

A General History of Japanese Cooperative Finance Thoughts (1900-2020): An Historical Approach on Cooperative Finance Thoughts in Japan

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Abstract

The mutual aid finance discussed in this paper does not necessarily deal only with literalized thoughts, nor does it deal only with that which has had a significant impact on society. The thoughts behind the behavior and conduct of the people and the operational rules of organizations may be explored from passed-down oral or written sources. In such cases, one may find some thoughts that are not logical or contradictory or even misperceptions by today's standards. In particular, the mindset or spirit of mutual assistance, self-reliance, and cooperation are often regarded as a spontaneous, people-led movement rather than something that emerged from policies and systems - policy plays more of a follow-up and supporting role for formalization. Therefore, the author decided to discuss the transitions of the popular thought of cooperation in financial services through the container of the organization. This kind of historical study is unprecedented, and the author believes that it can make a certain contribution to the thought of cooperative finance. The container of the organization referred to in this paper primarily refers to prewar industrial associations and credit unions, postwar credit associations, credit unions, agricultural cooperatives, and labor banks. The so-called "mujinko," mutual financing association formed by the people is considered as prehistory in this paper.

Keywords: Credit cooperatives, Financial history, Financial thoughts, Personal finance, SMEs finance

Introduction - The Practice of Cooperative Finance as a Popular Thought

Much of the study of the history of thought usually involves interpreting the writings of theorists and thinkers who have had a certain amount of textualized or literalized influence on theory and policy, etc. In that regard, the mutual aid finance discussed in this paper does not necessarily deal only with literalized thoughts, nor does it deal only with that which has had a significant impact on society. The thoughts behind the behavior and conduct of the people and the operational rules of organizations may be explored from passed-down oral or written sources. In such cases, one may find some thoughts that are not logical or contradictory, or even misperceptions by today's standards. Of course, there are also the writings of thinkers who have textualized acts with a certain formality that were generalized among the common people as a universal framework. The author plans to study relying on them here as well. However, compared to the mainstream history of thought, in which large organizations such as the state and political and economic systems have played leading roles on the stage of history with many thinkers pouring their energies into those thoughts, the steady actions and contemplation of the people have not received the attention they deserve.

In particular, the mindset or spirit of mutual assistance, self-reliance, and cooperation are often regarded as a spontaneous, people-led movement rather than something that emerged from policies and systems - policy plays more of a follow-up and supporting role for formalization.

Therefore, the author decided to discuss the transitions of the popular thought of cooperation in financial services through the container of the organization. This kind of historical study is unprecedented, and the author believes that

it can make a certain contribution to the thought of cooperative finance. This is because it is not clear whether the dynamics of thought entail fundamental change or are superficial, and practitioners are often perceived as passively accepting changes dictated by the external environment. The content of dynamics must be understood. Furthermore, the container of the organization referred to in this paper primarily refers to prewar industrial associations and credit unions, postwar credit associations, credit unions, agricultural cooperatives, and labor banks. The so-called “mujinko,” mutual financing association formed by the people is considered as prehistory in this paper.

Feudalism and Cooperative Finance - Prehistory of Cooperative Finance

Worldwide, mujinko or tanomoshiko can be found throughout various historical periods and regions. Even today, various studies are underway on “Rotating Savings and Credit Associations” (ROSCA). Therefore, these cannot be called “Japanese” or a Japanese inventionⁱ.

It is said that in Japan, the beginnings of the mujinko, which has the same characteristics as ROSCA, dates back to the Middle Ages (Mori, 3). In those days, shared work, such as moyai and yui, was seen in rural areas, and in both of these, the habit of the heart as the social capital behind the work was collaboration. The main difference, however, is that the mujinko was organized in the area of finance and functioned as a means of financing the people. The purpose and form of the mujinko vary and the way members were called as participants to perform within these mechanisms varies with the era and region. Generally, the initiator was called the parent, the participants were called Ko (association) members or children, the meeting was called the Ko meeting, and the guarantors were called the caretakers or parent recipients.

