

IMPLEMENTATION OF THE INDUSTRIAL COOPERATIVE SYSTEM IN THE MEIJI ERA

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I. PROBLEMS IN TRANSPLANTING COOPERATIVES

PEOPLE often say that along with imports of capital and technology there is a need to introduce the institutions of the advanced countries to the developing countries. Technology and methods leading to higher productivity in one country are not necessarily as productive in another, just as, according to the theory of comparative advantage, land of the same physical characteristics and soil composition does not necessarily have the same level of productivity with the same crops in different countries. Even when specific productive elements, alone or in combination, are identical between countries, other productive elements in themselves and their mix are different. Thus, it is impossible for two systems to have identical productivity, either in absolute or relative terms. It follows that there is no ready-made, "superior" technology which can be transplanted from one country to another without being modified in the process.

The same applies to institutions. No institution or system is thoroughly capable of transporting "superior" technology to the developing countries, and having it work in the same way as it does in the advanced countries. There is no definite correspondence between institutions and technology; institutions, which are cost-determining factors too, are not equally rational and productive in supporting specific technology and productive methods in different countries. Just as technology and productive methods are bound to be modified in the transplantation process, so too will institutions be modified. This article deals with the transplantation and modification of the foreign cooperative system to Japan.

Introduction and establishment of a cooperative system is an important part of the development strategy and will be taken up in most discussions of this theme. Many developing countries emphasize this issue as part of development policy and exert great efforts to successfully carry it out. Nevertheless, many fail to achieve the anticipated results. In one country cooperatives were organized but no one would place trust in them, no one deposited any money, so they failed to function. In another country cooperatives are looked upon as loan agencies for distributing government funds. In extreme cases they are considered to be organizations for giving government subsidies. This can easily cause procrastination in loan repayments and financial trouble for the cooperatives. A Japanese technician sent to one developing country on an agricultural assistance program reported that embezzlement by cooperative managers and

staff members caused the bankruptcy of the cooperatives, leaving the peasants bitterly disillusioned with the system. It was these events which probably prompted one government official to say that the technician should never again mention cooperatives while he was in that country.¹

In Japan, however, agricultural cooperative organizations were established in an unprecedentedly systematic manner and are now very active in almost all farm endeavors. As of 1977 there were 4,763 multi-purpose agricultural cooperatives in Japan, exceeding the number of cities, towns, and villages in the country amounting to 3,256. These organizations embrace nearly every farmer in Japan, and there is hardly a city, town, or village without a cooperative unit. These units are grouped into prefectural federations, and the prefectural groups make up the national federation. In 1975, together they handle 44.3 per cent of farmers savings accounts, 57.1 per cent of all farm loans, 16.4 per cent of purchasing, and 57.6 per cent of marketing.² One can justifiably claim that the cooperative is an indispensable part of the Japanese farmer's economic activities.

The legal basis for the cooperatives is the Agricultural Cooperative Association Act of 1947. This act is a direct descendant of the pre-1945 Industrial Cooperative Act. For about three years around the end of the war the Agricultural Organization Act (enacted in 1943) was in effect, but it had hardly any dent on today's agricultural laws due to its special nature of solely serving war requirements. There are a variety of conspicuous differences between the Industrial Cooperative Act (enacted in 1900) and the Agricultural Cooperative Association Act, but they also have common features in the sense that they are based on the so-called cooperative principle. And it is safe to claim that the basis of today's agricultural cooperatives inherited basic features from the industrial cooperatives during the days of the prewar Industrial Cooperative Act.

The Industrial Cooperative Act was promulgated in 1900 when, after the Sino-Japanese War, various institutions for economic development were established one after another in the agricultural and nonagricultural sectors. The Industrial Cooperative Act naturally was part and parcel of economic policy then.

But this act was not born in a day. A decade before in 1891 the Credit Cooperative Bill was proposed to the Second Imperial Diet. But because the Lower House was dissolved and no deliberations carried out, the bill was not

¹ "Nurturing agricultural cooperatives to rationalize distribution and protect farming interests through cooperative treatment, processing and marketing agricultural products and purchasing materials for agriculture at advantageous prices, is an important task. In the past, agricultural cooperatives were formed throughout the country with government assistance, but they failed due to corruption in leadership and poor management ability, spawning a strong sense of distrust of agricultural cooperatives by the farmer. Explaining the situation in this manner, the bureau chief told me using the words 'agricultural cooperative' in front of farmers was taboo" [3, pp. 209-10].

² Estimated by Hiroyoshi Toda, chief of Research Division, Minister's Secretariat, Ministry of Agriculture and Forestry, on the basis of: Ministry of Agriculture and Forestry, *Nōgyō oyobi nōka no shakai kanjō* [Social accounts on agriculture and farm households] (1975), and *Zenkoku-nōgyō-kyōdō-kumiai-rengōkai, Nōgyō kyōdō kumiai tōkeihyō* [Agricultural cooperatives statistics] (1975).

enacted. Six years later in 1897 the bill was again presented to the Tenth Imperial Diet as the First Industrial Cooperative Bill. Some deliberations were made, but when the Diet session ended prematurely the bill was again shelved. Two years later in February 1900, the Second Industrial Cooperative Bill was presented to the Fourteenth Imperial Diet with several amendments to the first version. This time it passed both Houses and was promulgated on March 6, 1900, and took effect on September 1 of the same year. Thus was born the Industrial Cooperative Act of 1900.

Before it was repealed in 1943 under war-time economic control, the law underwent a variety of changes. But there is no need to deal with each of these changes here. Instead the issue of how the industrial cooperatives as a new institution was born in Japan with some emphasis on the promulgation of the Industrial Cooperative Act will be treated. The following is a general outline of the discussion.

(1) What situations promoted the emergence of this new institution and the promulgation of a new act? Emergence of any new institution or act must have a set of substantial reasons sufficient to bring it to fruition.

(2) Was there "a model of an advanced country" in introducing the institution and the act? If so, what was it? Certainly the existence of such a model in the minds of the promoters would have been very convenient at least for technical reasons.

(3) We also want to know whether the advanced country model was transplanted or imported with no change. If changes were effected in the process of transplantation, what were the reasons, and what adjustments took place to cater to the Japanese situation?

(4) Whether or not there was a foreign model, introduction of a new institution would in general be resisted by those involved because there can be no "completely neutral" or "equitable" policy that does not have any effect on vested interests. As long as a policy attempts to break the balance of vested interests toward a new direction, some kind and degree of "inequitable" results are unavoidable for those involved. Indeed, such results are the objectives of any new policy or institution. The question we must ask ourselves then is: What process was used to achieve these objectives when faced by various objections? What compromises were struck with the vested interests, and what portion of the vested interests bore the burden?

II. MOTIVES FOR LEGISLATIVE ACTION

—Lessons from Western Societies—

What motivated the series of legislative actions leading to the Industrial Cooperative Act, and what was the background at the time which called for such a social campaign?

