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# The 1920 Japanese Income Tax Reform: Government, Business and Democratic Constraints

Shunsuke Nakaoka  
Kokushikan University

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Shunsuke Nakaoka  
Kokushikan University

**Abstract**

This paper aims to analyze the challenges and attempts of the business world and the business elite in modern Japan to exercise influence on the political decision-making process in relation to income tax reform. Particular attention is focused on the 1920s income tax reform, which is widely considered as a turning point by many Japanese historians, for instance in prompting major organizational changes in Japanese business. The paper discusses the strategy of resistance from the business side and governmental responses. It shows that while the outcome was an unsatisfactory one for the business elite it was also impossible for Japan's government and bureaucracy in implementing policy to ignore political resistance in the Diet or from business interests.

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# The 1920 Japanese Income Tax Reform: Government, Business and Democratic Constraints

Shunsuke Nakaoka  
Kokushikan University

## Introduction

For European states, securing financial resources through the development of the taxation system was fundamental to state formation from the early modern period. A number of researchers have pointed out that success in administering a modern state depended on whether or not the state could increase tax revenues without generating any sort of social, political or economic crisis, as well as being able to borrow from the capital market.<sup>1</sup> In this context income tax, which was a relatively new idea even in Europe in the early modern period, played a significant role in securing national expenditure, in particular for warfare, and in transforming the structure of tax revenue.<sup>2</sup> Since the introduction of the modern tax system in Japan mainly took place from the middle of the 19<sup>th</sup> century, the development of the system and the practices associated with it after the Meiji Restoration of 1868 were strongly influenced by existing ideas relating to income tax. The introduction of income tax at a national level therefore occurred relatively early in Japan by comparison with most European states, with the exception of the UK.<sup>3</sup>

In contrast to land and liquor taxes, which had to some extent been continued from the former Tokugawa taxation system, and constituted important sources of tax revenue for the modern Japanese government, the income tax was a totally new development. The income tax framework was in part derived from contemporary European tax systems, in particular that of Germany.<sup>4</sup> The introduction of the income tax was swift, and it rapidly came to form the basis of Japanese fiscal revenue in line with similar developments in other more

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<sup>1</sup> See, for example, R.Bonney, 'Introduction: the rise of the fiscal state in Europe, c.1200-1815', in Bonney (ed.), *The Rise of the Fiscal State in Europe, c.1200-1815* (Oxford, 1999), especially pp.3-14.

<sup>2</sup> For a detailed study focussing on the case of the UK see M.Daunton, *Trusting Leviathan: the Politics of Taxation in Britain, 1799-1914* (Cambridge, 2001).

<sup>3</sup> For example, although some German states, such as Prussia and Saxony, were more advanced in terms of how they managed income tax, some of the minor states only partly implemented income tax, and the German income tax system was not unified at a national level until the fall of the German Empire in 1918. Some contemporary researchers who undertook comparative research on income tax systems were impressed by the swift introduction and comparative success of the Japanese income tax system. See K.K.Kennan, *Income Taxation: Methods and Results in Various Countries* (Milwaukee, 1910), pp.86-129, 156-161.

<sup>4</sup> For a general review of the modern Japanese taxation system, see Ōkurashō (ed.), *Meiji Taishō Zaiseishi* vol.6, *Naikokuzei Jō* (Tokyo, 1959). For income tax see *ibid.*, pp.1000-1150.

developed states around the same time, for instance in the US.<sup>5</sup> At the same time, Japan's tax collection system was modelled on the Bavarian and Prussian systems, as a result of consultations with tax officers from these states during the process of legislating for the introduction of income tax in Japan.<sup>6</sup> The establishment of an income tax investigating committee to set the amount payable by each tax payer, and the election of the members of that committee from the body of public taxpayers, mostly from the wealthy elite, was an example of a feature copied from the German states.<sup>7</sup>

At the time of its introduction in 1881 the maximum income tax rate in Japan was just 3 percent of personal income, and the revenue from this tax accounted for a tiny proportion of total revenue. However, income tax revenue became steadily more important for the Japanese government, largely due to the significant expansion in military expenditures that accompanied the nation's imperialist and colonial policy in this period. A succession of income tax reform bills was introduced by the government right at the end of the 1890s and after the turn of the century.<sup>8</sup> These successive reforms shaped the general substance of the income tax system in modern Japan. For example, in the early 20<sup>th</sup> century income tax was divided into three separate categories with a view to increasing tax revenue. Category 1 (*dai-isshu*) was the taxation of company profits, almost the same as the current corporate tax. Category 2 (*dai-nishu*) was the taxation of interest on bonds and bank deposits, while Category 3 (*dai-sanshu*) was virtually equivalent to the current personal income tax.<sup>9</sup> With each successive reform bill the maximum tax rate increased, and at the same time the central tax authority (*Shuzeikyoku*), one of the key departments of the Ministry of Finance, made increasing efforts to further enforce tax collection.<sup>10</sup>

However, it is also apparent that tightening up on income tax collection provoked resistance from tax payers, in particular from members of the wealthy elite, who were the

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<sup>5</sup> For example a comprehensive income tax was introduced in the US in 1913, just before the beginning of the First World War. Most other states in this period were moving in a similar direction. See C.Moriguchi & E.Saez, 'The Evolution of Income Concentration in Japan, 1886-2005: Evidence from Income Tax Statistics', *Review of Economics and Statistics* 90, 4, 2008, p.713.

<sup>6</sup> Details of the exchanges about the income tax system between the Japanese politician, Itō Miyoji, and a Prussian tax Officer called Rudolf (other personal details unknown) were recently discovered by the National Taxation Bureau (*Kokuzeikyoku*). See Zeimu Daigakkō Zeimu Shiryō Sentā Sozei Shiryōshitsu (ed.), *Sozei Shiryō Sōsho* vol.3, *Shotokuzei Kankei Shiryō* (Tokyo, 2008), pp.29-50.

<sup>7</sup> However, it has been argued that some Japanese characteristics were added to the system, for example assigning value to the seniority of a candidate at the time of election. For details relating to the income tax investigating committee see T.Ushigome, 'Shotoku Chōsa linkai no Kenkyū', *Zeimu Daigakkō Ronsō* 65, 2010.

<sup>8</sup> Income tax reform bills were passed by the government in 1899, 1908, 1913 and 1918 prior to the reform of 1920 that is the main focus of discussion in this paper. For further details see Ōkurashō (ed.), *Meiji Taishō Zaiseishi* vol.6, pp.1000-1080.

<sup>9</sup> For more on these categories see *ibid.*, pp.1035-6.

<sup>10</sup> For details of organizational reforms within the *Shuzeikyoku* see T.Ushigome, 'Kokuzei Chozai Kikō Keiseishi Josetsu', *Zeidai Ronsō* 39, 1999.

main targets of income tax collection and made the greatest contribution to the continuous growth of revenue from this tax. Problems relating to the income tax proved difficult to solve, not least because both the government and the tax authorities depended on the assistance of the wealthy elite for the process of income tax collection because of its importance for the formal income tax investigation committee.<sup>11</sup> Although the committee itself fuelled disputes over tax payment because it had the right to set the rate of tax, without the cooperation of the committee the *Shuzeikyoku* could not by itself cope with the business of tax collection as there were insufficient numbers of tax officials.<sup>12</sup> This major problem was only completely solved at the end of the Second World War, when the investigation committee was finally abolished by the Occupation authorities (GHQ). Moreover, the successive reforms gave rise to serious challenges from business circles and the business elite. These groups took the view that the income tax system exploited their business success through taxing their profits and undermined their plans for business expansion, in addition to siphoning off their personal rewards. Since most big businesses, including the *zaibatsu* (the major business groups) relied extensively on self-financing (reinvestment) policies to expand their business, they saw any increase in the tax burden as fatal to their objectives.<sup>13</sup> It is important to note that some of the business strategies introduced in this period, particularly by bigger concerns such as *zaibatsu*, specifically addressed the need to cope with taxation.<sup>14</sup>

Although the contentious relationship between the income tax investigating committee and the government and tax authorities has been the primary focus of most discussions of the tax system in modern Japan, this paper has a different purpose. It aims to analyse the challenges from the business world and the attempts by the business elite to exercise influence on the political decision-making process that lay behind income tax reform. Particular attention will be paid to the 1920 income tax reform, which has been widely considered by Japanese historians as something of a turning point, prompting organizational change away from personal and merchant house styles towards modernized

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<sup>11</sup> From the earliest days following the introduction of a comprehensive income tax both the government and the *Shuzeikyoku* attempted to restrict the decision making power of the investigation committee, but without success. For details see G.Ōmura, 'Shotokuzei Chōsa linkai Enkaku Gaiyō', *Zeimu Daigakkō Ronsō* 13, 1979.

