bakufu's efforts to move the nation towards improvement in the last years of the Tokugawa period. The plan to start building a railway line came about after the bakufu had witnessed several model locomotives presented by foreign diplomats, the first having been Russian engineer Alexander Mozhaysky in the mid-nineteenth century; in fact, Commodore Perry brought and demonstrated a miniature locomotive train to the shogun during his visit to Japan in 1853.¹ Although the bakufu had already been aware of the use of rail transport in the West through information obtained by the Dutch traders located in Nagasaki, these model trains further convinced the shogun to reevaluate his stance on transportation development.² In 1866, a railway line connecting Edo (present-day Tokyo) to Kyoto was proposed by the bakufu and reviewed by the shogun, but it was not until after the Meiji Restoration two years later that the government began putting plans into place to begin the construction of railway lines. Although the Meiji leaders pushed for the formation of a railway system because it provided easier facilitation of transportation and increased communication across the nation – top priorities in making a more modern Japan – its establishment also greatly contributed to the development of Japan's capitalist economy as exhibited by the privatization of railways.

¹ Yasuzō Horie, "Modern Entrepreneurship in Meiji Japan," *State and Economic Enterprise in Japan* (1965): 184.

² John Andrew Black, *A Short History of Transport in Japan from Ancient Times to the Present* (Cambridge: Open Book Publishers, 2022), 158.

However, as much as the Meiji leaders wanted to quickly industrialize Japan and catch up to the more advanced West, they did not have the financial capital required to invest in such a challenging, large-scale project – let alone the intellectual knowledge and manufacturing capability. Instead, the government reluctantly turned to enlisting the assistance of foreigners in order to jump start production. Using money acquired by floating bonds on the London economic market as initial funds for construction, the government then set about hiring foreign technicians and mechanical experts, as well as importing locomotives and rails, as the Japanese were simply unfamiliar and unknowledgeable about how locomotives functioned.³ As a matter of fact, general interest in the government's railway project was rather lacking, since very few people had witnessed trains in operation abroad.⁴ Even when railway lines were opened to the public and started transporting travelers, many peasants – riding in the third class train cars – confused glass windows with open holes in the train compartment, as an amused American journalist recounted:

Some of the institutions on Japanese trains are peculiar to that country. One of these is a smear of paint across the windows of third-class carriages. This is made necessary because thousands of native travelers in Japan, accustomed only to paper walls for letting in light, have no knowledge of glass. Its utter transparency leads them to believe that the window is simply a hole in the side of the car.⁵

As such, foreigners were only hired under the pretense that they would help train the Japanese until they became self-sufficient in railway construction expertise, at which point foreign workers and experts were expected to leave the country.⁶ It was under these circumstances that

³ *Kodansha Encyclopedia of Japan*, Volume 6 (New York: Kodansha, 1983), 278.

⁴ Johannes Hirschmeier, *The Origins of Entrepreneurship in Meiji Japan* (London: Oxford University Press, 1964), 137.

⁵ Harold Bolce, "Railroads in Japan: Window Glass a Novelty – Little Regard for Cleanliness," *The Sun* (1904).

⁶ Nobutaka Ike, "The Pattern of Railway Development in Japan," *The Far Eastern Quarterly* 14, no. 2, 222.

Japan's first railway line was built connecting Shimbashi and Yokohama, which was officially opened in 1872 (Fig. 1).



Figure 1. Map depicting the proposed government-funded railway line from Shimbashi to Yokohama; presented to the Grand Council of State in 1872. (Source: "Picture Map of the Shimbashi Yokohama Railroad," National Archive of Japan Digital Archive, <https://www.digital.archives.go.jp/gallery/en/0000000745>.)

