

## **HOW A FREE MARKET SYSTEM RESULTED IN HEGEMONY AND A MAGNIFICENT ERA: THE CASE OF NOBUNAGA ODA, 16<sup>th</sup> CENTURY, JAPAN**

**M.C. Huang**  
National Cheng-Kung  
University  
Taiwan

**A.R. Leen**  
Leiden University  
The Netherlands

### **Abstract**

Michael C. Huang–Auke Leen: How a free market system resulted in hegemony and a magnificent era: the case of Nobunaga Oda, 16th Century, Japan.

The reasons that contributed to Nobunaga Oda's hegemony in 16<sup>th</sup> Century Japan were unlike other feudal lords who based their hegemony on an autarkic economy. An open market system was enacted that accumulated great wealth and capital and rapidly expanded his regime. He abolished trading barriers and reduced restrictions in commercial activities, which led to the domination of commercial capital and created prosperity. Art and cultural activities were greatly supported, a magnificent era—the Azuchi-momoyama period—was the result.

JEL classification: N00; N01; N10; N15; P16.

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### **1. Introduction of *Sengoku*<sup>1</sup> Period**

During the 16<sup>th</sup> century Japan emerged from a period of great political fragmentation into its most successful centralization prior to modern times. The country had entered a time of protracted military competition among the fast-growing local military lords (*Daimyo*) who had sprung up throughout the provinces. Both the Emperor (*Tenno*) and his military delegate (*Muromachi Bakufu*<sup>2</sup>) remained in their palaces in the capital city of Kyoto, neither possessed the power to affect events outside the capital. It was extremely difficult to identify

income and expenditure on a domain basis. The control of commerce became an economic and military necessity for the Daimyo struggling to establish a firm hold over their domains. A situation which is very similar to European Mercantilism. A fundamental problem faced by the Daimyo in seeking to extend their control over commerce was the growth in domestic trade and inter-village trade within the domains. Transport and custom taxes were a new source of income for the Daimyo; their appeal was undeniable. The Daimyo, however, had to be able to assert his authority over the fief holders among his vassals whose fiefs were sometimes situated near highways or rivers for the opportunity to set up private barriers.

The Daimyo, especially the large regional hegemonies, were in nearly all respects locally autonomous. They asserted full property rights over their domains, enforcing their retainers in return for military service. Strategic castle headquarters were built for defense. They were flocked by merchants and artisans and also the local branch temples of major Buddhists sections. Daimyos issued their own laws, currencies, and spoke of their domains as their country. For a while the country was brought under the command of strong military hegemonies imposed by the Tokugawa House. <sup>3</sup> Hence, the unification of Japan that took place in the second half of the 16<sup>th</sup> century is better understood as pacification. The unification of the Daimyo was the work of three regimes: Nobunaga Oda, Hideyoshi Toyotomi<sup>4</sup>, and Ieyasu Tokugawa. This essay mainly discusses the period before Tokugawa, and focuses on Oda for his pioneering ideas and economic policy.

## **2. Theoretical Background: What Contributed to Oda's Hegemony?**

In the 16<sup>th</sup> century, Japan's samurai began a dramatic passage to change their rural patrimony for residence in the castle town. By the end of this passage the samurai had been transformed from landed proprietors to stipend officials with the institutionalized right to rule society by virtue of military status. It was the transition from a medieval to an early modern society. There are many studies about the reasons contributed to Nobunaga Oda's hegemony, e.g., Oda's modern army that enabled him to beat his enemies (Birt, 1985, p. 372). Others do emphasize the monopoly power of the political capital, Kyoto, and of commercial capital (Sakai). However, only few attempts have so far been made to look at the core value that contributed to Oda's hegemony: his monetary policy and a free market policy.