In the initial attempt to answer these questions, we should look at some of the statements of purpose for the proposed bills. The document officially presenting the Credit Cooperative Bill in 1891 says in part:

We are about to leave a feudalistic economic system behind us and move toward a nationally unified economy and then enter world competition. It is of great legislative and administrative urgency to inaugurate new institutions and organizations appropriate to free trade and a unified economy so that we may maintain our national independence and promote the welfare of the people. . . . Nowadays there are many banks, including the Bank of Japan, public and private, and we have just about finished building the institutions that will deal with stocks and exchanges. However, they serve only the urban middle and upper classes, providing little service to the ordinary citizen in rural areas. . . . When people below middle class are in need of business funds, many have to mortgage whatever land they possess to borrow money from usurers. According to a survey made in 1884 the total debt on mortgaged land was 233 million yen. . . . with, on a rough estimate of average 12 per cent interest, accrued interest payments of 27,970,000 yen. . . . Debtors must pay most of their income for interest, forcing constant economic deprivation, and giving all benefits of production in the locality to urban capitalists. This is naturally responsible for much of the sorrow of the rural people. . . . People below middle class, the majority of the populace, lose their land and property thus gradually consuming the energy of the nation. [4, pp. 173-74]

The document says further,

In order to aid people below middle class, before the illness has become too serious, and nurture this fundamental element of the nation, we must open up financing avenues to serve them. There is no better method of doing this than enacting a law paving the way for credit cooperatives. [4, p. 175]

When the First Industrial Cooperative Bill was proposed to the Diet in 1897, similar justifications were given in the Upper House [4, p. 288].

When the Second Industrial Cooperative Bill was proposed in 1900, it was said that

people below middle class in this country find it difficult to procure sufficient funds, and are unable to expand business even though they have the enthusiasm. . . . Surveys from Europe reveal that Germany's agricultural and industrial development and Great Britain's prosperity are due to the enactment of laws similar to the present bill. [4, p. 301]

This means that almost a decade passed between the time the Credit Cooperative Bill was first presented and the submission of the Second Industrial Cooperative Bill, and yet the objectives remained essentially the same: To provide people below middle income level with financing facilities so that their economic strength would be enhanced. This was asserted as a way of breaking away from feudalism and ensuring stable development of a capitalist economy which could enter the world market.

There seems to be two underlying conditions for this legislation. The first was the deflationary policy adopted following the Seinan civil war (1877), which led to further worsening of rural depression, in turn causing a heightened sense of class struggle. There were growing debts by farmers working mortgaged land, as cited in the statement of objectives for the bills, and this was evident in greater social unease and turmoil. Due to the nature of events creating this social

situation—anything with the potential of provoking social unrest was officially played down—there is only inadequate evidence on them. But fragmentary evidence on farmer uprisings demanding tax and rent reduction strongly suggests that the situation was an explosive one.

As a case in point, *Kōgyō-iken* [My views on industrialization], edited by Masana Maeda (1884), had the following to say:

In reflecting upon the state of our economy we find a population neither sufficiently housed, clothed, nor fed. Many live in conditions totally unsuited for human beings. There are debts and no deposits. There are neither reserves for emergency nor stocks for poor harvest. Some may wish to tax the people more but that does not seem possible. Armament, education, sanitation, flood prevention, and other civil engineering projects—all are insufficient. We call ourselves a nation but hardly deserve the title. [4, p. 48]

But government officials saw prevailing conditions as much more than the short-term results of deflationary policy and recession. They were part of a more serious, longer-lasting phenomenon. The transition from feudalism to capitalism was under way, which provided not only the freedom to prosper but also the freedom to become poor. Government leadership saw this as a necessary evil of capitalistic development, but also felt that left unattended it would shake the foundations of social stability. Yajirō Shinagawa, who along with Tōsuke Hirata drafted the Credit Cooperative Bill, and who as minister of home affairs was responsible for presenting the bill to the Diet, wrote in his *Shinyō kumiai teiyō* [Essentials of credit cooperatives] (1896),

The economy during the feudal period was...bound by the same pattern for several hundred years leaving little freedom for business. But it did provide a reasonably stable life for the people, if they were not threatened by natural calamities and unexpected events like wars. However, once feudalism was abolished and the country politically unified, more than three hundred economic entities corresponding to the feudal political division were assimilated into a national economy which provided business freedom, freedom of movement, and freedom to buy and sell land...This naturally meant competition in business. Those with sufficient funds and talent easily increased their wealth, while those with few funds and little knowledge of the world and its trends were impoverished...This produced a conspicuously increasing gap between rich and poor. [5, pp. 190–91]

“The very function of credit cooperatives,” says Tōsuke Hirata in *Shinyō kumiai ron* [Treatise on credit cooperatives] (1891), “is to resolve this malaise of income discrepancy,” and:

Social conflict and struggle...brings more and more suffering as the poor increase in number. If people possess some property, they will not revolt...It is the great fortune of our country that the number of the poor is as yet not so great. If we establish credit cooperatives now and provide them with financial and credit facilities, the citizenry will no doubt develop their ability of self-help and along with the big businessmen advance toward a free economy together contributing to higher total productivity in the economy. [2, p. 23]

A second factor in these legislative activities seems to have been that Shinagawa had gone to Europe in 1870 and Hirata in 1871 both deploring the disadvantages of class division but impressed by the role of the credit cooperative in alleviating that division in Germany. Hirata and Sugiyama in *Shinyō kumiai ron* [Treatise on credit cooperatives] give a brief description of credit cooperatives in eleven Western countries, including Great Britain, France, Germany, Russia, and the United States, emphasizing the German case with a detailed discussion of the Schulze and Raiffeisen types. Also Shinagawa and Hirata, in *Shinyō kumiai teiyō* [Essentials of credit cooperatives], discuss the origins of European credit cooperatives, and emphasize the danger of not attending to class division:

As big business expands, those below middle class have their spheres narrowed, widening the discrepancy between rich and poor and consolidating land more and more. This will ultimately lead to a situation in which the impoverished have to look to the state for aid or to others for charity, totally destroying the spirit of autonomy and self-help. Some may even propose equal property ownership, or be intrigued by the socialist or communist parties. . . . Social order will be jeopardized, the system of local autonomy will decline, and the basis of central government will erode. [5, p. 216]

The authors went on to claim that cooperatives were the only means to avoid these potential difficulties, and offered the German experience as a favorable alternative: "German cooperatives have experienced unprecedented prosperity" [2, p. 105]. They made a distinction between the situation in Britain, where industrial workers organized cooperatives, and in Germany, where

cooperatives were organized as those of small-scale handicraftsmen or manufacturers competing against big industries and big manufacturers, to aim at the improvement of their positions and production. German cooperatives are not so attracted to the Socialist Party, as in Great Britain and France. They can remain independent of politics. [2, p. 109]

These authors essentially claimed that, to avoid the kind of troubles encountered in the West, cooperatives should be adopted before the situation worsened. Since the institutions functioned well, particularly in Germany, it would be an important step for social stability both for local and central government. The above description shows that legislative activities were not promoted by lower class people themselves who would ordinarily be organizing unions in a demand for self-help; this was not, in this sense, a movement "from below" but one "from above."