With the relative success of this first railway line, several more lines were constructed in the subsequent years before the government once again ran into funding issues. Due to the fact that establishing a national railway network required extensive construction of rail lines and locomotives, only made worse by Japan's mountainous terrain and the need for tunnels and bridges, the capital necessary to carry out such a task far exceeded what was available. Not willing to abandon the industry, the Meiji leaders sought to stimulate domestic production of railway lines by encouraging the formation of private companies and investors. As John P. Tang explains, "given the costs of modernization, deteriorating balance of payments, pacifying rebellious samurai [Satsuma Rebellion], and controlling inflation, the central government allowed the private sector to enter the industry and lay its own tracks in local areas and the parts of the country not served by the public network."⁷ For those reasons, the exclusively

⁷ John P. Tang, "Railroad Expansion and Industrialization: Evidence from Meiji Japan," *The Journal of Economic History* 74, no. 3 (2014): 867.

government-run operation of railway construction was opened up to private companies to continue laying down track in the hopes of achieving the goal of creating a national railway system. As previously stated, the private railway companies that were subsequently born out of this government need played a role in the development of capitalism within Japan.

Before the fall of the Tokugawa bakufu in 1868, a strict social hierarchy had been established and ardently enforced for over 250 years. Japanese people were assigned into one of four classes – samurai at the top, farmers, artisans, and merchants at the bottom – and were subjected to numerous regulations and requirements in order to preserve the political stability of the nation. Following the change in authority, this social class system was abolished and all people were declared equal as the Meiji government pushed for the industrialization and modernization of Japan, since such a feudal concept was deemed “backward” and a hinderance to progression. As a result, former samurai who had been previously confined within their rather pointless roles under the Tokugawa bakufu were now free to integrate into the rest of society and pursue personal endeavors. For many, this freedom allowed them to enter into entrepreneurial roles and take advantage of the removal of the various restrictions that had impeded the full development of a capitalist economy within Japan. As Irving I. Kramer points out, “this liberalization of social, political, and economic life allowed and, in some cases, forced the more enterprising members of the privileged class to enter the business world as capitalistic financiers to whom the government offered direct and indirect aid in various forms.”⁸ While these new entrepreneurs branched out into various industries as the Meiji government continued to industrialize the nation, much of their success was found within the railway industry. One such

⁸ Irving I. Kramer, “Land Reform and Industrial Development in Meiji Japan,” *Land Economics* 29, no. 4 (1953): 320.

ex-samurai-turned-entrepreneur was Iwakura Tomomi. Known for leading a diplomatic trip abroad to various Western nations in order to observe and learn about Western industry, education, and government (effectively known as the Iwakura Mission), Iwakura Tomomi, who was adopted into the prestigious Iwakura family, was also a partial founder of the Nippon Railway Company or Japan Railway Company.⁹ Motivated by the success of the first government sanctioned railway lines and “with a good deal of persuasion, especially from Iwakura Tomomi, a group of nobles joined together in the establishment of the private railway company [in 1881], in order to construct a line between Tokyo and Aomori,” which effectively made them the first private owners and investors of a railway company and line.¹⁰ Founded in order to create a stable source of income, Iwakura Tomomi and the founders of the Nippon Railway Company were arguably some of the first capitalists to emerge during the Meiji period.¹¹ Coming from wealthy backgrounds, they collectively invested large amounts of capital in the railway industry on the basis of earning profit through the establishment of a private business. This “capitalist spirit” exhibited by the former samurai class thus pushed for the creation of capitalistic enterprises within the railway industry that would aid in the development of capitalism.¹²

In addition to illustrating the emergence of an entrepreneurial class within Japan, the function of these private companies as “capitalistic enterprises” also contributed to the development of economic attributes commonly seen in modern capitalist economies. One such characteristic was the emergence of a premature competitive stock market. As the Nippon

⁹ *Kodansha Encyclopedia of Japan*, Volume 3, 360.

¹⁰ Johannes Hirschmeier, *The Origins of Entrepreneurship in Meiji Japan*, 137.

¹¹ *Kodansha Encyclopedia of Japan*, Volume 5, 384.