Commerce in the 16<sup>th</sup> century is no longer restricted by the regime; the cities themselves had the right to adjust and develop (Kiyouata, Hirayama &

Ishida, 1968, p. 128). When Oda invaded Kyoto unlike others that burned it, he set up a free market, making the capital self-ruled. He required nothing but financial support. A policy being executed more sophisticatedly when Toyotomi became to power. The free market expanded from Kyoto to Osaka and several self-ruled harbors were opened. Some see the transition in the Sengoku period as a fundamental redistribution of wealth and power in which the samurai were the primary victims (Birt, 1985, p. 373). Though it was true that most samurai were handsomely rewarded, they were disenfranchised of their property rights and were brought to service for the Daimyo. Simultaneously, they faced pressure from below as villages resisted their traditional role and functions. During the Sengoku period, Daimyo with their economic and commercial policy such as a free market contributed to the growth of commercial cities, such as Sakai, and Hakata, and civilization (Honda, 2005, p. 2). Japanese businessmen freely traveled through South East Asia, importing the latest weapons and let Oda become the greatest power. Afterwards, however, the free market was no longer promoted when the Edo period was established by Tokugawa. Foreign trade was restricted; the nation became autarkic.

The reason that Oda's regime grew so rapid was that he effectively and successfully got rid of privileges on the market. He enabled goods to flow freely (Skaiya, Doumonn & Ikemiya, 2005, p. 77). Under Oda's guarantee, without any fee or tax, everyone could come and start up a business, e.g., in the special area Rakuichi Rakuza. Wakita (1975) pointed out that this policy enabled the merchants and the artisans to free themselves of their earlier subjugation and allowed them to form new commercial relationships breaking the monopolistic power of Za.<sup>5</sup>

The key for Oda's success was his alliance with businessmen (Skaiya, Doumonn & Ikemiya, 2005, p. 78). Society in 16<sup>th</sup> century transformed from an autarky to an exchange relationship (Nagahara, 1992, p. 146). The grain that farmers grow could not only be sold in the domestic market but could be traded inter-provincially. Moreover, there was no monopoly right of selling goods: a change from 'monopolistic' competition to free competition. In short, other Daimyo imposed a transportation fee and protected their own business in the domestic market. Oda, on the other hand, set traders free and demolished entrance barriers. Similar cases of low tariffs took place in 19<sup>th</sup> century Europe. (McKeown, 1983, p. 89). One of the most important elements that contributed to the emergence of a free international system in Europe was 'openness' rather than national hegemony.

Huge castles, showing off wealth, were built for use and to enjoy the landscape, rather than defense. The result was a boom for artists and artisans in decoration and entertainment. Western culture was also harmoniously combined

into life, e.g., as the powerful Daimyo wanted to get the latest technology available in the world. This magnificent era ever in Japanese history was named the Azuchi-momoyama period after the two most representative castles by Oda and Toyotomi.

### 3. Three Approaches to Oda's Hegemony

Oda's concepts and perspective was nearly 200 years before a similar European development. The Azuchi-momoyama period is fascinating and worthy of further research. The research will discuss Oda's hegemony with the following reasons for his success:

- Creating a free trade market

The administrations of both Oda and Toyotomi came into existence against the traditional backdrop of marketing relations and marketing structure. Each administration undertook a set of reforms. Oda set the free trade policy for merchants in the provinces of Owari and Mino: ordering '*Free markets and free guilds*' (Rakuichi-rakuza) in the castle towns of Azuchi and Kano. The credo refers to a commercial policy whereby Sengoku Daimyo abolished both monopolistic guilds and the obligation to trade at certain privately controlled markets (Ichi).

Great effort was put forth by abolishing checkpoints facilitating a larger volume of trade. Oda, however, did not implement these policies in his capital. Though previous opinions have held that Oda followed in Kyoto the same policies he had initiated earlier in his home domains. Hence, guild organizations remained active in Kyoto and Nara, and Oda protected the established guild merchants and recognized their special rights.

