

# A form of private socialism? MacArthur and the economic governance of the *zaibatsu* system

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## Abstract:

At the time of the U.S. occupation of Japan, Supreme Commander of the Allied Powers Douglas MacArthur described the *zaibatsu* system as a “form of private socialism”. This definition can surprise, in that the *zaibatsu* are more coherently considered as the outcome of a form of extreme capitalism. Nevertheless, MacArthur’s definition is biased but not completely out of place. Contextualizing the *zaibatsu* governance, also from a cultural point of view, will help analyzing why, in the occupiers’ eyes, it could be more comparable with a socialist model.

## 01. Introduction

When General Douglas MacArthur was appointed Supreme Commander of the Allied Powers (SCAP) in Japan,<sup>ii</sup> he inaugurated his personal autocratic rule,<sup>iii</sup> to the point of being described as an American *shōgun*, legitimizing his power by establishing a close relationship with Hirohito.<sup>iv</sup> MacArthur’s action would eventually provide Japan with a rather stable political class and a new constitution, demilitarizing Japanese society but safeguarding its most traditional traits, starting from the imperial institution. The U.S. occupation of Japan carried out a number of successful

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<sup>ii</sup> See generally TAKEMAE EIJI, *INSIDE GHQ: THE ALLIED OCCUPATION OF JAPAN AND ITS LEGACY* (Robert Ricketts & Sebastian Swann trans., Continuum Int’l Publ’g Grp. 2002) (discussing occupation and SCAP in general).

<sup>iii</sup> On MacArthur, literature is extensive. See generally WILLIAM MANCHESTER, *AMERICAN CAESAR: DOUGLAS MACARTHUR 1880-1964* (Back Bay Books 1978).

<sup>iv</sup> See WILLIAM DE LANGE, *A HISTORY OF JAPANESE JOURNALISM. JAPAN’S PRESS CLUB AS THE LAST OBSTACLE TO A MATURE PRESS* 165 (Richmond Curzon Press 1998). Reference to MacArthur as a foreign *shōgun* is also present in ROBERT HARVEY, *AMERICAN SHŌGUN: GENERAL MACARTHUR, EMPEROR HIROHITO AND THE DRAMA OF MODERN JAPAN* (Overlook Press 2006).

reforms, and the enactment of the new constitution of 1947,<sup>v</sup> which SCAP drafted in secret and then submitted to the Japanese authorities for approval, can be considered one of the most relevant and durable reforms.

In spite of his success, MacArthur, like the majority of his staff members, had never been an expert of Japanese culture.<sup>vi</sup> MacArthur, an intuitive man, was nevertheless able to analyze a reality so far from his own, facing the challenges of a defeated military power that had to be turned into a future ally through economic and political reconstruction.

One of the reforms SCAP initially carried out was dismantling the immense financial and industrial conglomerates that dominated Japanese economy in the prewar period, known as *zaibatsu*, in an attempt to democratize not only the political system but also the economic one. The *zaibatsu* were massive enterprises controlling a large number of subsidiaries, headed by families according to a semi-feudal governance.<sup>vii</sup> Almost ninety percent of Japanese economy was virtually controlled by a small number of families, mainly from the groups Mitsubishi, Mitsui, Yasuda and Sumitomo, with a more residual role played by Nissan and other companies.<sup>viii</sup> However, the SCAP rapidly came to the understanding that the *zaibatsu* system was so deeply rooted in Japanese society—also serving as a stabilizing factor—that the proposed reform could not possibly succeed and was deemed to be a failure for the U.S. occupation.<sup>ix</sup>

Regarding the present analysis, what is more interesting is that MacArthur, facing the complex and peculiar system of the *zaibatsu*, described it in his memoirs as a form of “private socialism.”<sup>x</sup> This definition is quite striking, insofar as it challenges the common opinion that

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<sup>v</sup> See, e.g., INOUE KYOKO, *MACARTHUR'S JAPANESE CONSTITUTION: A LINGUISTIC AND CULTURAL STUDY OF ITS MAKING* (University of Chicago Press 1991); RAY A. MOORE & DONALD L. ROBINSON, *PARTNERS FOR DEMOCRACY. CRAFTING THE NEW JAPANESE STATE UNDER MACARTHUR* (Oxford University Press 2002).