¹² Yasuzō Horie, “An Outline of the Rise of Modern Capitalism in Japan,” *Kyoto University Economic Review* 11, no. 1 (1936): 111-112.

Railway Company prevailed in a virtually competitive-free industry, public interest in such capitalistic enterprises began to increase. In fact, the overall success of the Nippon Railway Company was largely due to the benefits provided by the government, as Iwakura Tomomi and the founders of the company received generous terms of assistance such as an interest subsidy, a profit guarantee of eight percent dividends for ten years (which started as soon as the line was open to the public), and tax exemption of all land required to build the Tokyo-Aomori line.¹³

Over the next couple of years, more private railway companies began popping up around Japan in order to take advantage of the sizable profits that could be made, as “railways were viewed as a profitable venture in no small part because of the rate of return guarantees offered by the government.”¹⁴ Between 1886 and 1890, a total of fifteen railway companies were established with headquarters in eleven prefectures: two in both Tokyo and Mie, three in Fukouka, and one each in eight other prefectures, with larger companies operating railway lines that stretched across multiple prefectures.¹⁵ This substantial expansion of the private sector of the railway industry, generating a “railway mania,” undoubtedly led to competition among private companies. Since the majority of private railway companies attracted funding through the issuing of shares to interested investors, smaller companies had to compete against larger, more successful companies in order to gain capital investment. With the buying and selling of equity within a domestic, albeit controlled, market it can most definitely be inferred that the creation of private companies led to the formation of a competitive stock market in its infancy within the

¹³ *Kodansha Encyclopedia of Japan*, Volume 5, 384; Johannes Hirschmeier, *The Origins of Entrepreneurship in Meiji Japan*, 137.

¹⁴ John P. Tang, “Railroad Expansion and Industrialization: Evidence from Meiji Japan,” 866.

¹⁵ Naofumi Nakamura, “Meiji-Era Industrialization and Provincial Vitality: The Significance of the First Enterprise Boom of the 1880s,” *Social Science Japan Journal* 3, no. 2 (2000): 97.

railway industry, thus exemplifying the movement of the Japanese economy towards that of capitalism during the Meiji period.

Moreover, perhaps a more traditional aspect of capitalism that developed as a result of the creation of private railway companies was the process of vertical integration. Defined as expanding ownership over two or more key stages of production, this strategy allows businesses to grow into powerful corporations by controlling at least one facet of production within an industry and is an essential feature of capitalism. In terms of the blossoming railway industry of Meiji Japan, the role of the government was of particular importance in facilitating this process. As mentioned previously, the new Meiji leaders, fearing foreign influence and infringement on the burgeoning nation, were adamant on keeping foreigners at an arm's length. Although the government recognized that the acceptance of foreign assistance was necessary in order to kick start the nation's industrialization, it also exerted a large amount of effort in ensuring that the nation could continue its industrialization independently. Regarding the railway industry, this was done by fostering a domestic market for the production of locomotive machinery through the training of Japanese engineers and locomotive technicians. To put simply:

In the early twentieth century, the government took key steps that changed the situation on both the supply and demand side of this economic equation...It used this control of the railroads to direct orders for locomotives and rails to Japanese producers. It simultaneously placed tariffs on competing imports. All these steps combined to nurture private-sector-heavy industries that otherwise would not have come into existence at this time or on such a scale.¹⁶

By filtering out foreign-made machinery and products, as well as labor and expertise, and enabling opportunities for Japanese people and companies to step up and assume roles in

¹⁶ Andrew Gordon, *A Modern History of Japan: From Tokugawa Times to the Present* (New York: Oxford University Press, 2020), 101.