The purpose of Ko was to provide relief from natural disasters, assistance for personal misfortune, purchase of goods, and joint purchase of equipment for shrines and festivals. The first two cases were more charitable in nature and could be enacted only once. In other words, a gift is made, which is different from the general form that will be discussed.

Usually, in a mujinko, the Ko members gather at the Ko meeting and contribute to the first round of funding. The funds raised are distributed by lottery or awarded to those most in need. Two or three times, as many times as the number of members, meetings were held in which the members contribute funds and in turn receive funds. Thus, the Ko ends when everyone has received money.

Naturally, Ko members must basically know each other, and mutual trust is required. If this attitude is inadequate, the Ko will often crumble along the way. Hence, legal regulation or the presence of a guarantor prevented the collapse of the Ko. Of course, prestige risks and informal penalties would have been effective. However, the fact that it was highly unlikely that a Ko would be formed by a group of strangers and the spirit of cooperation mentioned above was a prerequisite for such a cooperative scheme was assumed to have played a crucial role in the later introduction of cooperative financeⁱⁱ.

In other words, it can be inferred that the repetition of these habits of the heartⁱⁱⁱ, such as mutuality and cooperation, habits built up through history, became a pillar of society, and eventually and practically contributed to the establishment and operation of cooperative financial institutions. Below is a list of some of the leading thinkers and practitioners involved in mujinko.

First, Miura Baien (1723-1789) listed the following rules in his book Baien Shuei (Miura, Collected Works, Volume 2, 165-168), for the compassionate mujinko, which he founded. The author interprets it here in a modern way.

- Ensure that not only each member but also all their family members understand the mujinko.
- Provide not only seasonal harvests, but also money and goods, regardless of value.
- A caretaker must be present and keep the books.
- Take security from borrowers.
- Not to be used for relief for 5 years if a member becomes impoverished.
- People with financial difficulties must not be forced to make unreasonable contributions.
- The money raised belongs to everyone.
- Caretakers should help those who need it most.
- This money does not belong to one person.

- Especially care for those who are morally upright.
- Do not push only one's own ideas in a discussion.
- Those who accumulate 10 momme of silver or 1 to of rice should be recorded as donors and should be provided with relief in times of difficulty.

In this way, the entire village built common property in an unresigned system created to help each other in times of difficulty.

Next, Kaiho Seiryō (1755-1817) mentions the *tanomoshiko* in his book *Zenchudan* (Kaiho, *Nihon Keizai Daiten* (Encyclopedia of Japanese Economy)). Here, as the monetary economy becomes more widespread, he recommends the *Ko* centered on the person who set up the *tanomoshiko*, or the trustee of the *tanomoshiko*, as an easy way to raise funds. Therefore, a *daimyo* such as the Tsuyama clan of the time, or merchant appear as an example. Sometimes he recommended the *Ko* as a means of profit-making by farmers (Kaiho, "Keikodan," *Nihon Keizai Daiten*, 229), but even in such cases, Kaiho considered *tanomoshiko* as a means of acquiring profits. In this respect, unlike other thinkers or movements, he did not see ethics and morality as organizational principles in these *Ko*. This was a common idea among both the samurai and the people. Although the purpose was different, such as to cover budget deficits or to increase profits, the *tanomoshiko* or *mujinko* were seen as a means of finance that made it possible to raise funds on a wide scale.

This is opposed by the following person. Regardless of his lifetime, Ninomiya Sontoku (1787-1856) was a practitioner and thinker whose influence was widespread from the end of the Edo period and into the Meiji era. In compiling his 36-volume collection, only parts of Volumes I and II were concerned with thought, while the rest was a concrete record of practice. Moreover, Sontoku's thought can be understood through records made by his disciples of the words that Sontoku repeatedly spoke. Representative sources include "Ninomiya-o yawa" by Fukuzumi Masae, "Houtoku Ki" by Tomita Kokei, and "Houtoku Gai Ki" by Saito Takayuki. There are many other books describing his thoughts, therefore, the number of books including related documents is huge.