<sup>12</sup> At the time when the income tax was introduced there were only a few thousand tax officials, and they were responsible for collecting all categories of tax. A dramatic increase in the number of tax officials did not take place until the 1940s. See for example Kokuzeichō (ed.), *Zeimu Gyōsei no 100nenkan* (Tokyo, 2001).

<sup>13</sup> For more on the self-financing policies of big business in modern Japan, especially in the case of the *zaibatsu*, see, for example, S.Yasuoka, *Zaibatsu Keiseishi no Kenkyū* (Kyoto, 1970) and H.Morikawa, *Zaibatsu: the Rise and Fall of Family Enterprise Groupings in Japan* (Tokyo, 1992).

<sup>14</sup> The founding of holding companies within the *zaibatsu* was a particular example of how measures were introduced to deal with the increasing tax burden. See H.Takeda, 'Shihon Chikuseki 3, Zaibatsu', in K.Ōishi (ed.), *Nihon Teikokushugi Shi* vol.1 (Tokyo, 1985), especially pp.248-251.

corporate systems.<sup>15</sup> This theme will be taken up in this paper as follows. Firstly, the general background and the content of the 1920 income tax reform will be presented to facilitate an explanation of why this reform was likely to lead to strong opposition from business circles and business elites. The next section will discuss the methods and strategies of resistance to the reform adopted by business. The third section will analyse the response of government, and the deliberations on tax reform within the houses of the Imperial Diet, Japan's parliament, in the context of public opinion on the reform and the factors that ultimately meant that business resistance was unsuccessful.

While the results and conclusions of this paper are essentially provisional and preliminary, they do call into question the widespread tendency among scholars of Japan to emphasize the existence of a somewhat monolithic decision-making power on the part of the government and the bureaucracy. This particular study suggests that the form of political democracy represented in the houses of the Diet in this period undoubtedly played a constraining role in relation to political decision-making by government and bureaucrats. Moreover, differing interpretations of the economic effects of the reform gave rise to the resistance by business groups, indicating that the relationship between government and Japanese business was far from always being cooperative.

## **1. The 1920s Income Tax Reform in Context**

### *General Background and the Intentions of the Government*

The 1920 income tax reform can be traced back to Japan's fiscal policy during the period of the First World War. As a result of the country's participation in the conflict as a British and US ally, the wartime years witnessed a dramatic expansion in Japan's budget and military expenditures. These national political and military needs were at this stage largely met by introducing special additional taxation on firms and businessmen under the heading of a wartime profits tax (*senji ritokuzei*).<sup>16</sup> However, although the abolition of this additional taxation was on the agenda after the war, the Japanese government still needed extra revenue, not least for the implementation of its national defence policy, and it faced strong

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<sup>15</sup> For analysis of the 1920 income tax reform from the perspective of economic history see eg. Y.Mukae, 'Ōkura Kanryō to Zeisei Kaikaku', in S.Namigata & Y.Horikoshi (eds.), *Kindai Nihon no Keizai Kanryō* (Tokyo, 2000); N.Jinno, 'Shakai Seisakuteki Sozei Seisaku no Tenkai', *Keizaigaku Zasshi* 86, 3, 1985; and J.Teranishi, *Senzenki Nihon no Kinyū Shisutemu* (Tokyo, 2011), especially pp.749-779.

<sup>16</sup> For the details of the wartime profits tax see Ōkurashō (ed.), *Meiji Taishō Zaiseishi* vol.7 (Tokyo, 1959), pp.192-3.

pressure from the military.<sup>17</sup> It was clear that before the wartime profits tax could be repealed the Japanese government had to introduce tax reform as smoothly and quickly as possible. Raising the income tax rate emerged as a good idea for solving the problem.

The government's motives for the income tax reform can be identified as follows. Firstly, by the time of the reform income tax had become the most important source of tax revenue, surpassing even the land tax, which had been the government's main source of revenue until the start of the 20<sup>th</sup> century. In addition, the Japanese economy had experienced a great business boom and increased growth during the wartime period. This boom had led to prosperity and the further expansion of Japanese business, so taxing firms and business elites seemed to both government and the central tax authorities a rational strategy.<sup>18</sup> Secondly, and more importantly, tax evasion and fraud had begun to flourish among wealthy business elites, especially those referred to as the *narikin* (parvenus) whose businesses had become profitable in the context of the wartime demand. Some parts of the media, including magazines and newspapers, criticized some of the *narikin* (in particular those engaged in shipping) for shirking their taxes and avoiding payment at this critical period.<sup>19</sup> In other cases newly rich businessmen formed their own holding companies in order to conceal their wartime profits and level of wealth.<sup>20</sup> There was additional public outrage over a scandal and its subsequent cover-up in which local tax officials manipulated documents relating to the annual income of taxpayers – particularly wealthy taxpayers – in order illegally to deduct income tax.<sup>21</sup>

Therefore at a time when the government was suffering embarrassment from other serious political questions, including public pressure to establish popular voting rights, reorganizing the tax system and implementing much needed reforms came to be seen as a prerequisite for solving a complex set of government problems. At the very least the government had to demonstrate its ability to deliver answers to difficult fiscal problems if it

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<sup>17</sup> For the national defence and military policy after World War I see eg. A.Kōketsu, *Kindai Nihon Seigun Kankei no Kenkyū* (Tokyo, 2005), especially pp.231-275.

<sup>18</sup> Detailed data on the economic and business boom in this period can be found in K.Ōsawa (ed.), *Chōki Keizai Tōkei* vol.7, *Kokumin Shotoku* (Tokyo, 1967).

<sup>19</sup> For example, some newspapers that played an influential role in forming public opinion frequently informed readers about unacceptable activities on the part of some businessmen. See eg. 'Datsuzei ni Fungai shite Jitsugyōkai o saru', *Tōkyō Nichinichi Shinbun* 22 July, 1918.

<sup>20</sup> Detailed analysis of the establishment of holding companies during the early 20<sup>th</sup> century can be found in H.Yazawa, *Kindai Nihon no Shotoku Bunpu to Kazoku Keizai* (Tokyo, 2004), especially pp.115-181.

<sup>21</sup> This scandal happened at the local tax authority in Nihonbashi, Tokyo, which was the business centre in this period, and home to many wealthy merchants and businessmen. Information on the scandal can be found by looking at contemporary newspaper articles. Some members of the Diet referred to this scandal during the deliberations on reform of the income tax. For news coverage of the scandal see eg. 'Zeimu Kanri no Shūwai Jiken: 18nichi rai Zokuzoku Keishichō ni Shōkan', *Yomiuri Shinbun* 21 August, 1918, p.5.

was to survive the harsh political conditions that it was facing. It was in this context that income tax reform became a topic of discussion in 1919 and 1920.