- The monetary system (*Erizeni-Rei*)

Unique from other Daimyo, Oda legislated a systematic monetary policy. Oda avoided the replacement of good money by bad money, which is the common situation under Gresham's Law. After he controlled the Mino and Owari province in 1569, orders prohibited the collection of commercial or tax obligations solely in sound currency ('*Erizeni-Rei*,' the '*Money Selection Law*'). Creditors were forced to accept a fixed proportion of base currency in payment. This legislation, which also contributed to fiscal policy, was the first example in Japan of a modern monetary policy to stabilize the currency system. Commercial activities were facilitated in a steady platform; commerce and manufacture progressed.

- Military power and elites

By his purchase of guns Oda was considered of having a great advantage over his competitors Oda's financial capability also enabled him to establish a

professional army, other Daimyo had to press farmers into short-term military service. In addition, Nobunaga Oda's character is important. He accepted Western culture and suggestions from his staff (Okabema, 2006, p. 122), e.g., of general Katuie Shibada,<sup>6</sup> and diplomatic ambassador Mituhide Akechi.<sup>7</sup> He also successfully connected with the Ashikaga<sup>8</sup> Shogun and Hedoyoshi Hashiba<sup>9</sup> who further united Japan after Oda.

*Figure 1. The reasons that contributed to Oda hegemony and magnificence*

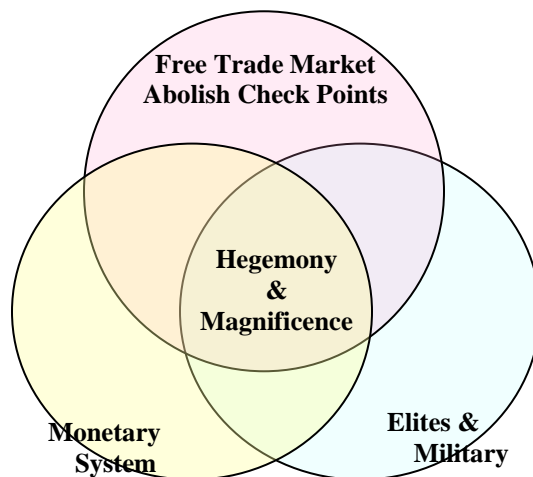


Figure 1 shows the three approaches to analyze the elements and reasons that contributed to Oda's hegemony. Their synergy stands for the core value of Oda's policy: only a strong economy is able to support all kinds of essential resources in building a regime. There existed few Daimyo that could combine them together: it was the reason for the success of Oda.

#### **4. The Rise of Oda**

The mid-age period of Japan reveals feudalism in the loyalty to the landlord. Its rapid development in 16<sup>th</sup> century, however, did surprise the world. After the On-nin Crisis<sup>10</sup> in 1473, Japan had fallen into a chaotic period of traditional feudalism. The state did not mean anything anymore, killing and murder between feudal lords seemed normal. It was considered the dark age of Japan (Anderson, 1974, p. 440). Oda Nobunaga forged the first regional coalition to establish control of central Japan. Leading huge armies equipped with muskets and

cannons, he liquidated Buddhist militarism, broke the independence of the merchant towns, and gained mastery of a third of the country.

Other regimes restricted trade and set customs either to charge some fee or control information. Oda, however, made his territory a tax-free market and welcomed all walks of life. Emphasizing the importance of commerce, he was sponsored by many businessmen. Thanks to his financial capacity, he developed a professional army that could fight at any moment. Other Daimyo, however, needed to be worried not to interrupt the harvest accumulation. His regime expanded after several wars. Oda's perspective revealed not only economic wisdom but also a keenness of absorbing western culture and technology. Oda greatly encouraged the gun industry and pioneered the transformation of the 'individual sword war' into the 'group gun war.' Japan became one of the mass gun-production countries.

Because of its limits on economic development, Oda was not satisfied with autarky based on agriculture. Instead he emphasized commerce and manufacture. Unlike other Daimyos that based their power on territory and agriculture, Oda believed that he could have sufficient grain, weapons and an army when he had the gold and silver. The first step Oda made, rather than 'destroy' the enemy, was that he made economic infiltration. Then he used the latest weapons to scare the enemy without much sacrifice.