<sup>vi</sup> An example was colonel Charles Kades, who played a relevant role in the making of the postwar constitution, later admitted to have been “blank on Japan.” See NIALL FERGUSON, *COLOSSUS. THE RISE AND FALL OF THE AMERICAN EMPIRE* 71 (Penguin Books 2004).

<sup>vii</sup> On the economic governance of the *zaibatsu* in MacArthur's days, see generally Federico Lorenzo Ramaioli, *Il nazional-capitalismo degli zaibatsu come forma di governance*, in *RIVISTA DELLA COOPERAZIONE GIURIDICA INTERNAZIONALE* 85 (2017).

<sup>viii</sup> See Miyajima Hideaki & Kawamoto Shinya, *Business Groups in Prewar Japan: Historical Formation and Legacy*, in *THE OXFORD HANDBOOK OF BUSINESS GROUPS* 97, 98-99 (Asli M. Coplan et al. eds., Oxford University Press 2010).

<sup>ix</sup> On SCAP's attempted reform targeting the dissolution of the *zaibatsu*, see generally Miwa Ryoichi, *The Reorganization of the Japanese Economy*, in *A HISTORY OF JAPANESE TRADE AND INDUSTRY POLICY* 153 (Mikio Sumiya ed., Oxford University Press 2004).

<sup>x</sup> “For many decades a monopolistic control of the means of production and distribution had been exercised by the so-called *Zaibatsu*—about ten Japanese families who practiced a kind of private

Japanese prewar conglomerates could be considered the expression of an extreme form of capitalism, although far from the American model. It is precisely this divergence in the philosophical way of perceiving capitalism that led the American general to ultimately question the very essence of Japanese capitalism and to inscribe it within a completely different qualification. The *zaibatsu* system indeed appeared as something rather obscure, made up by unwritten customs and intricate personal interactions, and whose monopolization of national economy and close ties with State institutions could undoubtedly create confusion as to its classification under Western standards.

In this article, I will explain and properly contextualize MacArthur's terminological choice to show why the general could have placed this peculiar form of economic governance into the domain of socialism instead of capitalism.

## ***02. The monopolization of Japanese economy***

Firstly, the *zaibatsu* system was so diffuse in Japanese economic life so as to monopolize it almost in its entirety. Both in the great cities where trade and commerce had flourished, as well as in the rural areas where peasants worked the lands of absentee property owners, the *zaibatsu* extensively extended their control on national economy, diversifying business to establish a form of shared governance that left almost no room for any kind of concurrency. The roots of the system were deeply grounded in the mindset of a society that grew prosperous with it and partly because of it since the Meiji years, i.e., since a period of great renovation that ultimately shaped the face of modern Japan.

In the American context, however, concurrence is a quintessential element of defining a model as properly capitalistic, with anthropological and philosophical implications in terms of personal freedom derived from private ownership and entrepreneurial character. It is not by chance that MacArthur, with the dissolution of the *zaibatsu*, explicitly aimed at establishing a “truly competitive free enterprise system.”<sup>xi</sup>

By contrast, the monopolization he had witnessed in the Japanese economy evidently allowed him to draw a parallel with a socialist model, in which the only possible choice is to either be

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socialism.” DOUGLAS MACARTHUR, *REMINISCENCES*. GENERAL OF THE ARMY DOUGLAS MACARTHUR 352 (Fawcett Crest 1964).

<sup>xi</sup> *See id.*

absorbed by the monopolistic powers or else be marginalized. Moreover, it should not be forgotten that SCAP's economic reforms were largely based on the New Deal with clear aversion to a monopolistic model.<sup>xii</sup> The idea that new businesses could not actually grow and become established prescinding from the complex *zaibatsu* governance was actually something unconceivable. The four great *zaibatsu* and the minor ones were considered altogether as an economic colossus crushing every form of individual initiative that, in MacArthur's eyes, could effectively create an embryonic form of Anglo-Saxon capitalism.<sup>xiii</sup>

### *03. Capitalism as individual freedom*

In an American cultural environment, private property and free economic activity can be considered essential protections from the coercion of public powers, and consequently a guarantee of personal freedom.<sup>xiv</sup> Therefore, free economic initiative is thought to be essentially disentangled from public control and supervision.