### *Content of the reform*

Although the government and the tax authorities had begun to prepare for income tax reform in the late 1910s, the real political action behind the reform began in 1919, during the premiership of Hara Takashi, known in modern Japanese history as the country's first commoner prime minister (*heimin saishō*). Hara was an outsider in contemporary political circles that were still largely dominated by the *hanbatsu* (clan-faction) closely associated with the politics of the 1868 Meiji Restoration. This was the first time that a politician who was not part of the *hanbatsu* circle had gained political leadership.<sup>22</sup> The 1920 income tax reform was mainly Hara's initiative, along with that of his finance minister, Takahashi Korekiyo, whose fame rests largely on his contributions to the development of the modern Japanese financial system.<sup>23</sup>

To meet the budget demands of the military, the government planned a series of reforms to the income tax system. Firstly, they would raise the maximum Category 3 (personal) tax rate to 50%. This rate would apply to the upper echelon of the wealthy classes whose annual income exceeded 8 million yen (about £400,000 at the time).<sup>24</sup> Although there had already been a considerable rise in the maximum rate prior to this reform, particularly when compared to the initial introduction in 1881, this move signified an apparent aim of targeting the most wealthy elements in society.<sup>25</sup> The second element of the reform was one that would have a huge impact on the average taxpayer, since it comprised a reconsideration of corporate dividends, which had previously been tax exempt through the application of a withholding system. The implication of this was that the reform intended to introduce a consolidated system for income tax collection which would require detailed income assessments. Such assessments would, it was assumed, be conducted by the local tax authorities, the *Zeimu Kantokukyoku* (Supervision Office for Taxation), which was responsible for overseeing tax collection at the local level.<sup>26</sup> One factor behind the proposed abolition of the exemption was the difficulty the authorities faced in obtaining detailed income

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<sup>22</sup> For the personal details and political activities of Hara Takashi in English see eg. P.Duus, *Party Rivalry and Political Change in Taisho Japan* (Cambridge MA, 1968).

<sup>23</sup> For Takahashi's economic and political contributions in English see eg. R.J.Smethurst, *From Foot Soldier to Finance Minister: Takahashi Korekiyo, the Japanese Keynes* (Cambridge MA, 2007).

<sup>24</sup> For the first planned tax rate charts see Ōkurashō, *Meiji Taishō Zaiseishi* vol.7, p.1146. The currency conversion rate is taken from T.Nakamura, *Economic Growth in Prewar Japan* (New Haven CT, 1983), p.34.

<sup>25</sup> Before the 1920 reform the maximum tax rate was 30%. Changes in the maximum rate are documented in Ōkurashō (ed.), *Meiji Taishō Zaisei Shōran* (Tokyo, 1925), pp.658-664.

<sup>26</sup> This was part of the tax authorities' objective of enforcing its ability to investigate income. See Ushigome, 'Shotoku Chōsa linkai no Kenkyū', pp.176-7.



data from individuals who gained their income from dividends from holding companies, as in the case of the owners of *zaibatsu*.<sup>27</sup> Not surprisingly this reform subsequently stimulated business reorganization in many Japanese firms, since it effectively increased the tax burden on firms with more personal and non-corporate styles of management.<sup>28</sup>

The third aspect of the reform, which was the most significant for the central tax authorities, was the establishment of legal penalties for firms or individual taxpayers who were reluctant to present detailed information such as receipts or accounting ledgers essential for the calculation of taxpayers' annual incomes, or who totally refused to do so.<sup>29</sup> For the *Shuzeitkyoku*, establishing penalties for refusing to provide accurate information on income was a prerequisite to making the tax collection system more efficient. However, with each successive reform, all attempts to do so through debates or committee deliberations during the sessions of the Imperial Diet had ended in failure. Eventually success in this endeavour was therefore a victory for the central tax authorities.

The outcome of all this was that the 1920 income tax reform became a turning point both for government bodies wishing to increase revenue to pursue their desired policies and for taxpayers, mostly those who belonged to business circles or were categorized as members of the business elite. The reform elicited strong criticism from these groups, which sought to exert political and social pressure in an attempt to block it.

## 2. Reaction and resistance: Response of the business community

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<sup>27</sup> The Mitsui families were a particular example of this. As the members of these families mostly gained their income from the dividends from their holding company, Mitsui Gōmei, their income tax burdens were comparatively small compared to those borne by other *zaibatsu* families. Income tax data for 1915 suggests that Mitsui Takamine, the president of Mitsui Gōmei, paid just 453 yen in income tax, whereas Iwasaki Hisaya, the owner of Mitsubishi *zaibatsu* in this period, paid income tax to the value of 42,194 yen. For the income tax data see Kōjunsha (ed.), *Nihon Shinshiroku* 5<sup>th</sup> ed. (Tokyo, 1916).

<sup>28</sup> Even before the 1920 reforms, successive reforms of income tax had served as major incentives for organizational changes within Japanese big business and *zaibatsu* aimed at minimizing the tax burden, since the reforms had progressively moved towards increasing the Category 3 (personal) income tax. By comparison Category 1 taxation, equivalent to present day corporate tax, was subject to considerably lower rates. For organizational change before the 1920s in the case of Mitsui see Mitsui Bunko (ed.), *Mitsui Jigyō Shi: Shiryō Hen* vol.3 (Tokyo, 1974), especially pp.585-590.

<sup>29</sup> At the time when it was first implemented the income tax law included some penalties for refusing to furnish information on personal income. However at the time of the first reform in 1901 these penalties were completely abolished. The reasons for this are unknown. See Ushigome, 'Shotoku Chōsa linkai', p.154. For more on the debates in the Japanese Diet on the 1901 reforms see Shūgiin (ed.), *Teikoku Gikai Shūgiin Giji Sokkiroku* Vol.13 (Tokyo, 1981), p.140.

### *Reasons for opposition*

There is no doubt that the plans for income tax reform finally presented by the government to the Diet in 1919 met with serious opposition from the business community and its elite members. Even when the special wartime profits tax (*senji ritokuzei*) had been introduced during wartime to cope with the enormous fiscal demands associated with the conflict there were already signs of tax avoidance from members of the business elite who concealed their profits by utilizing legal or strategic methods.<sup>30</sup> Criticism of the proposed reform also came from business leaders who had cooperated with government policies that had helped make the Japanese economy more prosperous.<sup>31</sup>

For those belonging to business circles in this period, whether playing a major or a minor role, it seemed that the reform was an easy way for the government to solve its fiscal problems at their expense.<sup>32</sup> Immediately after the end of the First World War the business community wished to abolish the wartime profits tax, which they regarded as a heavy burden obstructing business activities. It therefore seemed to businessmen that in exchange for abolishing one tax the government was merely attempting further to increase the tax burden by legislating a different reform. Without a comprehensive overhaul of the taxation system to disperse tax burdens fairly they regarded the reform as totally unacceptable. It was this attitude that became the driving force behind resistance to the reform when it was initially introduced. Needless to say, increases in the tax rate, whether personal or corporate, also provoked the antagonism of the business community.

Secondly, Japanese business leaders considered the introduction of the dividend tax as tantamount to double taxation, since such a tax was likely to have an equally unfavourable impact on their business activities. Even before 1920, tax on income from the payment of dividends had been collected through a withholding system. The government's new plan for a consolidated taxation system that maintained the withholding of tax on dividends was interpreted as additional taxation of post-tax dividend income accruing to firms and business leaders. Firms which were categorized as non-corporate family businesses were charged at the Category 3 (personal) tax rate under the income tax system in this period, and this essentially meant that non-corporate firms had to pay the higher

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<sup>30</sup> See Takeda, 'Shihon Chikuseki', pp.250-1.

<sup>31</sup> Research and analysis on the Japanese business community (the so-called *zaikai*) has shown that there was a strong history of cooperation between Japanese political and business circles. For details of this relationship see M.Matsuura, *Zaikai no Seiji Keizai Shi* (Tokyo, 2002).