In a nutshell, Sontoku's practice was to pool funds together and provide them on loan or free of charge, aiming to revitalize and develop the economy and livelihood of a target organization or region. In such places, agriculture was fundamental, and it was assumed that the farmers would be the foundation of the country and improve agricultural productivity (Fukuzumi, 155). Therefore, labor, the main means of production at that time, was to be encouraged (Fukuzumi, 138), and a portion of the fruits obtained was to be saved together and stored as a surplus to prepare for future uncertainties (Fukuzumi, 133). This system never encouraged personal stinginess. The insurance function through savings was emphasized by pooling together while there was joint management and joint responsibility.

The institutional environment, such as the feudal system surrounding agriculture, was thought to be beyond the considerations of the people. Sontoku believed people should understand the way of heaven, or the laws of nature, and his philosophy was to follow the laws and to know one's place in the world. Artificial policies that inhibited the heavenly way were criticized.

Thus, among samurai families, townspeople, and farmers, the thought and practice of Sontoku quickly spread from the end of the Edo period to the Meiji period, and organizations called *houtoku-sha* were established in various places, which, as the author will describe later, attracted the attention of the Meiji government.

Again, the basic principle was to govern the economy with virtue. Here, "virtue" refers to the three virtues of heaven, earth, and man, and teaches us not to forget the favors we owe our parents, ancestors, and heaven and earth, and to live in such a way as to repay these favors^{iv}. Therefore, *houtoku-sha* became an organization to practice the *houtoku* thought advocated by Ninomiya Sontoku.

People (employees) gather, call *houtoku* lecturers and listen to their teachings, and conduct business. At this time, withdrawals are required, which are divided into foundation money, good seed money, and membership money. The foundation fund is the basis of *Houtoku-sha* and consists of donations and company income. Good seed money is a kind of employee accumulation (similar to the concept of reserves), and membership money is treated as savings accounts.

The funds thus raised are then loaned out against collateral. The interest rate (initially called "monshokin" or "thank-you money") was said to be lower than that of the Agriculture and Industry Bank.

Houtoku-sha were mainly for farmers and were organized by village or hamlet. Since Sontoku was from Odawara in Sagami Province, they were widely formed mainly in the areas of Toutoumi, Suruga, Izu, Mikawa, Sagami, and Kai.

After the Meiji Restoration, Sontoku's disciples, such as Okada Ryoichiro, continued the movement. Some of the houtoku-sha later reorganized as credit unions under the guidance of Shinagawa Yajiro and Hirata Tosuke.

Similar thoughts and movements could also be seen through the following characters during the same period. Ohara Yugaku (1796-1858) unfortunately did not have as far a reach as Sontoku^v, but he did establish an association with similar functions in present-day Chiba. This was in 1840, earlier than anywhere else in the world^{vi}.

This association was called an "Ancestral Stock Association"^{vii}. Mainly in rural areas, farmers offered their cultivated land as common land and accumulated unlimited profits from leasing this land. The land was not to be returned and was to remain in perpetuity. As well, ethical matters, including work and thrift, were attitudes of life to be observed by association members. Presumably, this was not based on any particular religion or academic doctrine, but rather on the generally accepted ethical attitude in Japan at the time. If a member unexpectedly fell into insolvency while accumulating funds, if the member had accumulated more than a certain amount they could receive money from these funds to provide relief. However, this was limited to those who lived ethically correct lives. Improvements to roads, bridges, and other public improvements were also made with contributions from the fund.

This association, where ethics and economic activity came to fruition under the act of peasant collaboration, was headed by the name "ancestors" in that the accumulated common property was a gift from the past, or ancestors, and the accumulated funds were to be put to good use for the future.