On the contrary, in the Japanese *zaibatsu* system, establishing close ties with the government and State institutions was considered essential to gain a position of preeminence and prestige, thus giving an impression of unity between State and economy that could easily overlap with a socialist model. This point is also clear regarding the history of the *zaibatsu*, whose conglomerates grew in the Meiji period from the so-called *seishō*, or "political merchants," but originated from rich traders of the late Edo period. With the massive industrialization brought about by the Meiji Restoration, the Meiji oligarchs stipulated agreements with the *seishō* to dispose of new capital for their ambitious projects, simultaneously laying the foundations of the merchants' future flourishing and fortune.<sup>xv</sup> It was a mutually enriching cooperation, whose advantages laid mainly in the close ties

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<sup>xii</sup> See BAI GAO, *ECONOMIC IDEOLOGY AND JAPANESE INDUSTRIAL POLICY: DEVELOPMENTALISM FROM 1931 TO 1965* 127-28 (Cambridge University Press 1997).

<sup>xiii</sup> This conception is evident analyzing MacArthur's description of SCAP's land reform in Japan, where the main success, according to the general, was that of redistributing lands to farmers in order to empower them from a financial point of view and put them in the conditions of becoming capitalists on their own. Cf. MACARTHUR, *supra* note x, at 313.

<sup>xiv</sup> The cultural references are clearly to authors like Adam Smith and John Locke, deeply influencing the conception of private property and capitalism in general. See generally Michael Robertson, *Liberal, democratic, and socialist approaches to the public dimensions of private property*, in *PROPERTY AND THE CONSTITUTION* 239 (J. MacLean ed., Hart Publishing 1999).

<sup>xv</sup> "Though often used as a pejorative, *seishō* aptly describes a particular institutional stage in the development of Japanese business, which lasted from the Restoration to the mid-1880s. During these years the privileged connections, the source of much business wealth, were essentially ad hoc

between the public and the private sectors, and between governmental élites and private businessmen that struggled to build a new Japan out of the ashes of the decaying *bakumatsu* period.

To contextualize the emergence of the *zaibatsu* from these political merchants, the phrase *seishō kara zaibatsu* emerged to point out the shared origin of this phenomenon, notwithstanding the differences between the two concepts in the respective historical periods.<sup>xvi</sup> Since their very origin, the *zaibatsu* showed close ties with the public authority—which goes beyond mere business connections—to acquire the form of structural essence of their nature that they had initially conceived. In MacArthur’s eyes, this closeness of public and private sectors was probably considered as a suffocating suppression of free economic initiative, not without possible complicity of the *zaibatsu* in the militarist surge that led Japan to its tragic war experience.<sup>xvii</sup>

#### ***04. Confucianism and the invisible hand***

From a theoretical point of view, Japan’s economic model during those years was also far from the concept of the invisible hand autonomously regulating market and economy, as rooted in the Anglo-Saxon tradition. In Japan, the notion of the invisible hand was almost nonexistent, instead favoring a Confucian model of thought that deeply permeated business and economy.<sup>xviii</sup>

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relations with the government. While business greatly benefited from these special ties, its services, though expensive, helped stabilize the early Meiji government.” WILLIAM D. WRAY, *MITSUBISHI AND THE N.Y.K., 1870-1914: BUSINESS STRATEGY IN THE JAPANESE SHIPPING INDUSTRY* 5 (Harvard East Asian Monographs 1986). Cf. TERANISHI JÜRŌ, *THE EVOLUTION OF THE ECONOMIC SYSTEM IN JAPAN* 54-55 (Edward Elgar Publ’g, 2005); Randall K. Morck & Nakamura Masao, *A Frog in a Well Knows Nothing of the Ocean: a History of Corporate Ownership in Japan*, in *A HISTORY OF CORPORATE GOVERNANCE AROUND THE WORLD: FAMILY BUSINESS GROUPS TO PROFESSIONAL MANAGERS* 367, 377 (Randall K. Morck ed., University of Chicago Press 2005).