<sup>32</sup> Some business leaders complained that taxing firms' profits impeded self-financing, which was widely used as a strategy for business expansion, and also emphasized the ignorance of the government and the tax authorities regarding business matters. See eg. 'Ryuhokin no Kazei, Shotokuzei Hō no Kekkan', *Chūgain Shōgyō Shinpō* 2 February, 1919, p.3.

Category 3 rate rather than the Category 1 (corporate) rate.<sup>33</sup> Moreover some non-corporate family businesses, such as the Sumitomo *zaibatsu*, still made use of holding company dividends to self-finance their business activities even though dividends were subject to the Category 3 rate.<sup>34</sup> Since in 1920 many Japanese firms were in something of a transitional period, and most businesses took non-corporate forms, the 1920 income tax reform was hence regarded as constituting double taxation.

Finally, many business leaders had not anticipated what would come after the wartime economic boom. Since the boom itself had been driven by the dramatic expansion of Japan's exports of goods and services as economies in more industrialised states such as the US and in Europe reoriented themselves towards the imperatives of war, the Japanese economy experienced a depression as the economies of Europe and America returned to normality after the end of the war. However, few Japanese business leaders foresaw this outcome during the war period, and planned countermeasures against it.<sup>35</sup> For most of Japan's business leaders the radical change in economic conditions after the war came as a totally unexpected problem. Thus the introduction of income tax reform was in this respect poorly timed, coinciding as it did with a recognition in Japanese business circles that they had reached the end of the economic boom. The anxiety bred by this realization further increased the antagonism towards the reform of 1920.

#### *Forms of resistance from business circles*

The most common way in which the business community and business elites sought to resist the planned reform was through the utilization of formal or informal contacts with the government. On the occasion of the 1920 reform a number of business organisations, including the chambers of commerce (*shōgyō kaigisho*) and the Japan Industrial Club (*Nippon Kōgyō Kurabu*), submitted a succession of formal petitions and protest documents asking legislators to reconsider the introduction of the reform, and, if possible, to abolish it completely.<sup>36</sup> In some cases petitions exercised a certain influence over the adoption of

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<sup>33</sup> Whereas the Category 1 rate was a 6.25% flat tax rate, the Category 3 rate was a progressive one that worked out as considerably higher. For details on the difference in the tax rates see Ōkurashō (ed.), *Meiji Taishō Zaiseishi* vol.6, pp.1035-80.

<sup>34</sup> Sumitomo's tax burden was considerably larger than those of other *zaibatsu*, for instance Mitsui or Mitsubishi. For details see K.Yamamoto, *Sumitomo Honsha Keieishi: Jō* (Kyoto, 2010), pp.314-318, 390-1.

<sup>35</sup> A rare exception to this was Suzuki Masaya, the leader of Sumitomo *zaibatsu* from the late 19<sup>th</sup> century through to the 1920s, who even during the war had already anticipated radical economic shifts after its end, and attempted to formulate counter-strategies aimed at the survival of Sumitomo's business. For details see Yamamoto, *Sumitomo Honsha Keieishi: Jō*, especially pp.308-12.

<sup>36</sup> See for example Nippon Kōgyō Kurabu (ed.), *Nippon Kōgyō Kurabu 70nenshi* (Tokyo, 1972), pp.55-57. This organisation already had experience of successfully lobbying for amendments to the wartime profits tax legislation. See *ibid.*, pp.53-4. For the reaction of the chambers of commerce, see 'Shotokuzei Hōan Taian: 8 Kaigisho Ketsugi', *Asahi Shinbun* 3 February, 1919, p.3.

amendments and had some effect in shaping the formal discussions with government.<sup>37</sup> Formal or informal contact with opposition parties was also a political strategy employed to delay or prevent deliberation.<sup>38</sup> This therefore became one of the strategies pursued by the business community to communicate its collective opinion to the government and members of the Imperial Diet during the process of deliberation. The actions and organizational decisions of business leaders related to the reform plan were on occasions also reported in the public media.<sup>39</sup>

Representatives of the business community in addition attempted to utilize newspapers and business magazines to deliver their message to the public. Regarded as business-friendly media, these publications were used to spread the view of the business community that the tax reform had the potential to damage the Japanese economy. In 1919-20, on the occasion of the initial deliberations on the reform in the Diet, a number of newspapers, including the *Chūgai Shōgyō Shinpō* (now the *Nihon Keizai Shinbun (Nikkei)*, the equivalent of the *Financial Times*), campaigned against the proposed tax reform by articulating the opinions of business leaders.<sup>40</sup> For business circles and business elites, business magazines were also useful means of expressing points of contention and criticism.<sup>41</sup> The fact that many business leaders and other businessmen were contributing to business publications suggests that they recognized that these magazines were important propaganda tools that they believed could be used to achieve their desired objectives. Business leaders also had the opportunity of exercising direct influence at the political level, as at the time of the reform mass democracy played an important role in political decision-making in Japan.<sup>42</sup> The period was characterised by the gradual development of party politics, a phase often referred to as Taishō Democracy.<sup>43</sup> In this context the government of Prime Minister Hara faced a number of problems in legislating for the tax reform. Firstly, the current ruling party, the *Rikken Seiyūkai*, did not have a majority in the lower house (*Shūgiin*) of the Imperial Diet, and had therefore been forced to form a coalition government in

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<sup>37</sup> For example see 'Shotokuzei Hō Kaisei ni kansuru Seigan no Ken', 25 October, 1918, in *Kōbun Zassan Taishō 7nen Dai 16kan* (2A-014-00-01432100: National Archive of Japan).

<sup>38</sup> For instance see 'Kensei Shōgi Hōmon: Tai Shotokuzei Mondai', *Yomiuri Shinbun* 11 June 1920, p.3. This newspaper article reported meetings between the Kenseikai, the major opposition party during this period, and the chamber of commerce to discuss income tax reform.

<sup>39</sup> For example see 'Shotokuzei Hōan Taian' or 'Jitsugyōdan Dairengō: Shotokuzei ni Taishi', *Yomiuri Shinbun* 26 May 1920.

<sup>40</sup> For this campaign see the series of newspaper articles entitled 'Gimon Ōki Shotokuzei Hōan no Hihan' nos.1-6, published in *Chūgai Shōgyō Shinpō* 2-7 February, 1920.

<sup>41</sup> See eg. 'Ryuhokin Kazei no Futō', *Daiyamondo* 21 March, 1920, and 'Kaisha ni taisuru Shinkazei', *Jitsugyō no Nihon* 15 January, 1920. Both *Daiyamondo* and *Jitsugyō no Nihon* were business magazines with frequent contributions from business leaders.

<sup>42</sup> A brief description in English of the constitutional political system and the role of the Imperial Diet may be found in M.B.Jansen, *The Making of Modern Japan* (Cambridge MA, 2002), esp. pp.414-423.

<sup>43</sup> See *ibid.*, pp.496-511.

conjunction with several minor political parties.<sup>44</sup> These minor parties included the *Seikō Kurabu*, whose members consisted mainly of businessmen. The ruling party could not in practical terms ignore the interests of this coalition partner, which may well have opposed the reform.<sup>45</sup> In addition many lower house members, from both ruling and opposition parties, were themselves businessmen who could be seen as potentially useful allies in building resistance to the tax reform. Moreover, even if the reform bill was to pass the *Shūgiin*, getting the reform through the upper house of the Imperial Diet, the *Kizokuin*, whose membership consisted mainly of hereditary peers, imperial appointees and representatives of high taxpayers (including members of the business elite), was likely to prove rather more problematic for the government.<sup>46</sup> In order to become law the income tax reform bill had to be passed by both houses of the Diet.

Business circles therefore had a number of strategies for staging resistance to the planned income tax reform, and the political advantages accruing from the democratic party system in conjunction with the existence of business representatives in both houses of the Diet seemed promising in terms of successfully forcing the government to abandon the reform plan. However, it was not easy for the business community to achieve acceptance of its collective opinion, and the limitations on this will be discussed in the next section.