Shinagawa and Hirata were not the only ones writing on cooperatives. The Agriculture and Commerce Ministry and the Finance Ministry employed a number of foreign advisors at the beginning of the Meiji era, some of whom specifically pointed out how important cooperatives would be in alleviating farmers' difficulties. Japanese officials influenced by them also researched cooperatives and expressed some different views than Shinagawa and Hirata [4, pp. 157-65]. Max Fesca, a German professor at Komaba Agricultural College (founded in 1876), proposed introducing the financing cooperative based on land bond mortgage

and purchasers' credit cooperatives for farmers from Germany. Udo Eggert, advisor to the Finance Ministry, in *Land Reform in Japan, Specially Based on the Development of Credit Association* (1890) gives a detailed description of the Schulze-Delitzsch-type popular banks and Raiffeisen-type agricultural finance cooperatives. Another Finance Ministry advisor Paul Mayet proposed an agricultural insurance system, which emphasized the need to alleviate the plight of farmers, albeit from a somewhat different standpoint. These foreign advisors and Japanese bureaucrats believed that the poverty of small farmers and independent traders was something that could be partly improved by introducing cooperative systems from the West, particularly the German type. Such conviction undeniably contributed to a climate favorable to legislative action.

III. COOPERATIVE TYPES CONTEMPLATED FOR INTRODUCTION

What patterns for cooperatives were contemplated for introduction to Japan?

As stated above, almost a decade passed between the proposal of the Credit Cooperative Bill, the submission of the First Industrial Cooperative Bill, and the enactment of the Second Industrial Cooperative Bill. Naturally the three bills underwent certain changes in content during the legislative process.

A. *The Credit Cooperative Bill*

1. *Membership eligibility*

The bill stipulates only that "there shall be no less than ten members" (Article 6), "the credit cooperative shall embrace only one city, town, or village" (Article 5), and "members shall live within the cooperative's district" (Article 5), with no conditions on occupation or property ownership [2, p. 130]. However, Hirata in *Shinyō kumiai ron* [Treatise on credit cooperatives] says with respect to execution of provisions:

Anyone twenty years of age or older capable of managing his own property both economically and legally, and being deprived of no civil rights may become member upon consent of the cooperative. The cooperative may refuse those previously convicted of crime related to bad debts or offenses against public morals. . . . The cooperative may limit membership to those within daily contact and mutual acquaintance. The reason being that it has to know how industrious and how economically capable each member is so that he will pay dues and can be granted loans. Although too small a membership will restrict cooperative benefits and slow development, too large a membership may be a source of financial risk. Average membership in Germany is 300. [2, pp. 18-19]

Hirata also says that

each member must be capable of self-help economically. . . . Those unable to pay entrance fees, dues, or the principal and interest on loans should not be allowed to join. Although credit cooperatives attempt to eliminate poverty, their immediate objective does not include giving charity to those who cannot pay principal and interest. [2, pp. 40-41]

Articles of association for a credit cooperative set up in the Kasamatsu area of

Tochigi Prefecture (1894) for farmers developing new land were allegedly drafted by Hirata himself, and stipulate the legal terms of membership: "No one below twenty years of age, without the ability to manage his own property shall become a member" (Article 3) [5, p. 229].

Although credit cooperatives were designed to prevent impoverishment of middle and lower income groups, this was an objective not to be achieved unilaterally, but through legal and economic assistance to those who had the ability and desire to help themselves. Legal and economic regulations for prospective members were strict. Also membership was limited to residents of a city, town, or village which was the district of a particular cooperative, prompted probably by a desire to prevent stagnation in activities that could otherwise result from a lack of routine contact with and mutual confidence by members. In other words, credit cooperatives attempted to give assistance through consolidating their organization on the basis of personal trust among members living in the same district and to be stable and efficient, even if they are small groups. The basis of the assertion that cooperation makes problem-solving easier—generally recognized as a major advantage of the cooperative—comes naturally from the idea of economies of scale, i.e., the larger the scale of the enterprise, the more, within certain limits, the costs can be reduced by savings on fixed cost. But large-scale operations are often accompanied by difficulties in management, especially in securing the high level of cooperative efforts among members, which could be a cost-enhancing factor. Thus, membership was limited to those who could be personally trusted, preventing increases in management cost. Economies of scale could be realized and utilized to the extent that they were possible under these conditions. This seems to be what the authors had in mind.

2. *Scope and limitation of activities*

Credit cooperative activities were limited to providing credit. The bill stipulated that "objectives of the credit cooperative are providing loans for business purposes to members and encouraging savings. The credit cooperative may accept deposits from nonmembers" (Article 1) [2, p. 130].

Before the Credit Cooperative Bill was presented to the Imperial Diet, Japan already had, among cooperatives in a broader sense, credit associations such as Hōtoku-sha, processing and shipping cooperatives for raw silk and tea, and cooperative unions for fertilizer purchase. However, the bill was specifically aimed at creating cooperatives with the narrow function of only providing credit. This was probably due to the view that the pressing issue at the time was to save those below middle income level faced with severe economic difficulty caused by debts accumulated, exorbitant interest rates, inability to make payments on time, and sharply increasing bankruptcies. The fact that rice and fertilizer distributors showed resistance in giving these cooperatives such functions as purchasing, selling, and processing goods might also have effected the bill.

Credit cooperative business was limited to financing for members only, funds had to be procured through deposits from both members and nonmembers. No credit for nonbusiness purposes was to be extended. Business funds, accord-

ing to Hirata, meant "money to buy fertilizers, seeds, and tools for farmers, nets and boats for fishermen, and tools and materials for manufacturers" [2, p. 68]. The principle of providing only business loans was also maintained in the Industrial Cooperative Act of 1900. Hirata explains in *Sangyō kumiai hō yōgi* [Essentials of industrial cooperative act] (1899) that "funds loaned by credit cooperatives must, by all means, be those needed for industry. Borrowers for non-industry needs such as those to build houses or improve gardens cannot be granted loans from credit cooperatives" [1, pp. 258-59]. This meant that citizens in nonproductive phases of agriculture or industry might join the cooperatives but could not benefit from them. Credit cooperatives hoped to include in their membership only those actually engaged in production, and exclude the general consumer.

It was expected, though, at the very outset that funds would also come from nonmembers which would then be used for loans to members. Funds procured in this manner were called "external capital," and consisted of deposits and cooperative bond sales. As in the case of Germany where external capital amounted to as much as 60 to 80 per cent of the total capital of credit cooperatives [2, p. 46], one of the most important functions of the credit cooperative was considered to procure funds from external sources on a low-interest long-term basis. For fund sources, individuals who were wealthy enough would be approached directly, but other cooperatives or banks were not to be used [2, pp. 47-48]. Financial institutions such as cooperatives and banks were likely to demand quick return of funds in a period of financial turmoil, which could be a hard blow to the cooperative. In granting long-term loans to members, cooperatives were advised to obtain funds on an longer-term basis even if they had to give a slightly higher interest rates than usual. The argument went that,

If we are to have operational safety and the ability to loan on a long-term basis, repayment on capital from external sources must be slow. Even though interest rates may be higher, sources should be chosen for longer repayment schedule. [2, p. 48]

In addition to rational management of funds, Hirata seems to have thought that external "charitable assistance" was necessary in procuring low-interest long-term funds. "In establishing credit cooperatives in this country I hope that men of foresight, large landholders, and others owning property will lend money for some of the cooperative capital or extend any other assistance possible to supplement funds" [2, p. 50]. Rational and efficient management might allow cost reduction in securing funds and making loans, but sufficient reduction of interest rates would be possible only if funds could be secured at even lower rates.