<sup>xvi</sup> Cf. Mizumura Norihiro, *Zaibatsu*, in *ENCYCLOPEDIA OF BUSINESS ETHICS AND SOCIETY* 2287, 2287-88 (Robert W. Kolb ed., SAGE 2008).

<sup>xvii</sup> Cf. GUAN QUAN, *TECHNOLOGICAL INNOVATION AND ECONOMIC DEVELOPMENT IN MODERN JAPAN* 127 (Routledge, 2021).

<sup>xviii</sup> On the Confucian influence on economy, see J. BARKLEY ROSSER, JR. & MARINA V. ROSSER, *COMPARATIVE ECONOMICS IN A TRANSFORMING WORLD ECONOMY* 89-90 (MIT Press 2004); Thomas P. Bernstein, *Confucian Model of Development*, in *ROUTLEDGE ENCYCLOPEDIA OF INTERNATIONAL POLITICAL ECONOMY: VOLUME 1, ENTRIES A-F231*, 231-33 (R. J. Barry Jones ed., Routledge 2001).

The *zaibatsu* model made no exception, grounded as it was in Confucian ethics, and conjugated the Western idea of enterprise with East Asian traditional values.<sup>xix</sup> It is not by chance that one of the pioneers of Japanese entrepreneurship and capitalism, Shibusawa Eiichi, maintained as his ultimate goal the unification of economics and morality, taking inspiration from Confucius's *Analects* and going so far as to equate business with *samurai* ethics.<sup>xx</sup> Hence, and always based on Confucius's vision, the responsibility for enriching the country is not to be found in the free individual, but rather in the State.<sup>xxi</sup>

Consistently, one of the principal mottos of Meiji Japan had been *fukoku, kyōhei*, “enriching the nation, strengthening the Army,”<sup>xxii</sup> with the leading role falling to public institutions in the modernization process. From this perspective, the economic legitimization was based in ethics consistent with this cultural milieu, like in the case of the service of the State and the community,<sup>xxiii</sup> thus acquiring also a public and even social connotation. It is precisely in this dimension that the *zaibatsu* system stands in between a capitalist model and social—or even socialist—approach, in which the demarcation line between State and market is not so clearly defined.

Confucianism was indeed a system of conceiving life and social bonds that, for the major part, escaped the schemes of comprehension used by the occupiers, who struggled to understand a culture whose relational rationales were largely based on customary traditions and deeply rooted philosophical principles. Analyzing the *zaibatsu* system with American principles necessarily alienates it from what the U.S. command naturally labelled as capitalism, considering it closer to a socialist model because of the collectivist intellectual milieu that had structured its internal and external dynamics. Confucian familial collectivism<sup>xxiv</sup> is here associated with a form of socialism,

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<sup>xix</sup> See MICHAEL Y. YOSHINO & THOMAS B. LIFSON, *THE INVISIBLE LINK: JAPAN'S SOGO SHOSHA AND THE ORGANIZATION OF TRADE* 14 (MIT Press 1986).

<sup>xx</sup> See YAO XINZHONG, *AN INTRODUCTION TO CONFUCIANISM* 137 (Cambridge University Press 2000) (discussing Shibusawa's theories).

<sup>xxi</sup> Cf. MICHAEL SCHUMAN, *CONFUCIUS: AND THE WORLD HE CREATED* 280-316 (Basic Books 2015).

<sup>xxii</sup> See KEITH A. NITTA, *Foreign Policy Paradigms, in US-JAPAN RELATIONS IN A CHANGING WORLD* 67 (Brookings Institution Press 2002).

<sup>xxiii</sup> Cf. E. Sydney Cawcours, *Industrialization and technological change, 1885-1920, in THE CAMBRIDGE HISTORY OF JAPAN, VOL. VI, THE TWENTIETH CENTURY* 385, 448 (Cambridge University Press 1988).