locomotive production, the Meiji government simultaneously thwarted foreign control and provided the economic foundations necessary for the emergence of privately owned railway companies. In turn, this allowed private companies to take advantage of the growing domestic market and expand their influence into the supply sector of the industry. This endeavor of gaining control over the chain of supply and demand was illustrated by the San'yō Railway Company and Nippon Railway Company, two of the largest private railway companies during the Meiji period. In the late 1890s and 1900s, the workshops of these two companies followed the government's lead in manufacturing standard locomotives, along with at least three independent producers – the Train Manufacturing Company (Kisha seizō kaisha) and the Kawasaki and Ishikawajima shipbuilding firms.¹⁷ As such, these private companies, already some of the largest, most successful businesses in the nation, further inflated their capital gain by extending their control to encompass that of locomotive production as well. By modern standards this process would be considered vertical integration, as the San'yō and Nippon Railway Companies broadened their operations and entered into the supply chain of the industry that they belonged to. Even though the domestic output of locomotive products accounted for less than seven percent of the nearly 2,400 engines running through Japan by 1912, Japanese-based manufacturers still increased their average combined output to about twenty locomotives annually, illustrating the fact that (though secondary in nature) the capitalistic process of vertical integration had begun taking root in the private sector of the railway industry and therefore served as an early basis for the further development of capitalism in Japan.¹⁸

¹⁷ Steven J Ericson, "Importing Locomotives in Meiji Japan: International Business and Technology Transfer in the Railroad Industry," *Osiris* 13 (1998): 130-132.

¹⁸ Ericson, "Importing Locomotives in Meiji Japan: International Business and Technology Transfer in the Railroad Industry," 132.

Furthermore, the privatization of the railway industry was a key facilitator in the economic agglomeration within urban centers of Japan as a mode of transportation. Starting with the rather obvious fact that the construction of a national railway system helped promote interregional travel between both urbanized cities and rural areas by shortening the overall time of travel, the increased connectivity within Japan helped small, more local producers evolve into industrial enterprises. For instance, the growth of the cotton and silk industries during the Meiji period were largely able to flourish into such expansive clusters of industrial production due to the railway lines aiding in the importing and exporting of goods. One of many examples was the Fukui prefecture located near the coast of the Sea of Japan. Specializing in the production of silk, Fukui rose to prominence in the early 1900s when the prefecture imported advanced silk weaving technology from Kiryu in Gunma and began expanding as new firms relocated from their places of origin to join the prospering industry.¹⁹ Of course, this economic success would not have been possible had it not been for the construction of railways, particularly privately owned lines. Since the government, after relying on foreign capital to fund the first railway lines in Japan, struggled to continue extending its network to reach urban centers farther from Tokyo, it turned to private railway companies to build upon its efforts. As mentioned in “The Pattern of Railway Development in Japan”:

Specialized studies of Japanese economic development have shown that by the middle of the nineteenth century regional specialization in the production of commodities had occurred, that numerous small scale manufacturers produced textiles and other goods under the putting out system, that the economy was complex enough to warrant the creation of commodity exchanges.²⁰

¹⁹ Hideki Yamawaki, “The Evolution and Structure of Industrial Clusters in Japan,” *Small Business Economics* 18, no. 1/3 (2002): 122.

²⁰ Ike, “The Pattern of Railway Development in Japan,” 218.

As such, private railway companies were necessary in the construction of railway lines that would help facilitate the movement of goods produced by the growing urban economic centers like Fukui prefecture. By utilizing the use of railway lines to transport their silk products beyond the immediate reaches of the prefecture allowed Fukui to gain capital and prestige as an industrial center. Moreover, the use of these private rail lines by firms and businesses to transfer their base of production to larger economic hubs gave these centers the opportunity to conglomerate and evolve into substantial geographic concentrations of interconnected companies within a particular industrial sector.²¹