3. *Member liability*

Article 2 of the bill stipulates that "the liability of the members to the credit cooperative will be defined in the articles of specific cooperative," and generally leaves the issue of limited or unlimited liability of membership up to the members. However, Article 2, Paragraph 2 states that "in credit cooperatives which accept deposits, members shall assume unlimited liability." That is, if a credit

cooperative accepts financial assistance from nonmembers in such forms as bond issue and deposit, the cooperative must have a principle of unlimited liability, charging its members accompanying duties.

Hirata agonized over this point in drafting the bill.

If a credit cooperative desires external funds, unlimited joint liabilities of members will be inevitable. Yet, it is only natural that in repaying capital borrowed in personal credit, unlimited liability will be assumed. [2, p. 35]

In Germany there is no credit cooperative relieved from unlimited joint liabilities. Also, among cooperatives in other European countries, the majority are liable jointly and without limits. [2, p. 35]

Nevertheless, he was opposed to creating cooperatives where members would have to incur unlimited joint liability throughout every case.

Since people are neither accustomed to joint endeavors nor familiar with management and accounting, establishing cooperatives only with unlimited liability would not only be dangerous. . . it would discourage those with a certain level of property ownership and social standing from joining these new organizations. . . Thus, the correct sequence would be to first only allow the establishment of cooperatives with limited liability (except in some unavoidable instances) and, only when they are successful, should they be allowed to become organizations with unlimited liability. [2, p. 36]

Since with limited liability the cooperative would obviously not obtain enough funds, Hirata then urged

the government to provide assistance by lending 150 to 200 yen to each credit cooperative at very low rates or no interest, repayable only when the recipient organization is set smoothly on the road to development. This will solve the problem of scarce funds a limited liability cooperative is going to meet when it starts a business. [2, p. 37]

Hirata says that this kind of government assistance would be logical in view of its previous provision of economic assistance to certain groups and business, claiming that "government subsidies would be equitably and fairly distributed by establishing credit cooperatives for the majority of the people who are below middle income level" [2, p. 37]. But he ultimately concludes that credit cooperatives that accepted funds from nonmembers would have to have unlimited joint liability, thus broadening their opportunities for fund raising.

4. *Cooperative principle in management*

The Rochdale principles for organization of cooperatives were well known at the time. Certain basic aspects of those principles were adopted in the proposed credit cooperatives, including "the freedom of joining and leaving" (Articles 21 and 49), "restrictions on shareholding" (Article 16), "restrictions on share disposal" (Article 30), and "one-member-one-vote principle in election and voting right" (Article 45). Also, a ceiling set on the amount a member was allowed to borrow from the cooperative was adopted. Hirata and Sugiyama's *Shinyō kumiai ron* also emphasizes these principles.

However, in selecting responsible officials for the cooperative, such as secretary

and auditor, it does not seem that the one-member-one-vote principle was to be applied literally. While the bill provided that "officials...shall be selected from among members at a general meeting" (Article 31), Hirata writes:

The secretary and treasurer must be selected from among those with property and social standing. If the proper men are not available for these positions, the cooperative will suffer acutely. In order, therefore, to avoid scattering of votes in selecting the secretary at the general meeting, the auditor should be asked to submit a list of several candidates from which the members may choose. [2, p. 61]

He says further that "if none of the candidates nominated by the auditor has the support of the general meeting, the auditor may submit a second list" [2, p. 61].

The bill stipulates that "secretary and auditor shall not be paid. However, the secretary may be paid if the general meeting decides to do so" (Article 31). In *Shinyō kumiai ron* Hirata cites the German experience to show how difficult it is to find talented men to fill these posts who do not receive remuneration, but he tentatively proposed that they would not be paid in line with the Hōtoku-sha example. The reason as he explains it:

Hōtoku-sha officials are appointed strictly on an honorary basis. In establishing credit cooperatives in this country also, it would be advisable for elderly officials to occupy honorary positions so long as management tasks are not complicated. [2, p. 64]

On one hand Hirata adopted a "cooperative principle" that would eliminate distinctions between members, while tacitly accepting and depending on the services of the propertied, knowledgeable, elderly members of the community for the welfare of the cooperative. This is the reason for saying that cooperatives were a transplant effected "from above."

In a document explaining the need for the Kasamatsu Credit Cooperative, Hirata says in effect that good results cannot be expected unless each member is able to do his own bookkeeping. But he does not think it necessary for ordinary members to memorize or otherwise master all the details of the articles of association, although it is essential for officials [5, pp. 227-28]. His *Shinyō kumiai ron* itself might have been read solely by intellectuals who served as officials but probably not by ordinary members. Here again we see that cooperatives were introduced "from above," led by elderly leading members of the community and by intellectuals. However, it must be noted that, although the system was institutionalized "from above," it was introduced not by force but by depending on the social relations of the *Gemeinschaft*-type community, the only type which would have made it possible to obtain officials who would work for the cooperatives without payment.

5. *Various criticisms*

When the Credit Cooperative Bill was submitted, discussion followed in the Lower House, and there was some criticism. But no full deliberations took place before the Lower House was dissolved and the bill shelved, as has already been mentioned. Then, prior to the submission of the First Industrial Cooperative

Bill in 1897, there was some discussion on the idea of credit cooperatives.

One of the most important arguments was put forth outside the Diet by Shō Takahashi and Tokiyoshi Yokoi in *Shinyō kumiai ron—fu, seisan oyobi keizai kumiai ni kansuru iken* [On credit cooperatives—with an opinion on production and economic cooperatives] (December 1891), actually written by Hajime Watanabe, an agricultural engineer at the Ministry of Agriculture and Commerce, which reputedly represented ministry opinions in the Diet debate. It is often cited as the best exposition of the basic thinking behind the Industrial Cooperative Bill [4, p. 182]. One chapter entitled “Reading the Credit Cooperative Bill” is, above all, a straight forward criticism:

(i) Farmers should be the principal members.

The Credit Cooperative Bill was designed to apply to farmers, small merchants, and manufacturers. The critique said in effect that first preference should be given to farmers as prospective members. Likewise the bill should fit the contemporary needs of farmers and Japanese villages.

If the genuine intention of the bill was, as shown in its statement on purposes, saving the most important element in our national economy, i.e., the majority, the small farmers, why did not the bill stipulate farmers' interests as its paramount goal? Imagine who most urgently wishes the bill to be executed, applied throughout the country, and established. None other than farmers. Manufacturers and commercial people may be placed in a secondary position at this time. [6, pp. 164–65]

The critics saw that the Credit Cooperative Bill was modeled after the German Production and Economic Cooperative Act of 1889, embodying the Schulze principles as defended by Hermann Schulze-Delitzsch himself in the German Parliament. But the main point of the argument was that the Schulze principles were not appropriate for prevailing Japanese village conditions, and that, instead, the Raiffeisen principles would be more applicable.

Specific criticism was leveled at the principle of shareholding and the distributing dividends in accordance with the size of shares held by the individual member. This was a major feature of the Schulze cooperative, and it was argued that it would make members to be motivated too much toward profits.

Quite undeniably this bill intends to secure operational funds by issuing shares and attracting members through promises of dividend payments. . . . If so, cooperative members will only want a greater portion of the profits. This would urge them on to accept the limited responsibility extended only up to the value of one share, to hold more shares than ordinarily allowed, and to increase the face value of the share, all in order to get bigger net profits. In urging cooperative officials to work for greater profit, the secretary would want to be paid. . . . Eventually this might make cooperatives involved in that most abhorrent of businesses, i.e., speculation. Loans made and deposits accepted would command high interest rates, entirely wiping out the original purpose of providing low-interest loans. Since they would then be involved in pseudo-banking activities, their operations would be more and more complicated and risks raised. [6, p. 166]

Following the above discourse, the authors presented an alternative which

is really meant for farmers, a system of unlimited joint liabilities with no shares issued.