Oda legislated the first free trade market in Gifu in 1567. Another free market area was established a year after the construction of Azuchi Castle in 1577. Since 1569, when Oda beat the Kitagatake, Oda controlled the Ise bay, one of the most important coasts in central Japan. When Kyoto was under Oda's control, he also facilitated roads both over land and over sea, benefiting not only the army but goods transportation too. After Oda's death, Hashiba (Hideyoshi Toyotomi) continued his policy.

*Figure 2. The Peak of Oda hegemony in 1582*



Source: Takemitsu, M. ,2004, p. 182.

## **5. Oda's Commercial Policy: Comparison with Mercantilism**

In the medieval period the guilds, the imperial family, court nobles, and religious institutions had achieved a near monopoly to conduct trade. Sengoku Daimyo tried to extend their own authority over commerce and industry by modifying or abolishing the old structure or privileges. Many Daimyo swept away the checkpoints that obstructed the free flow of trade, leaving in existence only those barriers located on the boundaries between domains. Oda's territory was the most advanced area because the important cities of Kyoto and Sakai are both in his territory.

The appearance of domain-based economic systems should not be equated with the functional implementation of a completely self-supporting economic systems. Even in the Sengoku period, the economic power concentrated in the *Kinai* region in such urban centers as Kyoto and Sakai had already begun to form a national economy. In what may be called the capital's marketing area, it was the heart of domestic commerce and the terminus for trade with continental East Asia. Daimyo continued exporting crops and raw materials for handicrafts and importing armaments, textiles, and other necessities unobtainable in their own domains.

The policies implemented by Oda Nobunaga were crucial to the transformation of feudalism (Osamu, 1981, p. 246). Compared with the Mercantilist period in Europe in the same period, the Oda regime abolished barrier checkpoints and attempts to control merchants. Free trade was promoted. For Mercantilism, on the other hand, export is promoted as a method to get gold. The liberty of the market, however, was Oda's priority. Next to abolishing trading barriers and promoting liberty for guild members (Nagahara, 1992, p. 157), Oda constructed a monetary system that stabilized a platform to accumulate wealth. But in the castle towns, Oda continued to let merchants conduct business by monopolizing trade on the main roads and trunk lines.

Japan is abundant with gold and silver, therefore a 'Bullionist' policy did not appear. Made possible by the commercial prosperity under his regime, trading was the method for Oda to get the latest weapons for war. However only some prestigious businessmen with special rights were allowed to make international trade. Therefor Oda's free market system was no fully-fledged capitalism. In this respect Oda initiated policies that were identical to those used by other Sengoku

Daimyo. Given the problems that Nobunaga faced, this was perhaps his most effective option; it fit in with his fundamental policy of reconfirming the rights of court nobles and religious institutions.

- Policies by other Daimyos

In this section we do make a short comparison in the fiscal policy between Oda and other powerful regimes, in the same period, such as Takeda<sup>11</sup>, Uezugi<sup>12</sup>, Hojo<sup>13</sup> and Mori.<sup>14</sup>

Takeda struggled with a very bad geographic condition. With persistence, however, he built a strong army and equally strong administration. Takeda levied tax basically from the property of water. But most of the financial source is from gold mines in Takeda's territory. However this was not enough for Takeda to sustain the regime after Shinken Takeda's death.

Uezugi's territory is notorious for the inconvenience with heavy snow fall in the winter, therefore he facilitated transportation and levied little tax on commerce. Since he was one of the adorers, Uezugi carefully protected religion and they did not have to pay any taxation. Simply because Uezugi himself was an alcoholic, the same goes for the liquor industry. Similar to Takeda, Uezugi had an abundant gold mine and that was one of the important reasons for him to maintain his regime and army.

