

Japan Academy Prize to:

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*for Japanese Zaibatsu Holding Company in the Historical
 Perspective: The Head Office Functions and Internal
 Capital Market*

***Outline of the work:***

Japanese Zaibatsu Holding Company in the Historical Perspective: The Head Office Functions and Internal Capital Market [University of Tokyo Press, Tokyo, 2020] is a work by Dr. Haruhito Takeda, who investigated the system and function of the three big Zaibatsu: Mitsui, Mitsubishi, and Sumitomo. This work analyzed the historical materials kept by these offices and corrected the mistakes of previous studies related to these Zaibatsu. According to Dr. Takeda, each Zaibatsu was composed of a Zaibatsu family, a head office, and subsidiary companies, with a strained relationship between the power of centralization by head office and decentralization by subsidiary companies. Dr. Takeda analyzed precisely the change in Zaibatsu's internal capital market by which the head office distributed the money for investment among subsidiary companies.

Although many studies have been published about the development of family businesses from small family investments, little is known about the history of the function of head offices that provide and distribute investment funds due to the lack of public disclosure of historical material kept by these offices.

However, after the Mitsui Archives had begun opening its historical materials to the public keeping up with publishing the Histories of Mitsui Zaibatsu, the Mitsubishi Archives established in 1996 followed suit. Moreover, the Sumitomo Archives began opening its historical materials since archivist Kazuo Yamamoto published *The History of the Head Office Sumitomo* in 2010. Having studied Furukawa Zaibatsu and Suzuki Zaibatsu by consulting the Mitsui Archives since a graduate student, Dr. Takeda held an additional post of the researcher of the Mitsubishi Archives and published a joint work, *The Formation of Mitsubishi Zaibatsu*, in 2020. Now, Dr. Takeda is leading the new research of Mitsui Zaibatsu as the chief historiographer of the Mitsui Archives.

Moreover, tracing the development of the three big Zaibatsu in Japanese economy, Dr. Takeda discovered that the comparatively positive investments of these Zaibatsu are in the heavy industry, such as the shipbuilding industry of Mitsubishi, the metal industry of Sumitomo, and machine industry of Mitsui. Meanwhile, their investment in the light industry, such as textile industry, were conservative.

During the first world war and the first half of the 1930s, other heavy and chemical companies allegedly threatened the three big Zaibatsu's dominance. However, according to Dr. Takeda, the ruling position of the three big Zaibatsu had already been established and were not threatened.

Aside from the large investment in the mining industry, such a ruling position demanded a large investment. Kazuo Shibagaki's *Analysis of the Japanese Financial Capital* (1965) advocated the self-financing character of Zaibatsu, according to Dr. Takeda.

Then how did the professional managers of the head office decide their business strategy and raise funds?

Dr. Takeda argued that important decisions were made by head office managers, although the discretion left to the spot grew as Zaibatsu expanded. For example, to change the main policy of Nagasaki shipbuilding of Mitsubishi from repair of ship to shipbuilding, Heigoro Shoda, a chief manager of the head office, was sent to the spot to show a new direction, but the final decision was made by the President Hisaya Iwasaki. However, according to Dr. Takeda, whether or not centralization was chosen depended on the issue and the economic environment. When the Zaibatsu family had to pay a large inheritance tax, the head office members could not ignore the interest of Zaibatsu family. According to Dr. Takeda, this fact proved that the centralization of authority was not lost.

The corporate strategy of Zaibatsu, which was decided by the head office, was implemented by changing personal matters and raising money. The head office chose the best financial plan proposed by the subsidiaries, allowing them to focus on business using low-interest money from the internal capital market. Instead of the traditional image of Zaibatsu, which is the closing business of concern, Dr. Takeda presented a dynamic image of Zaibatsu composed of Zaibatsu family who did not demand a high dividend, a small active and strategic head office, and subsidiary companies given the freedom of new investment or promotion.

Dr. Takeda required an amendment of popular view that the feature of Zaibatsu was self-finance. In the case of Mitsui Zaibatsu in the latter half of Meiji era, Mitsui bank received large private deposits and borrowed heavily from the Bank of Japan. Considering the Yokohama Specie Bank's exchange money to Mitsui Bussan, much social money was mobilized to Mitsui Zaibatsu. Mitsubishi Zaibatsu's head office borrowed money from the Iwasaki family equal to their own capital. The opinion of self-finance about Mitsubishi Zaibatsu could not be supported if Iwasaki family borrowed heavily. According to Iwasaki family history, they never borrowed money from outside, and Mitsubishi's peak borrowing year was 1907. Consequently, after 1907, the Mitsubishi Zaibatsu head office began borrowing money from outside the Iwasaki family. During the boom around the first world war, each of the three big Zaibatsu, for example, Sumitomo Zaibatsu, whose money-raising had been almost unclear, changed to a concern system headed by a holding company and introduced much outside money, offering shares of the subsidiary company for the public subscription or borrowing money from bank.

During the 1920s depression, however, the three major Zaibatsu had surplus funds because new investment fell and the financial sector became the main source of accumulation. Dr. Takeda argued that the three big Zaibatsu's self-financing was due to the special economic condition of the 1920s.

In the 1930s, Zaibatsu increased bank borrowing to match the militaristic "machine industrialization." The internal capital market's role in funding subsidiary companies diminished. According to Dr. Takeda, after the second world war, the Zaibatsu family could not intervene as owner, and the Zaibatsu head office could not be changed to an open holding company due to the dissolution of Zaibatsu.

As aforementioned, Dr. Takeda analyzed the history of the three major Zaibatsu from the new viewpoint of three class structure and internal capital market, presenting a new image of the Zaibatsu comparable with other big business systems, including other types of Zaibatsu. However, the relationship between internal and external capital markets was not clearly analyzed due to a lack of data on the role of Zaibatsu Bank as an institutional bank that brought outside money into Zaibatsu. Considering Dr. Takeda's work is the most brilliant analysis of the three major Zaibatsu, we would like to hear from him about how their activities promoted the expansion of Japanese empire to Asian continent. Despite such problems to be studied further, Dr. Takeda's work is undoubtedly an epoch-making academic contribution that elevated study of modern Japan's economic and business history and is worthy of the Japan Academy Prize.