What the farmers' cooperatives should do is to issue no shares and to accept unlimited joint liabilities held by members. Fund procurement should be solely based on virtue. Profit accrued from differences in interest rates between money borrowed and lent should only be used for operational costs and accumulation of some reserves. Officials...should serve for altruistic reason with no remuneration. [6, pp. 166-67]

The authors claimed this was the appropriate form for Japan, and the Hōtoku-sha experience had proven its social acceptability. "We humbly hope that the ideas flourishing in the Hōtoku-sha and similar bodies should be followed, and then improved by making laws appropriate to this country, in particular, adopting the Raiffeisen principles, through which regulation and protection of the people will be effected" [6, p. 172]. They did not overlook the fact that "cooperatives built on the Schulze principles often went bankrupt, while there has not been a single case of bankruptcy among the Raiffeisen cooperatives" [6, p. 159].

When the authors speak of Raiffeisen and Schulze principles, they meant that Raiffeisen principles were: (1) jurisdiction of a cooperative is defined, forbidding anyone to belong to two or more cooperatives, (2) shares are denied and no dividends are paid, (3) loans are made only for business purposes, and the term of the loan, whether for fixed or floating capital, is twenty years, (4) no official, except the treasurer, receives a salary, (5) the cooperatives carry out educational programs to cultivate virtue in addition to extending loans, (6) only cash is handled, while more complicated banking business sanctions are excluded, and (7) profits are to serve as cooperative capital, the remainder is spent for public purposes. The Schulze principles on the other hand included: (1) no definition of cooperative jurisdiction is made, members are not forbidden to join more than one cooperative, (2) plural shares may be held by individual members, dividends paid according to number of shares held, (3) only floating capital is handled, to be paid back usually in three months, (4) officials draw salaries and bonuses, (5) cooperatives deal mainly with credit and engage in such banking practices as exchange, and (6) net profits are partly accumulated as reserves and the rest distributed to shareholders according to number of shares they hold [6, pp. 159-61].

(ii) Legal measures should be adopted to cover other types of cooperatives.

A proposal that legislation should be adopted for cooperatives other than credit cooperatives was made by Takahashi and Yokoi in "Opinion on Production and Economic Cooperatives," in the aforementioned *Shinyō kumiai ron*. The first reason for additional cooperatives was that, in addition to financial aid, farmers needed the economic and technical supports that can be handled by diverse types of cooperatives. Second, credit business will be most effectively carried out when it works hand in hand with other cooperative activities that are using loans from the credit cooperatives.

They say regarding the first point:

Naturally only one type of cooperative activities for farmers will not be enough. . . . There is among the principal areas of activity credit provision, crop planting, land improvement, land amalgamation, livestock breeding, machine utilization, joint sales and purchases, joint projects in finishing certain products, exterminating harmful insects, and exchanging knowledge and maintaining moral standards. Any other activities that benefits from joint endeavor may come under the scope of the cooperatives. [6, p. 179]

An explanation is made of the second point:

Farmers generally hope to cooperate and organize for their common benefit as much as possible not only in financing but in all other endeavors as well. When acting alone, credit cooperatives. . . may not only fail to fully discharge their duties, they will face the danger of failing in the credit business itself. . . . Once capital is loaned, the proper task of the cooperative is supervision of the method of use, avoiding waste, and watching projects be successfully carried out. When a credit cooperative works alone, it cannot adequately fulfill this function. Furthermore, members, or borrowers, would not get the maximum benefit out of capital. This is why we see a need for the establishment of cooperative for production purpose in addition to credit cooperatives and hope that they will work together. [6, p. 180]

The authors say that, as long as credit cooperatives extend financing, they should make sure the money was used efficiently and appropriately in accordance with the purposes of the loan. This would help to improve the economic position of members and facilitate repayment. This would also entail close supervision of the way the loan was being used, but there would be a need to provide opportunities by which members could put the money to better use, requiring the establishment of other cooperatives for marketing products and purchasing materials to facilitate all cooperative efforts.

Takahashi and Yokoi conclude by saying that, depending on the needs and desires of the farmers,

material-purchasing cooperatives for distributing materials to members for processing, marketing cooperatives, production-marketing cooperatives, consumer cooperatives, machine-pool cooperatives, etc. . . may be established as legally incorporated bodies, and protection and regulation should be given to these organizations and their activities. [6, pp. 180-81]

They give a tentative example of a joint production-marketing cooperative where sericulturists would jointly set up a silk mill, collect cocoons produced by members, spin, and market them. There could also be consumer cooperatives for purchasing and distributing various sundry goods and business items upon the request of members, and machine-pool cooperatives that would purchase large farm and industrial equipment through pooled capital. The equipment would then of course be jointly used.

Lastly, the authors say that the cooperatives should not be organized on a piece-meal basis but comprehensive legislation should be instituted to cover

all cooperatives. The 1897 Industrial Cooperative Bill, in contrast to the former Credit Cooperative Bill, was just this kind of legislation.

(iii) Financial assistance should be given to credit cooperatives.

As we have seen, Hirata emphasized the need for financial assistance to credit cooperatives, though, he did not want the government's over-protection for cooperatives which might cause difficulty in their pursuing the self-help principle. In contrast to him, there were people advocating positive protection by the government. *Sangyō kumiai hattatsu-shi* [A history of industrial cooperative development] gives an account of the situation.

Some writers argued that the government should assist credit cooperatives. Their argument was, in essence, as follows: If credit cooperatives want to be considered credible and enhance that credibility, it would be necessary in a country like Japan where interest rates are generally high to open up a supply of low-interest funds from dependable sources; if each credit cooperative borrows 200 yen at no interest from the government as a basic fund with a grace period of ten years and payments to begin in the eleventh year at 20 yen a year, town and village cooperatives would be able to have a firm base. But this would not be easy to achieve soon. An alternative would be to establish agricultural banks in each prefecture, which would be legally obliged to give low-interest funds to credit cooperatives in towns and villages. If the government gives special assistance to such agricultural banks, they will not have to look elsewhere for funds. But, in case the government is not able to give total assistance to agricultural banks, they will have to look for other ways to obtain low-interest capital. . . . In order for such relations to operate smoothly, a large, central industrial bank will have to be set up under adequate government protection. The bank would also be obligated to supply funds to the credit cooperatives so that the institutions would function just as the Bank of Japan does when it supplies funds to various banks which in turn make loans to their customers. [4, p. 179]

In sum, there were three ways for the government to financially assist credit cooperatives and foster their development: (1) to supply low-interest funds directly to the cooperatives, (2) to establish agricultural banks in each prefecture and give them the task of supplying low-interest funds, or (3) with government assistance, to form an Industrial or Hypothec Bank in the capital which would help agricultural banks obtain low-interest funds and enable them to aid the cooperatives. This idea received due attention, and, prior to the enactment of the Industrial Cooperative Act in 1900, the Agricultural and Industrial Bank Act and the Hypothec Bank of Japan Act were created in 1896, meaning in effect the adoption of a tripartite-form assistance policy.