The mujinko and similar ideas and practices described above predate the introduction of cooperative financial institutions into Japan from Europe. In this regard, the "cooperation" and "mutuality" that had been built up in Japan certainly continued to exist. This social capital in Japan must have served as a base layer of spirit for the imported organizations. It is presumed that the reflexive mujinko and the imported organizations that will be discussed hereafter had a very high affinity.

Controversy and Modernization in the Establishment of Japanese Cooperative Financial Institutions

The establishment of industrial associations, the predecessors of almost all cooperative financial institutions, began with the enactment of the Industrial Association Law in 1900. At this time, organizations engaged in credit business were recognized, along with cooperatives engaged in sales, purchasing, and production.

The industrial association law was not passed easily. A credit union law was initially proposed by the Ministry of the Interior, but failed to pass due to political reasons and opposition mainly from the agricultural side, such as the Ministry of Agriculture and Commerce and the Agricultural Science Society^{viii}. The credit union bill was based on the German Schulze model and targeted small farmers, industrialists, and merchants, while the opposing proposal aimed for a German Raiffeisen-type cooperative with an agricultural focus, no capital contribution, no dividends, and management by a master.

It would be interesting to mention the differences between the two, but for reasons of space, the author will omit them, and instead describe here the core of the theory and thought behind the failed credit union bill.

These bills were conceived primarily by Shinagawa Yajiro and Hirata Tosuke. They had studied in Germany and observed the Raiffeisen-type cooperatives in rural villages and the Schulze-type credit unions centered in urban areas that were developing at the time^{ix}. After returning to Japan, they decided that Schulze-type credit unions should be promoted in light of the state of Japan's economic structure, and published "Theory of Credit Unions" in 1891. Meanwhile, standing on the side of the Ministry of Agriculture and Commerce, which opposed the Shinagawa-Hirata proposal based on the Schulze model, Takahashi Akira and Yokoi Tokiyoshi wrote "Theory of Credit Unions" in 1891. As a result, the legislation intended by Shinagawa and Hirata failed to pass. Later, they wrote the "Outline of Credit Unions"^x (1896), which referred to other types of cooperatives and modified their commitment to the Schulze-type. They also actually provided guidance and assistance in establishing credit unions. Thanks to this, more than 300 credit unions were established by the time the Industrial Association Law was passed. However, there was no legal basis for this step. It encouraged small and medium enterprises that were able to pay their capital contributions and prove their ability to repay their debts to establish cooperatives on their own initiative and self-help without expectation of subsidies or support from the government or other entities. They also argued that dividends on investments and interest on savings should be paid and considered interest as a means of stimulating savings. With regard to payment, they insisted on management by paid staff and also called for one-person, one-vote in union

decision-making. This was a major difference from the parallel *houtoku-sha*, which were trying to encourage savings through virtue and management through virtue. Due to insufficient ownership of capital, lending through interpersonal credit was considered important. These were roughly similar to the German Schulze-type credit unions. If the author interprets the text faithfully without considering Hirata and Shinagawa's other actions and arguments and compares it with the social conditions of the time, the advocacy of a democratic organization that is self-reliant and mutually supportive is a different ideology from the management of the agrarian-based unions of the time, represented by Takahashi and Yokoi, which had a worldview based on the penetration of a monetary economy and liberal economy.

How did Shinagawa and Hirata, who had such extraordinary enthusiasm for the establishment of credit unions, view the situation at that time? Both Germany, where they studied, and Japan, lagged behind the United Kingdom, which had experienced the Industrial Revolution, and were latecomers to the economic development of their countries. In Germany, the wave of modernization was sweeping through every corner of the country: the spread of a monetary economy, or a social economy in which everything is calculated and exchanged using money; the expansion of the scale of production, or the introduction of the factory system; and the development of laws to promote the capitalist system.