## The Political Response

### *Deliberations in the Imperial Diet*

The deliberations on the income tax reform took place in 1920. The debate within the two houses of the Diet can be divided into two phases. The first stage lasted until the sudden

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<sup>44</sup> In December 1919, when the lower house started to deliberate on the income tax reform, the *Rikken Seiyūkai* formed a coalition government with minor parties including the *Seikō Kurabu*, the *Rikken Kokumintō* and the *Shinseikai*. These parties had a total of 88 members in the *Shūgiin*, giving the *Rikken Seiyūkai*, with its own 164 members, an overall majority out of the total lower house membership of 379. See Shūgiin & Sangiin (eds.), *Gikai Seido 100nen Shi: Teikoku Gikaishi, Jō* (Tokyo, 1990), p.745.

<sup>45</sup> Since the *Seikō Kurabu* had 33 *Shūgiin* members at this time, their leaving the coalition might well have led to the collapse of the coalition government.

<sup>46</sup> Since the members of the upper house were not members of political parties it was difficult for the government to exercise political power in the *Kizokuin*. Moreover, from the early 20<sup>th</sup> century upper house members had formed a number of political groups with a view to resisting the political influence of both the government and the lower house of the Diet. For details see eg. Y.Otobe, *Kazoku: Kindai Nihon Kizoku no Kyojō to Jitsuzō* (Tokyo, 2006), especially pp.182-201.

dissolution of the lower house and the calling of a general election, largely due to an attempt by opposition parties to pass a bill to expand the right to vote to all adult male citizens.<sup>47</sup> The second stage of debate followed the general election in May 1920, an election that made it easier for the government to pass the reform even though it still had to make further amendments to the reform bill.

During the two stages of debate in both upper and lower houses members participating in the debate raised several points of issue in relation to the reform bill. Firstly, members of both houses criticized the introduction of the reform bill in the absence of detailed consideration of a more general reform of the overall taxation system. Some members of the lower house lamented that there were other ways than tax reform to increase government revenue, for instance by selling national assets.<sup>48</sup> Another member of the upper house was puzzled that the government had introduced the reform without any detailed examination of the problems inherent in the existing taxation system by the Investigating Committee on Fiscal and Economic Issues (*Zaisei Keizai Chōsakai*), which had been established as a formal government committee under the auspices of Prime Minister Hara.<sup>49</sup> Even in the case of members of the majority party, the *Rikken Seiyūkai*, ignorance of problems in the current tax system provoked a number of questions at an early stage regarding the validity of the reform bill.<sup>50</sup> Many lower house members of the *Rikken Seiyūkai* also initially joined in the criticisms of the introduction of a consolidated taxation system voiced by the business community.<sup>51</sup> These opinions articulated by members of the Diet indicate that they to some extent regarded the income tax reform as reflecting lax policy making on the part of the government.

Further questions were raised about the extent to which the proposed tax reform bill would be effective in preventing tax evasion by the wealthy, who were the main target of efforts at collection. On the one hand there was heated debate between members of the cabinet, including the prime minister, and members of the Diet over the issue of whether the reform bill would further encourage tax evasion by taxpayers, especially those belonging to

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<sup>47</sup> For details of the voting rights movement in this period see eg. Y. Itō, *Taishō Demokurashii to Seitō Seiji* (Tokyo, 1987).

<sup>48</sup> See 'Kokumudaijin no Enzetsu ni taisuru Shitsugi', 30 January, 1920, recorded in Shūgiin (ed.), *Teikoku Gikai Shūgiin Sokkiroku* vol.36 (Tokyo, 1982), pp.71-74.

<sup>49</sup> See 'Shotokuzei Hō Kaisei Hōritsuan hoka 5ken: Daiichi Gikai', 13 February, 1920, recorded in Kizokuin (ed.), *Teikoku Gikai Kizokuin Giji Sokkiroku* vol.36 (Tokyo, 1982), pp.269-271.

<sup>50</sup> See the debate during the committee session on the income tax reform bill between Ogawa Gōtarō, a *Rikken Seiyūkai* member of the lower house who was also a famous scholar of public finance, and Takahashi Korekiyo, recorded in 'Shotokuzei Hō Kaiseian hoka 6ken linkai Giroku', 31 January, 1920, in Shūgiin (ed.), *Teikoku Gikai Shūgiin linkai Giroku* 24 (Kyoto, 1984), pp.41-45.

<sup>51</sup> See, for example, 'Kettei Horyū Seiyū Rengō Kyōgikai', *Tōkyō Asahi Shinbun* 7 February, 1920, p.3.

the wealthier classes.<sup>52</sup> The parties opposing the reform bill, in particular the *Rikken Seiyūkai*'s main rival, the *Kenseikai*, engaged in repeated criticisms that the bill contained a built-in loophole that essentially legalized tax evasion.<sup>53</sup> Even one lower house member of the *Rikken Seiyūkai* was conscious of the bill's potential to allow taxpayers to shirk their tax obligations. This suggests that many members of the Diet, in particular those from the lower house, had shared anxieties about tax evasion by high income earners, regardless of whether they were affiliated to the coalition or were members of the opposition. This anxiety spread through the Diet, and may have in turn been linked to public opinion, as will be discussed below.

### *Government Response and Counter Politics*

Although there were certain difficulties in forming a consensus on the reform bill even across the coalition parties, the government did eventually manage to get the bill passed by employing a strategy of political compromise. This compromise strategy was in part a response to the overall process of deliberation over the income tax reform. From the very outset the government and Prime Minister Hara succeeded in containing objections to the bill from within the majority party, the *Rikken Seiyūkai*.<sup>54</sup> Some coalition parties followed the lead of the *Rikken Seiyūkai* by proposing several amendments to the reform bill, which in turn caused further objections from other coalition parties.<sup>55</sup> Amendments introduced at the first stage of deliberation in the *Shūgiin* included ones that proposed raising the tax exemption limit and abolishing penalties for taxpayers who refused to provide the local tax authority (*Zeimu Kantokukyoku*) with the financial information needed to estimate their rate of income tax.<sup>56</sup> The political strategy of compromise there played an important role in helping to get the reform bill passed sooner than expected.<sup>57</sup> The government in addition effectively utilized the political crisis of the day to its advantage. Although political manoeuvring outside of party politics meant that deliberation of the reform bill in the upper house, the *Kizokuin*, was potentially problematic for the government, the debate in the upper

<sup>52</sup> See 'Shotokuzei Hō Kaisei Hōritsuan hoka 6ken: Daiichi Gikai no Zoku', in *Teikoku Gikai Shūgiin* vol.36, pp.151-2.

<sup>53</sup> *Ibid.*, pp.155-6.

<sup>54</sup> This can be seen from a succession of newspaper reports, for example 'Seiyū Shotokuzeian Gigi: Sakuya no Shushōtei Kanbukai, Jūsakujō no Shūsei o Kuwau', *Yomiuri Shinbun* 8 February, 1920, p.3.

<sup>55</sup> The sudden shifts in political opinions on the reform bill prompted a fair amount of criticism from public media. See eg. 'Seikō Hyōhen, Shūseian Sanseika', *Tōkyō Asahi Shinbun* 8 February, 1920, p.3.

<sup>56</sup> Dropping these penalties may well have had an impact and changed minds among some coalition parties, since there was strong opposition to this. For discussion of the strong opposition voiced by one of the coalition parties, the Seikō Kurabu, see 'Seikō Kurabu Kessoku: Shotokuzei Hōan ni taishi Kirikuzushi Kaijūsaku ni Ōzezu', *Yomiuri Shinbun* 7 February, 1920 p.2.