B. *The First Industrial Cooperative Bill*

1. *From credit to industrial cooperative*

Although this bill is said to have been modeled on the German cooperative act of 1899 [4, p. 283], in principles of organization and operation it is not essentially different from the Credit Cooperative Bill.

The major difference from the Credit Cooperative Bill was that the name was

changed from Credit Cooperative Bill to Industrial Cooperative Bill, but with the addition of four new cooperative categories: purchasing, marketing, production, and utilization cooperatives (Article 1). Objectives were also broadened from "giving business loans to members and acceptance of deposits" to promoting "industrial and economic development of members" (Article 1).

The five categories and their functions were [4, pp. 284–85]:

Credit cooperatives—provide business loan and savings deposit facilities to members.

Purchasing cooperatives—purchase and distribute various commodities to members: such as daily necessities, materials, tools, machinery, and livestock for business purposes.

Marketing cooperatives—sell agricultural, industrial, and marine goods produced by members.

Production cooperatives—for the joint production by members of agricultural, industrial, and marine products.

Utilization cooperatives—joint use of tools, machinery, and livestock for business.

Enlarging the sphere of activity to include several functions in addition to providing loans was one of the ideas advocated by Takahashi and Yokoi whose criticism of the Credit Cooperative Bill was detailed in the above section. And the Industrial Cooperative Bill adopted their ideas in this area, but, in principle, it inherited the fundamental philosophy to promote cooperative activities among "producer" members from the former bill. Cooperatives could not therefore provide various services to the member in the capacity of "consumers." Nor were cooperatives allowed to take part in "processing," whether it be of the member's products or of goods purchased by the cooperatives. Cooperative activities were strictly restricted only to "business purposes."

With restrictions like these we can surmise that there must have been stiff resistance to the idea of consumer cooperatives and to direct processing by cooperatives. It is needless to say that an opposition was posed by the processing industries.

Organizationally, the only important differences were the reduction in the minimum number of members needed to form a cooperative from ten to seven and a new provision allowing the four additional cooperative categories (excluding credit cooperatives) to engage in business other than that specified. No change was made in members' liability.

2. *Government assistance through the agricultural and industrial bank*

The Agricultural and Industrial Bank Act, enacted in 1896, stipulated that "the bank may extend loans . . . , without mortgage, to county, city, town, village, or any legally incorporated public body" (Article 6, Section 3) [4, p. 287]. The First Industrial Cooperative Bill (1897) provided that cooperatives with unlimited liabilities founded by agricultural, industrial, or marine entrepreneurs would be treated as equal as these public bodies, and be granted loans without mortgage payable annually within fifty years, and a specified amount of loans to be regularly

paid back in five years. In 1896, the Hypothec Bank was established with 50 per cent government participation and made as a financial institution supporting agricultural and industrial banks. Thus, a three-stage arrangement of government assistance to credit cooperatives was prepared through the Hypothec Bank, the agricultural and industrial banks, to credit cooperatives (with unlimited liability) and was proposed for legislation. Legislative activities along this line took the criticism of the Credit Cooperative Bill into account.

3. *Criticisms*

While the Credit Cooperative Bill was criticized for not being positive enough in its legal definition of purpose, the First Industrial Cooperative Bill was even more severely opposed.

Most of the opposition did not want the cooperative program made any bigger than the credit cooperative level. Those who wanted a complete rejection of the bill and those who wanted only credit cooperatives continued their objections throughout the Diet deliberations. This opposition probably came from a fear that cooperative activities in other areas than credit would threaten existing business. One dietman said that cooperatives of these types would be a step toward socialism, and claimed that industrial cooperatives would prevent the development of free enterprise and do nothing to help the common man [4, p. 289]. Criticizing a government official's opinion that the bill was proposed to alleviate the common people's life suffering from rising commodity prices and low wages, the same dietman maintained that the harm to them was due to general economic conditions and could not be dealt adequately with by industrial cooperatives alone [4, pp. 289-90]. A nascent labor movement was already in existence, socialist ideology was a burgeoning force, and campaigns to create labor unions were under way. Quite logically a fear of socialism was present in the opposition to the bill.

Opposition was even fiercer over the bill's provision of low-interest loans by the agricultural and industrial banks. The antagonists said that such benefits would lead only to an unhealthy, unrestricted burgeoning of cooperatives, and, even in foreign countries, in a number of cases cooperatives went bankrupt immediately after being given these benefits. In Japan, also, government and banks might, according to the detractors, be deceived by clever maneuvers [4, pp. 293-95].

The government defended itself saying,

In view of the state of our industries, we note that ceramics, shirting, and hosiery manufacture are at a stage where individual methods of production must be done away with industrial cooperatives established. [Those cooperatives will be quite helpful, for instance, in exporting our commodity products.] The Italians, for one, have already said they are willing to buy goods of standard quality. However, it is regrettable that there are no organizations in Japan large enough to handle enquiries from abroad and do the actual shipping. [4, p. 294]

"If the bill were shelved again," insisted the government, "it would be a grave matter for industry and an ignominious influence for the nation's future prosperity"

[4, pp. 294–95]. But, contrary to what the government intended, its statement created a misunderstanding, i.e., that processing by industrial cooperatives would cause confusion in industry, and led to the deletion of production and utilization cooperatives from the original version of the bill. The bill was ultimately shelved for not having been sufficiently deliberated.

IV. ESTABLISHMENT OF THE INDUSTRIAL COOPERATIVE ACT

The Second Industrial Cooperative Bill was only a revision of its predecessor. But in actual content the variety of activities under the possible jurisdiction of cooperatives was made greater, and government protection strengthened. Major issues in the government's original draft were as follows:

- (i) The following four categories of cooperatives are in the second bill:
Credit cooperatives—to make loans necessary for industrial purposes and provide savings deposit services to members.
Marketing cooperatives—to sell goods produced by members either with or without further processing.
Purchasing cooperatives—to purchase goods needed for industry or for daily necessities and sell them to members.
Production cooperatives—to further process goods produced by members and let the members use whatever they need for production.
- While credit cooperatives were not allowed to carry on any other business, the other three categories could be involved in more than one group of combined activities.

Compared with the First Industrial Cooperative Bill, cooperatives made a big step forward in being allowed to process goods produced by members and to buy and sell consumption goods. The latter fact provided a legal basis for consumer cooperatives to be formed which would handle only consumption goods.

(ii) For liabilities of members, a new system, viz., guaranteed liabilities, was added to limited and unlimited liabilities. This was probably put in to facilitate establishment and operation of cooperatives by making the choice of liabilities more flexible.

(iii) Tax exemption was also a new stipulation, but only for those cooperatives "which do not serve the general public," thereby depriving marketing cooperatives of a privilege.

(iv) The maximum number of shares that could be held by any individual member was raised from five to ten so that affluent members could invest more. At the same time, however, the maximum amount of a share was set at fifty yen and the minimum amount of ten yen eliminated, perhaps to facilitate fund raising by allowing more people with meager resources to participate.

(v) A separate regulation on dividends payable was planned to determine what the highest returns would be allowed to investors. A subsequent decision was made that the maximum rate be set at 6 per cent a year. Reserves remaining after dividend payment were to be distributed to members according to the extent they patronized the cooperative.