Unfortunately, as with any economic development the emergence of capitalism within Meiji Japan did not come without consequences. Although the construction of railway lines and the establishment of a national railway system had many positive impacts, such as making transportation between prefectures or urban cities and rural areas easier, or aiding in the formation of domestic industrial productions, the privatization of railway lines did not always lead to such favorable outcomes. As mentioned in “The Pattern of Railway Development in Japan,” by relying on domestic financing and investment, primarily through the former samurai and nobility, privately owned companies “had full control over the location of the various lines and their operations.”²² As a result, railway lines were not typically built or extended into the more rural, peripheral regions of Japan. Having no real economic significance, owners and investors of private companies did not see the value in constructing rail lines to areas that would not be producers of goods or services that could be utilized for capital gain. This phenomenon is described by John P. Tang: “While railroads may increase national economic activity,

²¹ Nakamura, “Meiji-Era Industrialization and Provincial Vitality: The Significance of the First Enterprise Boom of the 1880s,” 202.

²² Ike, “The Pattern of Railway Development in Japan,” 229.

redistribution of the latter between regions may also occur. That is, besides increased specialization by locality, economic geography suggests that agglomeration forces can draw business activity away from [the periphery] toward already established manufacturing centers.”²³ Although a Japanese correspondent provided an insider look into Meiji Japan during its industrialization in 1891 and declared that “the post and telegraph offices are found even in the smallest towns, and the railroad are being extended in all directions over the entire country,” this was simply an exaggeration in order to appear more modern and powerful to American readers, as this response was published in a Pennsylvania newspaper.²⁴ Data taken between 1900 and 1910 illuminates the reality of this economic disparity, as the concentration of paid-up capital in Japan was in the top three urban centers of Tokyo, Osaka, and Hyogo, which rose by 10.2% and the aggregation of companies by 4.3%; Tokyo in particular attracted large amounts of investment funds, increasing the nation’s paid-up capital from 30.7% at the end of 1900 to 40.9% at the end of 1910.²⁵ Thus, while the creation of privately owned railway lines spurred the formation of industrial conglomerates and economic hubs of activity, many provincial companies disappeared through corporate mergers, triggering a flood of human and financial resources from the periphery to more urbanized centers.

Ultimately, the privatization of the railway system during the Meiji period of Japan introduced numerous capitalistic procedures and practices that contributed to the development of capitalism within the nation. After the shift in authority from the Tokugawa bakufu to the Meiji government, the political leaders, ardently focused on the industrialization and modernization of

²³ Tang, “Railroad Expansion and Industrialization: Evidence from Meiji Japan,” 864.

²⁴ Sokuma Yamada, “The Japan of To-Day,” *The Lafayette* (Pennsylvania: Lafayette College, 1891), 217.

²⁵ Nakamura, “Meiji-Era Industrialization and Provincial Vitality: The Significance of the First Enterprise Boom of the 1880s,” 202.

Japan in order to avoid foreign encroachment and compete with the “civilized” nations of the West, abolished the many restrictions that had existed for over 250 years. Free of social and economic constraints, the former samurai (along with nobles) reentered society as part of a new class of entrepreneurs and capital investors and went on to establish private businesses in an array of industrial sectors, including the burgeoning railway industry. The founders of such private railway companies, such as the famous and largely successful Nippon Railway Company, exhibited a kind of “capitalist spirit” that brought about the creation of capital-g geared enterprises that would go on to encourage the development of capitalist activity. Such activities included vertical integration which was made possible by the government’s efforts to foster and support a self-sufficient industrial Japan. By opening the door to the rise in domestic production, privately owned railways were able to gain control over the supply chain within the railway industry. Additionally, the construction of private lines facilitated the growth of industrial clusters in urbanized areas of Japan by transporting products for export and importing firms and businesses, further leading to urban economic conglomeration. However, this exact process is also what led to an unequal economic distribution, as private companies ignored constructing rail lines in peripheral areas of Japan in favor of urban hubs and their abundant capital. Nevertheless, it is clear that the privatization of the railway industry significantly contributed to several economic aspects that would eventually be considered as part of the foundation of a capitalist economy within contemporary Japan.

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