Hojo and Mori were situated on the east and the west, and both of them emphasized the role of agriculture and did subsidize it. Mori also designed a special loan organization for the farmers who had temporary financial problems. Hojo levied tax from the staff of the regime. Because Hojo's territory is isolated from Kyoto, every time when he wanted to meet the emperor, it always did cost a lot and he had to levy special taxes for it.

Although the just-mentioned Daimyos initially had greater power and stronger armies, they could not compete with Oda. Oda did not destroy in a single stroke the medieval style of market relationship; rather, he found it expedient to allow old and new practices to coexist. His administration recognized the imperial checkpoints at the seven entrances to Kyoto, and permitted transportation associations to retain their traditional privileges and to control trade along their major transportation routes. This was in large part due to the fact that Oda's political and military organization never achieved the centralized control the later Toyotomi administration would.

Oda's administration could satisfy its economic requirements through existing commercial institutions. Though his administration brought the area around the capital under its control, most of the local markets outside this area remained in the hands of Sengoku Daimyo who were antagonistic to Oda. Even as



late as 1582, the year of his death, Oda did not have command of the Inland Sea, and on the coast he had only a tenuous hold. But guild organization, under the patronage of court nobles and religious institutions, continued to engage in trade throughout Japan and, by not interfering with their operation, Oda preserved both the predominant economic role of the capital and his access to provincial goods.

The policies of Oda and Toyotomi affected both the merchant-artisan community and its urban setting, giving rise to the economic structure characteristic of early modern society. The basis of the Kinsei<sup>15</sup> economic system was the Kokudaka<sup>16</sup> system and the method of collecting land revenues from the peasants. The Daimyo did not consume the whole of this tax, but sent portions of it to markets to be sold. One consequence of this process was that it limited the degree to which the peasantry could participate in the commercial sector. Since the shogun and Daimyo drained off in the form of taxes the rural products that could be marketed—e.g., rice and specialty products—the peasantry was locked into the domain-based economy while the territorial lords were able to dominate the national market. It is now fully accepted that during the century of political unification, Japan underwent a fundamental transformation and rapid growth that was, in its rapidity and scope, matched only by the transformation witnessed during the century following the Meiji Restoration. It is also apparent that the, just-sketches, three closely interacting forces were the principal causes of this transformation and rapid growth.

## **6. The Golden Age of Japan: the Azuchi-momoyama Period**

The Azuchi-momoyama period (1568-98) is considered the golden age, (Naito & Takayangi, 1977, p. 516), characterized by exuberance and pretentious grandeur and with a dynamic development not found in any other era in Japanese history. It was a time of dramatic social and political change and of brilliant artistic innovation and achievement. The Oda hegemony did transform the usage of castle for defense purposes to an artwork, a symbol of wealth and power. Great castles are built near beautiful and scenic spots.

Next to his splendid constructions, masterpieces of artwork in many media including paintings, sculpture, calligraphy, tea ceremony utensils, lacquer ware, ceramics, metalwork, arms and armor, textiles, and Noh masks, representing the entertainment, Oda and his follower Toyotomi paid a great deal of attention to the tea ceremony. Both of them became a Sukimono,<sup>17</sup> in order to acquire the trust and dignity of the higher classes. Hence, Sen Rikyu, the greatest tea master in the 16<sup>th</sup> Century, has been the subject of countless scholarly writings. Of equal, if not greater, importance was the role the tea ceremony played as a widely accepted

forum for men of different social strata. Tea allowed warrior and merchant to make formal contacts and eased the communication regarding the many concerns they shared.

Another feature in this period is the influence of Western culture, revealing itself in the language, architecture, weapons, dressing, religion and life style. Some Portuguese pronunciation became a part of Japanese. In order to counter the Buddha regimes (Ikkou-Shou and Hon-genn-ji),<sup>18</sup> Oda provided permission to the Jesus Association from Portugal to freely do their missionary work and even built a church and seminary in the castle town of Azuchi. Japan had never been internationalized so vividly. However, after Nobunaga Oda's death, Toyotomi prohibited Christianity in 1587 for fear that their gatherings would be a threat to his domination. In the end, Tokugawa Bakufu made Christianity illegal, and set many restrictions on trade between foreign countries: the so-called 'Lock the State Policy.' It was the end of the Azuchi-momoyama period.