Of all the differences from the First Industrial Cooperative Bill, processing of members' products and de facto creation of consumer cooperatives were no longer viable points of debate. All categories of cooperatives were granted the privilege of tax exemption in Diet deliberations, where it was stipulated that "industrial cooperatives shall be exempted from income and business tax" (Article 6). In the original draft, marketing cooperatives were excluded from tax exemption, but during the examination in the Diet the draft was altered to grant tax-free status to all four types of cooperatives. This was made because, according to Diet discourse, marketing cooperatives could not be buying up all the produce of members for sale (that is, they would not constitute a business per se), and would only provide a means through which producers would be marketing their own goods. Cooperatives of this nature were interpreted to be additional forms of assistance along with the supply of low-interest funds from agricultural and industrial banks.

Simultaneously with the Industrial Cooperative Act coming into law, changes were made in the Agricultural and Industrial Bank Act so that credit, purchasing, and production cooperatives with unlimited liabilities could borrow funds without mortgage from banks. Other cooperative categories were also eligible for funds from these banks at low-interest rates with mortgage.

Article 90 of the act stipulates that "industrial cooperatives in Hokkaidō may be created separately by imperial edict," which, with respect to farmers' industrial cooperatives, subsequently amounted to, *inter alia* [1, pp. 335-37]:

(a) Industrial cooperatives organized by farmers in Hokkaidō have to be of unlimited liability. When ten years passes after establishment, they will be released from this restriction, and their status may be changed with the approval of the governor.

(b) The minimum number of members for establishing a cooperative will be twenty.

(c) The minister concerned may, when the need is recognized, make a three-year loan to meet part or all of the costs incurred at the time of cooperative establishment.

(d) Each member may hold only one share.

(e) When a member wishes to resign, his investment may be refunded but not his shares.

Hirata had this to say about cooperatives in Hokkaidō:

Most Hokkaidō farmers are new to the prefecture, their families have not lived in the same village for generations, nor have they grown up with their neighbors as people have on the mainland. Relations are shallower and there is less mutual trust. This makes it very difficult not only to establish industrial cooperatives in Hokkaidō, but after establishment to have mutually beneficial operations and establish credit with the outside. However, it is of greatest urgency for the national economy to create industrial cooperatives in this newly opened-up part of our country. We should attempt to solve these difficulties by allowing the farmers to organize industrial cooperatives only on the principle of unlimited liability. [1, p. 336]

The Second Industrial Cooperative Bill passed the Fourteenth Imperial Diet, was promulgated in March 1900, and took effect on September 1.

V. EVALUATION

This has been a brief survey of the process leading to the enactment of the Industrial Cooperative Act in Japan. What factors encouraged and enabled this legislative process?

(i) The rapidly growing discrepancy between rich and poor through unrestricted competition since the abolition of the feudal system and the need to prevent any resulting social unrest were the basic background. Government officials were well aware of the Western experience and wanted to apply the time-proven method of cooperatives to deal with the social malaise.³

(ii) However, this did not mean that a ready-made law was transplanted to Japan with no changes being made. At first only credit cooperatives were contemplated, but as discussions proceeded, other categories were added, such as the marketing and purchasing cooperatives. Their legal characteristics were commonly held to be those of the Schulze-Delitzsch cooperatives at the beginning but later becoming more like the Raiffeisen type. In either case, however, the prototypes were not adopted as is; the final "Industrial Cooperative Act" provided for organizations which were quite Japanese in a number of ways.

The act was not born in a day simply fostering new institutions. Cooperatives to be organized through this act existed in substance prior to the submission of the Credit Cooperative Bill. Among those existing prior to submission of the Credit Cooperative Bill, *mujin* and *tanomoshikō* can be cited (both mutual financing associations of long-standing in Japan), and one cannot forget to mention Hōtoku-sha. Shinagawa said when the bill was proposed, "I do not need to mention examples of credit cooperatives in the West. We have had a lot of our own...*tanomoshikō*,...Hōtoku-sha..." [1, pp. 250-51]. After the bill was proposed, indigenous, voluntary organizations similar in nature to credit cooperatives,⁴ which did not, however, have legal support and were thus bound to suffer various inconveniences as institutions were mushrooming. They needed to be protected more and more and regulated by law. If policy measures were used for assistance and subsidy, the organization had to be given legal backing. The enactment of a law itself was inevitably a move "from above,"

³ Hirata wrote, "When in 1891 Viscount Shinagawa became the minister of home affairs, he requested me to draft a Credit Cooperative Bill. Considering the cooperative systems of European countries and in view of the customary organizations prevalent in our own country, I drafted the Credit Cooperative Bill, which was subsequently submitted to the Second Imperial Diet" [1, p. 246].

⁴ For a detailed discussion of cooperatives prior to the enactment of the Industrial Cooperative Act, see *Sangyō kumiai hattatsu-shi* [A history of industrial cooperative development], Vol. 1 [4, pp. 50-281]. When the Credit Cooperative Bill was put off in the Diet, Shinagawa and Hirata proposed and went to work on the formation of 150 to 160 credit cooperatives outside the legal framework [1, p. 252].

but it must be conceded that cooperatives in necessity of legal support were already in de facto existence.⁵

It is important, however, that "policy from above" did not intend to institutionalize all that had existed, rather, it sought to protect, through its framework, the common people as "producers," not as "consumers." The common people as consumer was a point either neglected or totally ignored. This is sufficiently shown in the First Industrial Cooperative Bill's lack of recognition of consumer goods or "commodities for living" as being under the jurisdiction of cooperatives. In opposition to such an inclusion, an objection was raised that this would be a form of socialism. As far as the social background is concerned, the consumer cooperative movement was lagging behind in Japan. The most important objective for the bill was the protection and maintenance of small-scale producers.

(iii) What did enactment of the Industrial Cooperative Act give to small producers then? The existence of a number of cooperative-like organizations in operation, even before the act came into effect, proves that they, no doubt, benefited from cooperative efforts in one form or another. One of the benefits would have been economies of scale.

By economies of scale I mean that the large-scale operation of economic activities will generally make it possible to reduce the cost of production per unit. Economic activities here include such activities as granting and receiving credit, marketing, purchasing, production, and processing. Cooperation is only a means to realize the benefits from large-scale operation and economies of scale. Through cooperative credit operations, per unit working cost of lending and borrowing and per unit handling cost of marketing and purchasing can be reduced. Similarly with production and processing, benefits can be attained by large-scale operation and introduction of efficient machines.

But there are certain definite technical limitations; i.e., it is important to maintain optimum size both in plant size and size of operation. Unless these conditions are met, there is no guarantee that per unit cost will go down even if people get together for marketing and purchasing. There must be an optimum or standard size for the number of members of cooperatives and the size of the cooperative's business. Cooperative business, also, must have a stable volume in order to efficiently operate.

(iv) The Industrial Cooperative Act stipulated that the minimum number of members to form a cooperative should be seven, with no upper limit. In this situation, if the freedom to join and quit was taken literally, there would be no guarantee that once achieved optimum size of members could be maintained. Aggravating the situation further, the act set a limit on the maximum value of each unit of share as well as on the number of shares to be held by each member. Natural fluctuations of capital as membership increased and decreased

⁵ When he presented the Credit Cooperative Bill, Shinagawa said, "In a society in which laws and regulations have developed thus far indigenous cooperative must have corresponding improvements...Some [traditional cooperatives] are in deep trouble. In order to develop...and strengthen them, legal protection is essential" [1, p.251].

would prevent the attainment of optimum size before one could even begin to maintain that size. Volume of business was also strictly limited in that finance services could be given only to members and the purposes of financing were limited to business. Marketing activities were also limited to only the goods produced in the cooperative (cooperatives were unable to handle anything made by nonmembers) and the same applied to purchasing. There were also no guarantee that members would borrow all the money needed for business or deposit all their money in cooperatives. The same was true in marketing and purchasing: there was no guarantee that either all of the members' products would be marketed or all needs purchased through cooperatives.