<sup>57</sup> The bill was passed on 11 February. See 'Shotokuzei Hō Kaisei Hōritsuan hoka 6ken: Daiichi Gikai no Zoku', *Teikoku Gikai Shūgiin* vol.36, pp.164-165.

house was interrupted by the government's sudden decision in May to hold a general election for membership of the *Shūgiin*.<sup>58</sup> The general election led to dramatic changes in the political composition of the lower house, as the ruling *Rikken Seiyūkai* won the election and secured a huge majority.<sup>59</sup> It also spelled the defeat of the opposition, in particular the *Kenseikai*, and a decisive fall in the strength of other former coalition parties.<sup>60</sup> In as far as the political pressure from the *Shūgiin* that had so disrupted debates over the income tax reform bill was now significantly diminished, the election results were distinctly favourable for the government and for the prime minister. In addition, in an attempt to enforce his political power, the prime minister sought to persuade the *Kenkyūkai*, the largest political faction within the Upper House, to cooperate with the government.<sup>61</sup> The success of this persuasive attempt by the prime minister meant support from the *Kenkyūkai* for the passing of the income tax bill in the Upper House.<sup>62</sup>

Nevertheless, the politics of compromise still continued during the second stage of deliberation. After the general election the government re-introduced an income tax reform bill to the *Shūgiin* in May 1920. This new reform bill, though largely based on the earlier version, scrapped the amendment that there should be no penalties for those who refused to provide the tax authorities with detailed income data.<sup>63</sup> The government also had to make additional amendments to the bill in response to the postwar depression and the political problems associated with it.<sup>64</sup> When the income tax reform bill finally passed the *Kizokuin* late in July 1920 there had been further amendments. For example, the maximum Category

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<sup>58</sup> The debate in the upper house ended on 14 February, at which point the government withdrew the reform bill. For the process of dissolution of the lower house see eg. Shūgiin (ed.), *Gikai Seido 100nen Shi: Teikoku Gikaishi, Jō* pp.763-4.

<sup>59</sup> In the election the *Rikken Seiyūkai* gained 278 seats out of the total 464, making it possible for it to form a single-party government. The result of the election is documented in Shūgiin (ed.), *Gikai Seido 100nen Shi: Teikoku Gikai, Jō*, p.768.

<sup>60</sup> The *Kenseikai* gained only 107 seats in the election, while other parties formerly aligned with the *Rikken Seiyūkai* in coalition also lost many seats. The *Seikō Kurabu* lost all its representation in the *Shūgiin*. See *ibid.*, p.768.

<sup>61</sup> Although members of the *Kizokuin* were largely separate from the party politics of the lower house, several political factions were formed within the *Kizokuin*. The *Kenkyūkai* was the largest of these factions, and exercised considerable political power over decision-making in the Upper House. For the role and history of political factions in the *Kizokuin*, see Shōyu Kurabu (ed.), *Kizokuin no Kaiha Kenkyūshi: Meiji Taishō Hen* (Tokyo, 1980).

<sup>62</sup> Informal connections between the prime minister and the *Kenkyūkai* became apparent in the decision to include Count Ōki Enkichi, a member of the *Kenkyūkai*, in the new cabinet as Minister of Justice. However, the *Kenkyūkai* was reluctant to conclude a formal relationship with the majority *Rikken Seiyūkai* because of its general feeling of antagonism towards party politics. See *ibid.* pp.331-2.

<sup>63</sup> Only the provision of income records for taxpayers remained obligatory within the bill. See Ushigome, 'Shotoku Chōsa linkai no Kenkyū', p.177.

<sup>64</sup> The collapse of the stock market in March 1920 brought the end of the wartime boom, and this was followed by a period of economic depression. For a brief description in English see T.Nakamura, *Economic Growth in Prewar Japan* (New Haven, 1983), pp.153-6 and T.Nakamura, *Lectures on Modern Japanese Economic History 1926-1994* (Tokyo, 1994), pp.5-23.



3 (personal) tax rate had been reduced from 50% to 36%, additional exemptions had been introduced, and 40% of dividend income was also subject to exemption from tax, as well as other minor changes.<sup>65</sup> So, although the reform bill was eventually passed in this environment of political compromise, it appears doubtful that the final version satisfied either the government or the tax authorities.

However, even though the demands and views of the business community and other elites forced the introduction of amendments, these political pressures and opposition strategies were not enough to result in the failure of the bill itself, and also failed substantially to weaken it. This also demonstrates the limitations faced by business elites at that time, as will be discussed in the next section.

#### **4. Limitations on Resistance from Business Circles**

As the deliberations on the income tax reform bill progressed, the opposition strategies adopted by the business community gradually evolved. During the first stage of the deliberations, which was brought to a sudden end by the dissolution of the Lower House, business opposition focussed mainly on exploring ways in which the reform bill might be abolished in its entirety. However, the results of this strategy were in general unsatisfactory, as despite the withdrawing of the first reform bill the government was unwilling to abandon the idea of reform. A shift in the balance of power between the government and business circles became more apparent during the second stage of deliberation, during which a number of limitations faced by the anti-reform bill camp became very obvious.

A number of reasons why the opposition of the business community ended as unfinished business can be suggested. Firstly, it seems likely that one reason was the absence of a clear promotor or leader within business circles. Shibusawa Eiichi, the most influential business leader of the time and the most likely candidate, was largely retired except for a degree of engagement in foreign business affairs.<sup>66</sup> Nor did Shibusawa publicly show any interest in the reform bill.<sup>67</sup> Nevertheless, research on modern Japanese business

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<sup>65</sup> The government's comments on the final amendments to the income tax reform bill can be found in 'Shotokuzei Hō o Kaisei su' in *Kōbun Zassan* vol.44:21, *Taishō 9nen* (National Archives of Japan 2A-011-00-01362100). The document also indicates some reluctance on the part of the government to accept amendments to the reform bill.

<sup>66</sup> Shibusawa had already retired from business by 1920, including from the management of his own firms, and was focussing most of his energies on the improvement of business relations with China and the US. For details see eg. T.Nakamura, 'Nitchū Keizai Teikei e no Mosaku' and Y.Katagiri, 'Minkan Gaikō no Paionia', both in Shibusawa Kenkyūkai (ed.), *Shinjidai no Sōzō: Kōeki no Tsuikyūsha, Shibusawa Eiichi* (Tokyo, 1999).

<sup>67</sup> It is possible that Shibusawa may have attempted to intervene informally in the deliberations on the reform bill. One piece of evidence for this possibility is the questions raised by Sakatani Yoshirō, a member of the

has shown that there were in the post-Shibusawa period several businessmen who undertook leadership roles within the business community.<sup>68</sup> Some of the new generation of business leaders, such as Gō Seinosuke, were involved in deliberations on the income tax reform as members of the upper house, but there is little evidence that Gō exercised any particular influence in *Kizokuin* discussions.<sup>69</sup> It therefore seems plausible to argue that lack of leadership within the business community in part explains its inability to exert significant influence in the deliberations over the reform bill.

There were, moreover, no unified business organizations capable of effectively representing and voicing the aspirations of businessmen. As noted above, several business organizations existed in this period and worked to exert some political pressure to obtain their desired results. However, each of these business organizations was in effect acting independently of the others; any unified strategy and resistance to the reform bill was strictly limited.<sup>70</sup> The establishment of the Japan Economic Federation (*Nihon Keizai Renmeikai*), a new, unified business organization, occurred only in 1922, after the reform bill had become law.<sup>71</sup> Under these circumstances it was very difficult for the business community to mobilize sufficient political pressure to weaken or debilitate the reform bill.

The Japanese business community was also very dependent on the government; the financial crisis was deepening during the period between the first and second stages of deliberation on the income tax reform. In March 1920 there was a drastic fall in prices on the Japanese stock market, and by April there had been three further collapses.<sup>72</sup> These shocks formally signalled the start of the postwar recession, which through the 1920s caused significant damage to the Japanese economy.<sup>73</sup> Although up until the second stock market

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*Kizokuin*, during committee debate on the bill. It is conceivable that Sakatani's questions may have reflected Shibusawa's take on the reform bill, since Sakatani's wife was one of Shibusawa's daughters, and he had a strong bond with his father-in-law. See 'Shotokuzei Hō Kaiseian hoka 6ken Tokubetsu linkai Giji Sokkiroku: Dai 1gō', in *Kizokuin* (ed.), *Kizokuin linkai Giji Sokkiroku* vol.12 (Kyōto, 1984), pp.514-515.