## **7. Conclusion: Past, Present and Perspective**

Commercial and monetary policy had facilitated trade and transportation, creating a free market system, resulting in an industrial boom and sharpening Oda's capacity to accumulate capital and wealth. The reasons that other Daimyos were unable to reach an achievement like Oda was, as the reasons analyzed above do show, that they lacked the geographic advantage to control the central capitals and an open-mind like Oda. Numerous Daimyos did pursue prosperity by international trade and commerce but few of them could make any imitation of Oda's systematic plans. Oda's heart was rooted in liberty: his insistence in increasing the openness of the market and his belief that free trade and self-encouragement can increase welfare. Oda's policy of freedom not only opened up trade but also resulted in a magnificent era. Under Oda's administration the boom of artwork and cultural life in the Azuchi-momoyama period was destined to happen. His example and legend can inspire many conventional policy makers: opening up the market, getting rid of restrictions and getting involved in the world order is the way for progress.

In the modern society some similar features can be found, e.g., the economic development miracle of China. China turned to an open market policy in 1978. Transforming from a socialist-communist country to an advanced capitalistic country, it opened up to free trade twenty cities and five economic zones. They do account for a very large share of the industrial output growth in China.

The magnificent Azuchi-momoyama period did not last long and did end when Tokugawa Bakufu declared the 'Lock the state policy'. However, the over all

increase in welfare caused by a free market system has already been proven. As for developing countries, as long as dedicated to promote a free market platform, their magnificent era will be no far.

## NOTES

<sup>1</sup> (1493~1573) the decay of Muromachi Bakufu till its final destruction.

<sup>2</sup> (1336~1573) the military house established by general Takauchi Ashikaga and destroyed by Nobunaga Oda.

<sup>3</sup> (1542~1616) he took over Toyotomi's control and built his own house—The Bakufu of Tokugawa.

<sup>4</sup> (1536~1598) one of Oda's staff and who continued Oda's policy and hegemony and eventually united Japan in 1590.

<sup>5</sup> Usually translated as guild, the term refers to monopolistic trade organisations that manifested a considerable variety of characteristics over time.

<sup>6</sup> (1522~1584) Shibada is considered the strongest commander in Oda's army.

<sup>7</sup> (1526~1582) He successfully connected Oda with the former Ashikaga Regiems.

<sup>8</sup> (1537~1597) The 12<sup>th</sup> general of Muromachi Bakufu.

<sup>9</sup> (1536~1599) Hideyoshi Toyotomi's previous name, accomplished many difficult mission given by Nobunaga Oda.

<sup>10</sup> This crisis (1473~1477) resulted in the collapse of central power and the rise of local regimes. Kyoto was badly destroyed.

<sup>11</sup> (1521~1573) had the fiercest cavalry in the Sengoku period and nearly beat the union of Oda and Tokugawa. He is famous for the administration of his state.

<sup>12</sup> (1530~1578) was the enemy of Takeda and was called as the military commander in the several campaigns with Takeda.

<sup>13</sup> (1538~1590) controlled the big territory of Kando in Eastern Japan for more than a century.

<sup>14</sup> (1497~1571) he eventually built the hegemony of Western Japan

<sup>15</sup> the period 1568~1867 between Nobunaga Oda's visit to Kyoto and the power returned to Tenno by Tokugawa Bakufu

<sup>16</sup> to assess the value of land in terms of its rice production.

<sup>17</sup> (1522-1591) the greatest tea master in the 16<sup>th</sup> Century.

<sup>18</sup> Until being beaten in 1582, they were the biggest treat to Oda's hegemony.

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