These obstacles to optimum business size in credit extension, marketing, purchasing, etc. were inevitable in an act trying to protect the interests of farmers and small-scale industrialists only as long as this protection did not harm the vested interests of financiers and merchants.

(v) The part of the act that would offset these deficiencies was, first and foremost, the idea of firm association through mutual personal confidence between members, which would greatly reduce the cost of control and supervision. Especially with credit cooperatives, the unit district for cooperative membership was, as a rule, the city, town, or village. Therefore, credit cooperatives could in principle be organized only by those who were well acquainted residents of the same locality.

But benefits arising out of association through mutual trust can only go so far. What was expected as a supplement in the actual operation of cooperatives was that landowners, the propertied, and other leaders would participate as a sort of voluntary social service. Specifically, these people were expected to contribute to cooperative funds at low-interest rates and serve cooperatives as secretaries or auditors with little or no financial reward. Hirata said that

the secretary, logically, should be an honorary position. Once recommended and selected, officials and secretaries of industrial cooperatives should perform their duties without reward on the principle of self-control and self-help. However, if such an arrangement makes it difficult to acquire appropriate talent, remuneration or salary may be provided either in the articles of association or by decision of the general meeting. [1, p. 311]

What prompted Hirata to make such a proposal was the kind of social order existing in the traditional community something which is still prevalent in the Japanese rural areas in those days. With little mobility there was close daily contact between virtually all villagers. Thus, leader participation is necessary for social order.⁶ And indeed the role to be played by the leadership could be anticipated and depended on. In fact there were many instances where landlords and other powerful people were secretary or in other official positions in the

⁶ The special case of Hokkaidō is further proof, because, in organizing strangers and granting them credit, compulsory unlimited liability was the only method possible. But this naturally constituted an obstacle to organizational efforts. Only those able to bear the risk of unlimited liability could benefit from the cooperative.

early phase of the industrial cooperative, although some used the cooperatives for private gain.

However, these measures were still inadequate to offset various inconveniences to cooperative operation. Then, other subsidiary measures were taken through agricultural and industrial banks which granted long-term and low-interest loans to cooperatives (inter alia, loans to cooperatives with unlimited liabilities were granted with no mortgage). Tax exemption to all cooperatives was also put into effect. When these privileges were granted, individual cooperatives finally had the adequate conditions to go on. Without these privileges, there would not have been an adequate incentive to organize cooperatives on a broad scale even with the benefits of cooperative economic activity or the voluntary services of landlords and prominent local leaders.

(vi) The Industrial Cooperative Act took effect on September 1, 1900, enabling industrial cooperatives to be established with the authorization of local heads of government. How good were its effects?

In 1900 there were 21 cooperatives, and in 1901 there were 263. The number increased until 1914 when 90 per cent of the eligible cities, towns, and villages had cooperatives. The Ministry of Agriculture and Commerce provided each prefecture with a model for the articles of association, and county chiefs and other officials in each prefecture were on the front line of the campaign to educate people.

The Industrial Cooperative Act...was drafted by leaders in the bureaucracy, politicians, and agriculturalists. After promulgation organizing campaigns owed much to the efforts of both government and private leaders. [4, p. 337]

During the early phase credit cooperatives were in the majority. It was not until 1907 that the number of credit cooperatives as a part of the total went below 50 per cent. In the second and third position were the purchasing and marketing-purchasing cooperatives.

However, it should be noted that not many of the pseudo-cooperatives existing before the promulgation of the act were readily incorporated into the new legal framework [4, p. 329]. One of the reasons was:

As with the industrial cooperatives in the earlier phase, the pseudo-credit cooperatives were probably operated by wealthy people. The managers probably thought it too much trouble to go through the complex procedure for authorization (as said to be necessary) and contemplated a new form of pro forma cooperatives too much restrictive because they could not lend money to nonmembers...had to be placed under strict official supervision, and some even punished under penal provisions of Article 9 of the act. They might have well concluded that they would be better off as they were lending money contributed by the wealthy to nonmembers. [4, pp. 341-42]

It thus follows that many of the cooperatives organized after the promulgation of the act were new.

Furthermore, in many cooperatives participation by small producers was under de facto restriction because they were led by landlords, wealthy farmers, and

other interested persons. The wealthier members of the cooperatives sometimes refused to admit poorer members or those who did not have enough resources to invest could not apply for the membership [4, p. 418]. The maximum value of a share was set at fifty yen, but in many of the cooperatives established in 1900 the value was fixed at twenty yen making it easier for those with less capital to participate. The Arai Credit Cooperative was a cooperative with limited liability organized in a village in the non-ward region of Tokyo in 1902 by Kanō, a well-known promoter of industrial cooperatives. One share was set at fifteen yen there payable in four years and two months, the idea being that the total amount could be paid off in that period if payment was one sen (one hundredth of a yen) a day [4, p. 350].⁷

Of the fifty-three cooperatives established by June 1901, thirty-two adopted the unlimited liability system and the remainder limited liability, with an average membership of 90, while the range was wide the smallest having 12 the largest 150 (a credit cooperative with unlimited liability). However, there were many dissolutions. During the fifteen years from 1900 to 1914, 13,151 cooperatives were established and 1,991 disbanded [7, p. 325]. Furthermore, the number of dissolutions increased as time went on, although the decline in number is partially due to amalgamations. At any rate, the number of organizations maintaining their original form and size dwindled year by year. In Hokkaidō 116 cooperatives were established in 1900–1911 of which 51 were subsequently dissolved [4, pp. 361–62].

In conclusion, industrial cooperatives were given a legal base and government financial assistance, but a considerable number of de facto cooperatives in the early phase chose to avoid legal recognition because of a dislike for the restrictions that such status would bring. Many newly organized cooperatives were not able to maintain a stable financial posture despite assistance and subsidy, resulting in a fairly large number of dissolutions. As legal restrictions were eased and policy assistance subsequently increased, industrial cooperatives before World War II were organizing in federations, expanding their size and sphere of activity until they embraced virtually the entire Japanese farming population.

⁷ The credit cooperative of finishing carpenters, the first organized by Shinagawa in 1900 in Tokyo, had a membership of eighty-two with unlimited liability. Shares were ten yen each, members paying one yen at first, the balance paid by surpluses and a minimum monthly payment of twenty-five sen. In obtaining loans from the cooperative, a member had to have one or more surety liable jointly and severally. One could deposit a minimum of one sen at a time. The interest rate on loans was set at less than 15 per cent per annum and on deposits less than 8 per cent a year. A 1912 survey by the Ministry of Finance showed that over 20 per cent of the debts incurred by farmers without mortgage were those with an interest rate of over 15 per cent per annum. It should not be difficult to surmise from this why Shinagawa's cooperative charged the interest rates it did [4, pp. 346–47, 419].

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