<sup>68</sup> For details see M.Matsuura, *Zaikai no Seiji Keizai Shi*. Matsuura has identified three men who led the business community in the 1920s – Wada Toyoji, Inoue Junnosuke and Gō Seinosuke. However their influence on decision making was either limited to specific sectors (Wada in manufacturing and Inoue in banking) or did not last for very long (Gō). See *ibid.*, pp.57-71.

<sup>69</sup> This is suggested by documents on the deliberations in the *Kizokuin*. See eg. 'Shotokuzei Hō Kaiseian hoka 6ken: Dai 1gō', in *Kizokuin* (ed.), *Kizokuin linkai Giji sokkiroku* vol.12, esp. pp.518-20.

<sup>70</sup> There were many actions against the reform bill but they were conducted separately by each organization, even though some newspaper reports give an impression of unified action that was far beyond the organizational scope of these bodies. See eg. 'Jitsugyōdan Dairengō', *Yomiuri Shinbun* 26 May, 1920.

<sup>71</sup> For the *Nihon Keizai Renmeikai* see eg. K.Takahashi, 'Senzenki Nihon Keizai Renmeikai no Yakuwari', *Keizai Keiei Kenkyū Nenpō* 28, 2, 1978.

<sup>72</sup> For analysis of the causes of the fall in stock prices see Nihon Ginkō Chōsakyoku, 'Sekai Sensō Shuryōgo ni okeru Honpō Zaikai Dōyōshi', in Nihon Ginkō (ed.), *Nihon Kinyūshi Shiryō: Meiji-Taishō Hen* vol.22 (Tokyo, n.d.), esp. pp.466-7.

<sup>73</sup> For a concise description of the impact of the postwar depression on the 1920s see T.Nakamura, *Nihon Keizai* (2<sup>nd</sup> edition, Tokyo, 1980), esp. pp.109-121.

shock the Bank of Japan was able to engage in rescue operations through the provision of emergency funds, it was unable to sustain this strategy following the third crash in stock prices that occurred on 14<sup>th</sup> April. The stock market was forced to close and there were no transactions for around a month.<sup>74</sup> Following negotiations between members of the business community, the government, business organizations and financial institutions (including the Bank of Japan), rescue funding for the stock market was sourced from a syndicate of private banks under the auspices of public financial institutions, and the stock market managed to recover a degree of stability.<sup>75</sup> It seems likely, therefore, that in the wake of the panic and the rescue operations in the stock market it was particularly difficult for business circles and business organizations to show very strong antagonism towards the income tax reform bill. Moreover, the second stage of the deliberations, after the general election in May 1920, reflects an apparent shift in attitude on the part of business circles, as at this stage debate focussed mainly on the possibility of delaying the coming into force of the reform bill.<sup>76</sup>

These factors may therefore have limited effective resistance to the reform bill, but it may also have been the case that the public was somewhat suspicious of any campaign of resistance by business elites and other businessmen.<sup>77</sup> The economic boom of the wartime years was also a period of widening income inequality. The rise of the so-called *narikin* (parvenus) at this time may have further exacerbated public antagonism. Some of the daily newspapers had already begun to caricature these newly rich individuals in a number of reports and articles. On occasions they identified the wartime profits tax (*senji ritokuzei*) as the 'tax on parvenus' (*narikinzei*).<sup>78</sup> Contempt also focussed on the consumer lifestyles of the *nouveaux riches*.<sup>79</sup> Antagonism towards these new types of elite was also a reflection of the general hardship faced by ordinary Japanese people as a result of wartime inflation.<sup>80</sup>

It must be acknowledged that most members of the general public had less interest in the tax reform bill than in the broader suffrage movement, as their lower income status tended to mean that they were exempted from any income tax payment. Even so, it seems

<sup>74</sup> See Nihon Ginkō Chōsakyoku, 'Sekai Sensō Shuryōgo', pp.489-492.

<sup>75</sup> For details of this process see et. Y.Hiraga (ed.), *Tōkyō Shōken Torihikisho 50nen Shi* (Tokyo, 1928), pp.387-404.

<sup>76</sup> The need to delay implementation of the legislation was articulated by many members of both upper and lower houses of the Diet. See eg. 'Dai 43kai Teikoku Gikai Shūgiin Shotokuzei Hō Kaiseian hoka 5ken linkai Giroku' in *Teikoku Gikai Shūgiin linkai Giroku* 25 (Kyoto, 1984), pp.359-65.

<sup>77</sup> Some newspaper articles ridiculed the resistance movement by business circles as a 'movement of the rich'. See 'Shotokuzei Hō Kaisei ni Rōbashi shite Fugōtachi ga Yakki no Undō', *Tōkyō Asahi Shinbun* 6 February 1920, p.5.

<sup>78</sup> See eg. 'Narikinzei kara mita Sake to Yoku no Yononaka', *Yomiuri Shinbun* 28 August 1918, p.5.

<sup>79</sup> 'Yūryo ni Taenu: Shashi no Honryū', *Tōkyō Asahi Shinbun* 4 June 1918, p.5.

<sup>80</sup> Price rises during the war caused frequent strikes and rioting, most notably in the case of the Rice Riots of 1918. For more on the economic background of the price rises during these years see Nakamura, *Nihon Keizai*, pp.101-3.

likely that a general public unease about income inequality may have influenced discussions of the reform bill. Some members of the cabinet, for example, in particular Minister of Finance Takahashi Korekiyo, saw the reform bill as a form of punishment for ‘dishonest’ businessmen. In response to questions from members of both houses of the Diet Takahashi divided businessmen into two categories – honest and dishonest – and criticized the latter for pursuing only self-interest through their business activities. He concluded that one objective of the reform bill was to make the situation of this dishonest group as painful as possible.<sup>81</sup> Although Takahashi rejected complaints that the bill would adversely affect both ‘honest’ and ‘dishonest’ businessmen, identifying the reform bill as a tool for punishment may in part have been a government response to public mistrust and antipathy.<sup>82</sup> It also seems likely that continuous references by both majority and opposition party members in the *Shūgiin* to tax evasion by those who paid income tax, particularly the most wealthy, indicates that it was impossible for either side to ignore public complaints under these circumstances of widening income inequality.<sup>83</sup> Certainly some business leaders shared the public’s critical view of businessmen who could be perceived as exclusively pursuing their own selfish interests.<sup>84</sup> Public distaste for ‘selfish’ business activities also made bringing businessmen together to resist the reform bill more difficult.<sup>85</sup> Thus public antagonism towards business circles and business elites compounded the existing problems of lack of business leadership, absence of unified organization and need for government support, making a successful outcome even more unlikely. By the second stage of deliberation business elites had already given up their demand that the reform bill itself be abandoned, and even their request to delay implementation of the reform was rejected by the government. Furthermore, the introduction of the tax on dividends, which were not only part of the personal incomes of many businessmen, but also a self-financing resource for many of their companies, became inevitable. The failure of the business community to launch a successful resistance strategy also signifies the lack of any solid basis of legitimacy for their protests, and to some extent reflects a degree of isolation from the social realities of the time.

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<sup>81</sup> See eg. ‘Shotokuzei Hō Kaiseian hoka 6ken Giji Sokkiroku’ in *Teikoku Gikai Kizokuin Giji Sokkiroku* vol.36 (Tokyo, 1982), pp.274-8. esp.p.277.

<sup>82</sup> For Takahashi’s rejection of these objections during the deliberation see et. ‘Shotokuzei Hō Kaiseian hoka 6ken: Dai1gō’, pp.514-516.