Along with the monetary system, the financial system was no exception, and a central bank was established and Western-style banks were developed, which would be responsible for providing funds for industrial development. Funds were collected from all over the country and prioritized to the industries needed to build a modern nation.

History has proven that the transition from a feudal to a capitalist system is accompanied by structural distortions. Late-developing countries were no exception. What appeared to be small economic and social problems were ignored by the policymakers, who tended to focus on major reforms. The wave of modernization was sweeping over small farmers and merchants and industrialists, and the path to breaking them down into individual workers was clear. It also appeared likely that rural areas would fall and large numbers of workers and unemployed would concentrate in urban areas.

Let us look at this from the perspective of monetary and financial issues. Because of their financial structure, the financial tools that farmers, townspeople, and small commercial and industrial enterprises relied on in the face of uncertain events and economic fluctuations were loan sharks, pawn shops, merchant credit, and financing from acquaintances and relatives. Not only was the size of business limited to this range, but high interest rates and unfavorable terms of trade often exceeded the limits of self-help, leaving businesses on the verge of collapse.

For Shinagawa and Hirata, who had seen and heard so much in Germany, these issues could not be ignored. Outside of Japan, there were the Western powers, all of which were striving for economic development, accumulating national power, and using that power to expand their hegemony. They recognized that building up national strength was a national imperative. Nevertheless, they believed that if these problems were left as they were, they would eventually become major social problems and cause significant friction for the nation. The spread and deepening of friction can lead to violent social movements. It may also lead to a decline in national strength rather than development. Their conclusion was that economic development for the country must proceed smoothly, something they had learned from German social policy thinking. This was what made them different from other Meiji administrators, even though they shared a common understanding of the times.

It must be noted, however, that it was only cooperative finance that contributed to the strengthening of national power and was required to alleviate economic and social problems for the benefit of the nation. Thus, this can provide an important example when considering the relationship between the nation and cooperative finance, and, compared to the thoughts of Miura, Ninomiya (Sontoku), and Ohara, there was no desire to balance ethics and economics here - they were merely used as a buffer.^{xi}

The credit union system, which was recognized as an industrial association, was established in many rural areas along with other economic businesses, and made a certain contribution as savings and credit supply institutions, forming the basis for the current agricultural cooperatives in Japan.

However, industrial associations did not meet the needs of small and medium-sized merchants and industrialists in some urban areas. Seventeen years later, in 1917, a system of urban credit unions was finally established under the Industrial Association Law, and the establishment of new unions proceeded. In the midst of the industrialization and urbanization of Japan's economy and society that progressed further after World War I, and during the period of economic stagnation following the Great Kanto Earthquake reconstruction and the subsequent financial panic of

1927, a series of urban credit unions were established among small and medium-sized urban merchants and industrialists. These became the basis for today's credit associations, credit unions and labor banks.

In this way, these institutions attempted to prevent stratification, which was the intent of the administrators, and reduce friction between classes. On the other hand, as is common to all cooperatives, the principles that characterize European cooperatives, such as one person one vote, freedom to join or leave, voluntary participation in organizational management, and autonomy, were not seen overall. No records of these ideas being actively expressed or practiced among union members were found. It must be said that although the system was adopted from Germany, the spirit of the system was left behind. It is assumed that the people, who were familiar with *tanomoshiko* and *mujinko*, had no resistance to the joint action required by industrial associations, but did not have the opportunity to learn about the autonomy and independence of organizations. Nevertheless, industrial associations took root among the people and functioned to a certain extent only because the spirit of cooperation had taken root.

Thereafter, industrial associations and urban credit unions were incorporated into the wing of the general mobilization system and became government agencies that absorbed savings and digested government bonds. Then, in 1943, in the midst of World War II, a separate law for urban credit unions, the Urban Credit Union Law, was enacted, and for the first time they were distinguished from industrial associations. By this time, almost no debate on the nature of cooperative finance by the people can be confirmed.