<sup>xxiv</sup> This is a common trait for other East Asian societies as well, like China. See Siu Wai-Sum, *The Lure of Chinese Management: Chinese Small Business Management – a Tentative Theory, in THE DRAGON MILLENNIUM. CHINESE BUSINESS IN THE COMING WORLD ECONOMY* 195 (Frank-Jürgen Richter ed., Quorum Books 2000).

maybe in a rather simplistic way, but nevertheless in a way that helps in understanding MacArthur's position on *zaibatsu* capitalism.

### *05. Hierarchy and family ties*

Based on the Confucian influence on Japanese economy, another major differentiation between *zaibatsu* capitalism and MacArthur's own idea of the concept lies in the hierarchical and semi-feudal structure of the Japanese conglomerates. The *zaibatsu* were essentially modelled after the traditional Japanese family (*ie*), which was a clan-based patriarchal model made up of multiple households subordinated to a unique patriarch. It was once again a form of collectivism, where the basic form of institution is the family as the center of moral, political and economic development.<sup>xxv</sup>

This idea was quite coherently transposed into the economic field, with multiple subsidiaries and secondary enterprises responding to the parent company in a diffuse—and at the same time hierarchical—pyramidal structure, quite difficult to properly understand without the cultural and philosophical context from which it originated.<sup>xxvi</sup> Moreover, the hierarchical structure of the system, made possible through the bond of loyalty and submission to a unique chief, mirrored the figure of the fatherly leader of the Confucian family-nation (in Chinese, *guójiā*).<sup>xxvii</sup> A corporation was indeed structured like a family, and its internal corporate relations basically followed the ones of the family-institution, in turn composing the family-nation. Values such as filial piety and obedience, located in the broader framework of the cult of the ancestors, contributed in grounding *zaibatsu* business in a familial mindset, whose logic was that of hierarchy and subordination.

If American capitalism escapes hierarchical relations to adopt a more diffuse pattern of developments, better mirrored by the image of a network, the semi-feudal architecture of the *zaibatsu* system and its ancestral conception of business relations contributes to explaining why, in the occupiers' eyes, capitalism as they intended it was a completely different matter.

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<sup>xxv</sup> “Confucian familial collectivism provided the moral and ideological foundation for the family. The development of the family as an institution in turn helped to sustain the correctness of Confucian familial collectivism, which lay at its very foundation.” *Id.*

<sup>xxvi</sup> See YOSHINO & LIFSON, *supra* note xix, at 14.

<sup>xxvii</sup> See LUCIAN W. PYE & MARY W. PYE, *ASIAN POWER AND POLITICS. THE CULTURAL DIMENSION OF AUTHORITY* 72-79 (Harvard University Press 1985).

## ***06. Conclusion***

Notwithstanding the above elements, highlighting a hierarchical, State-backed, and socially concerned dimension of Japanese prewar economy, the system of the *zaibatsu* could not be coherently defined as socialist. The methods of coordination linking the conglomerates to the State and its institutions were not necessarily legally disciplined and organically inserted into a political and ideological vision assuring the preeminence of the State over the economy, as would be the case in a socialist model. On the contrary, it was more the spontaneous emergence of ties and connections deriving from a shared cultural background deeply marked by Confucianism, which did not need to be formalized like in a Western legal and political system. Moreover, the monopolization of Japanese economy by the *zaibatsu* was not a unitary operation led by the State, but the outcome of historical contingencies connected to the Meiji Restoration, with the rise in power of various families operating in the same market, and thus more in a sort of extreme oligopoly.

The deep divergence in the cultural and historical backgrounds prevent, therefore, a credible parallelism between socialism and the *zaibatsu* model, which would be more appropriately termed “national-capitalism.” Nevertheless, MacArthur’s intuition is not completely out of place. Biased as it is by the belief in a dichotomy where systems can be either socialist or capitalist, it eludes the complexity of the matter, precisely forgetting the multiple shades of grey in which the *zaibatsu* are located. The Japanese prewar economy was indeed a hybrid located at the crossroads of multiple cultural influences, suspended between East and West and between innovation and tradition, and understanding it requires an overall analysis of East Asian philosophy and history, acknowledging a complexity that necessarily escapes clear-cut definitions.