<sup>83</sup> See ‘Shotokuzei Hō Kaiseian hoka 6ken linkai Giroku’, *Teikoku Gikai Shūgiin linkai Giroku* 24, pp.47-49.

<sup>84</sup> See, for instance, Shibusawa’s criticism of the lack of business ethics among contemporary business leaders in ‘Sengo no Zaisei Keizai Mondai’ in *Gendai* April 1920, included in Ryūmonsha (ed.), *Shibusawa Eiichi denki Shiryō: Bekkan 7, Danwa 3* (Tokyo, 1969), p.433.

<sup>85</sup> This distaste for ‘selfish’ business activities was almost certainly shared by business leaders who believed that business should serve the public. See eg. K.Yasukawa, ‘Shakai Mondai to Zeisei Mondai’, *Jitsugyō Kōron* 5, 9, 1919, p.23.

## Conclusion: the Limits of Business Resistance and the Government's Real Intentions

Although the income tax reform bill finally passed both houses of the Diet in July 1920, and was immediately put into effect, neither of the central players in this conflict – business on the one hand and the government and tax authorities on the other – really obtained a satisfactory outcome. It is the case that after the implementation of the 1920 income tax reform there was a major transformation in Japanese business organization. Many family businesses reorganized their more personal and traditional styles of business into a more corporate form that would allow them to avoid being subject to Category 3 (personal) income tax, which had a higher progressive rate of tax than the Category 1 (corporate) income tax.<sup>86</sup> Since this transformation in organization took place during a period of economic depression and was accompanied by a number of financial costs, it is apparent that one consequence of the reform bill was to cause 'honest' businessmen a degree of suffering. Secondly, and somewhat ironically, the establishment of holding companies with a view to avoiding taxes led before long to the government's passing amendments to the new income tax law.<sup>87</sup> It had become apparent even during the deliberations that members of both houses had identified the existence of a number of loopholes in the reform bill.

The process of deliberation on, and implementation of, the reform bill also suggests some limitations in the government's approach to politics at this time, in particular that of Prime Minister Hara. The process of the reform was to some extent in contrast with the tactics and skills that Hara had shown in the formation of party politics during the Taisho period.<sup>88</sup> Moreover, the description in Hara's diary of his intentions behind the income tax reform signifies that most of the content of the reform had actually been formulated by the Minister of Finance, Takahashi Korekiyo. Hara himself was far less interested in the process of deliberations on the income tax reform than he was in other political disputes at this time, for instance, the Siberian Intervention, or the election reform bill proposed by the opposition parties, which especially annoyed him.<sup>89</sup>

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<sup>86</sup> For this transition process see eg. H. Morikawa, *Toppu Manajimento no Keieishi: Keieisha Kigyō to Kazoku Kigyō* (Tokyo, 1996).

<sup>87</sup> In order to reduce tax avoidance the government was forced to introduce an amendment in 1923. See Ōkurashō (ed.), *Meiji-Taishō Zaiseishi* vol.6, pp.1151-55. For information on the growing numbers of holding companies see Yazawa, *Kindai Nihon no Shotoku Bunpu*, pp.138-9.

<sup>88</sup> For details of Hara's political strategies to establish party politics during this period, see for example, T. Najita, *Hara Kei in the Politics of Compromise 1905-1915* (Cambridge; Mass., 1967), esp. chap 9.

<sup>89</sup> See K. Hara (ed.), *Hara Kei Nikki* Vol. 8 (Tokyo, 1950), esp. pp.478-79, and Hara (ed.), *Hara Kei Nikki* Vol. 9 (Tokyo, 1950), p.10, 16 and 18.

In addition, although some studies of the 1920 income tax reform have emphasized the government's desire to minimize the difference in real tax burden between the rich (whose income was mainly derived from dividends) and the general public, it is essential to remember that the underlying priority behind this income tax reform was to secure the requisite financial resources for planned military expenditures.<sup>90</sup> This priority was apparent in statements by Finance Minister Takahashi Korekiyo during the deliberations in which he indicated that the actual content of the reform, for example the introduction of a consolidated taxation system, was of comparatively lesser importance.<sup>91</sup> Takahashi's remarks suggest that the actual content of the income tax reform bill was at least to some extent a gesture of the government's willingness to compromise with opposition groups, including both political parties and business circles. The strategy of compromise itself, including reduction of the maximum tax rate, establishment of exemptions for income from dividends, and abolition of penalties for refusal to provide detailed income data, would appear to have been exploited to make the reform bill more acceptable to opposition groups, notwithstanding their reluctance to go along with it.

However, even though this political strategy may have been effective, it is also apparent that some considerable loopholes were created as a result of the tax reform. As noted earlier, some criticisms to this effect had already been articulated in the final stages of deliberation.<sup>92</sup> Due to the absence of legal penalties, both national (*Shuzeikyoku*) and local (*Zeimu Kantokukyoku*) tax authorities faced certain difficulties in investigating potentially fraudulent taxpayers. This prompted the introduction of a new strategy of encouraging the public to cooperate in being 'honest' tax payers.<sup>93</sup> These outcomes demonstrate that Hara's politics in relation to the income tax reform led to a reform bill that was not only somewhat haphazard in nature, but also seems likely to have continued to exercise some influence on both taxation and economic policy – and hence broader economic conditions – in Japan through the 1920s.

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<sup>90</sup> For a study emphasizing the minimization of the real tax burden see T.Hayashi, 'Nihon no Shōken Zeisei', *Shōken Kenkyū* 10, 1964.

<sup>91</sup> For Takahashi's remarks at the Reform Committee of the Lower House, see 'Dai 43kai Teikoku Gikai Shūgiin Shotokuzei Hō Kaisei hoka 5ken linkai Giroku: Dai 6gō', in *Teikoku Gikai Shūgiin linkai Giroku* 25 (Kyoto, 1984), pp.416-7.

<sup>92</sup> Particularly vocal criticism came from Wakatsuki Reijirō, formerly a senior official in the Finance Ministry and now a member of the *Kizokuin*, who had played a significant role in the 1901 tax reform. See 'Dai 43kai Teikoku Gikai Kizokuin Shotokuzei Hō Kaisei hoka 6ken Tokubetsu linkai Giroku: Dai 4gō' in *Kizokuin linkai Giji Sokkiroku* 12, pp.514-516.

<sup>93</sup> For the new strategy after the 1920 tax reform see K.Tako, 'Taishō 9nen bun Dai 3shu Shotoku Chōsa Ippan Hōshin', an official document reproduced in Zeimu Daigakkō (ed.), *Sozei Shiryō Sōsho* vol.3, *Shotokuzei Kankei Shiryō Shū* (Tokyo, 2008), pp.280-8.

All things considered, there was no true winner in the 1920 conflict over income tax reform. Although the government had shown a measure of leniency in relation to minimizing the tax burden borne by business after the reform, as the recession continued the business community and its elite supporters continued to press for further reconsideration of the measure that had been passed. Nor was the government itself fully satisfied; the actual reform was only able to contribute in terms of covering immediate expenditure, and was not as far-reaching as had been hoped. Moreover, the tax authorities still had to put in a lot of hard work in order to collect the national income tax.

It is therefore apparent that the process of deliberation and enactment of this reform bill was the result of a political compromise, and that the result was an unsatisfactory conclusion for all the interest groups that had been closely involved with it, whether they supported or opposed it. The result also shows that it was impossible for the Japanese government and bureaucracy in implementing their policies to ignore political resistance manifested in the houses of the Diet or by business interests. This situation is a long way from that frequently articulated in consideration of this period, namely that it was possible for the political elite to carry through independent and self-interested political decisions. The power of parliamentary democracy and business interests also led to a degree of political reversal in relation to the reform, as dissatisfaction with the 1920 legislation rapidly led to changes to the income tax law. That, however, is a topic for future research.

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