Cooperative Finance after the War

The end of the war in 1945 forced or prompted a shift in values in all aspects of Japan, as is well known. Basically, this entailed liberation from the prewar imperialism and controlled economy and democratization of the economy as represented by the dismantling of *zaibatsu* (company syndicate) and the liberation of farmland, and the dismantling of all the systems that had cooperated in the war. The goal of cooperative organizations was to transform themselves from such wartime systems into democratized organizations. However, democratization was a passive result of the end of the war, and the active participation of the people was questionable for cooperative finance based on the principle of democratic management.

Economic activity began to show signs of recovery as early as 1948 from the depressed conditions during the war. On the other hand, inflation showed no sign of abating. Against this backdrop, small and medium-sized businesses were exhausted, and the financial problems they faced were severe. The changeover to a normal structure for credit unions was urgent, and the same was true for other cooperatives. Therefore, there was pressure to enact the following laws - the democratic flavor that was introduced when credit unions were transplanted from abroad.

In other words, the Small and Medium Business Cooperatives Act came into effect in July 1949 (laws on financial business by cooperatives were also promulgated and enforced). As a result, at the end of the war, credit unions under the Industrial Association Law (known as quasi-urban credit unions), credit unions under the Commercial and Industrial Cooperatives Law that also operated credit businesses, and urban credit unions were all reorganized as credit cooperatives in April 1950^{xii}.

However, the integration of the old urban credit unions into the Small and Medium Business Cooperatives Act was not satisfactory for the old urban credit unions. Nor was this system in line with the Ministry of Finance's overall vision of the postwar financial system^{xiii}. Indeed, such institutions are not capable of accommodating small and medium-sized enterprises that have large needs for funds, even though they are not large corporations. Thus, there was a desire to establish financial institutions that could seek funds from a wide range of sources, including those outside of the union members. It is important to remember that the credit union, in which funds circulate within a single union, was the prototype of a cooperative organization and was conceived to address the shortage of funds in the field.

Against the background of the confrontation between the U.S. and Soviet Union from around the beginning of 1948, GHQ's policy for managing Japan gradually began to change from the conventional demilitarization and democratization to promoting Japanese economic independence and incorporating Japan into the so-called West. Furthermore, the outbreak of the Korean War in 1950 and the complicated situation in China reinforced these trends, and various directives were relaxed.

This was seen as momentum for the passage of new legislation aimed at financial institutions specializing in small to medium businesses, and a movement was launched. The movement, however, took two or three different paths

including one that emphasized the nature of financial institutions such as banks, and another that emphasized their nature as cooperative organizations. As mentioned earlier, the cooperative organization system was imported from abroad during the Meiji period, but whether its organizational principles had been correctly digested by the people is to this day controversial. Meanwhile, however, the Ministry of Finance, the supervisory authority, was set on the idea of expanding cooperative financial institutions specializing in small and medium-sized enterprises.

After a brief and dizzying development, a credit association law, the Shinkin Bank Act was passed by the Diet in 1951. Aiming for organizations targeting a broader range of customers than credit unions, Article 1 of the Shinkin Bank Act stated “The purpose of this Act is to establish a system of cooperative shinkin banks to facilitate financial services for the citizenry and to contribute to the enhancement of their savings, and, in view of the public nature of financial services, to ensure proper supervision of such institutions and to help maintain credit and protect depositors and other stakeholders”.

With the enactment of the Shinkin Bank Act, shinkin banks (credit associations) were created as financial institutions specializing in small and medium-sized enterprises, but they also took on the cooperative nature of their predecessors and were subject to regional restrictions.

Going back in time, even in rural areas, the Agricultural Land Act was enacted in 1952 to make permanent the dismantling of the landownership system, and the Agricultural Cooperatives Act was enacted in 1947 to escape the curse of the Agricultural Organization Law. Although the business units of agriculture became smaller, agricultural cooperatives were to be revitalized while becoming homogenized. It was around this time that the agricultural savings movement began to develop. Like that of small and medium enterprises, this was intended to overcome financial difficulties.

Around this time, credit unions using the words “Labor” or “Workers” in their titles began to be established with workers, mainly in rural areas. These included the Okayama Workers Credit Union in 1949, followed by the Hyogo Workers Credit Union in 1950, and then the Credit Cooperative Fukushima Labor Bank in 1951 xiv. All of these were established under the Small and Medium Business Cooperatives Act, but it is very interesting to note that the name “Labor Bank” was used in Fukushima. Although the positions of these workers were different from farmers and small and medium business, it was clear that these workers were impoverished, mainly in terms of living funds. Some local governments actively supported the establishment of these banks. Rather than being organizations to support the labor movement, they had a stronger role in preventing people from falling into poverty, and were more autonomous and dynamic in nature. These organizations were born of the very need for survival. Finally, the Labor Bank Act was passed in 1953.

Thus, the basic Japanese cooperative financial institutions of today - agricultural cooperatives, fishery cooperatives, shinkin banks, credit unions, and labor unions - all came to be in place.

It was not long before the Japanese economy would eventually end its period of recovery.

High Growth Period

After completing postwar reconstruction, Japan achieved rapid economic growth in the 1950s, which was said to be a miracle. This growth was accompanied by rapid changes in industrial structure and intense social changes, and was also accompanied by various distortions in the economic base, such as overcrowding in urban areas and underpopulation in rural areas, a dual structure of large and small businesses, and problems with consumer prices and pollution.

The financial structure that supported this rapid growth was characterized by an over-loan policy of concentrated lending to priority industries and firms and an artificially low-interest rate policy. In addition, funds were centrally concentrated, and banks were becoming more citizen-oriented in terms of deposit absorption.

Small and medium-sized enterprises enjoyed multifaceted business opportunities, but their finances were constantly tight. For small and medium-sized enterprises with low equity capital and heavy reliance on borrowing, these conditions did not improve and became entrenched.

And as shinkin banks and credit unions sought to address these problems of financial duplicity (the disparity between large and small businesses with regard to financing), their *raison d'être* was once again confirmed. Although agricultural cooperatives did not suffer this acute financial crisis, they did make efforts to secure agricultural funds,

and exerted some restraint on the flow funds to the central government, which would have otherwise happened naturally. However, there were already signs of an increase in off-farm income as farmers earned dual incomes, and as the foundation of agriculture itself began to erode due to the expansion of non-agricultural industries and progressive residential land development.

Labor banks also contributed significantly to improved living conditions, especially housing, that emerged in the rapid economic growth period, although this was mainly for members of the labor union. It was also during this period that the 100-billion-yen campaign for mutual aid savings and deposits in labor banks was developed to secure the lives of workers.

In general, all cooperative financial institutions functioned in two ways: as financial institutions to increase savings, and to meet the demand for funding characteristic of the period, which were done on the basis of interpersonal trust through various contacts. It was during this period that they came to be known as “financial institutions with footwork”. Put differently, these institutions focused on face-to-face transactions, and their member customers expected such transactions. The member customers also hoped that these relationships would continue for the long term.

Steady growth robbed organizations of the opportunity to reflect on their own nature, creating a situation in which participation in economic activity through borrowing and saving was repeated mechanically. With the exception of a few organizations, the people were not actively thinking about “cooperation” as members of organizations during this period.

It was during this period that there was an important turning point for cooperative finance. The study of the small and medium-sized financial system by the government’s Financial System Research Council beginning in 1966 and the enactment of the Two Financial Laws in 1968 provided a forum for examining the reason for the existence of cooperative finance, and the results were significant. In a nutshell, the fundamental question was whether the “cooperative” organizational form was necessary for financial institutions, or whether, on the flip side of the argument, they could in some cases be consolidated into corporate financial institutions. As a result, for shinkin banks and credit unions, institutional survival was ultimately assured.

Low Growth Period

The 1970s were a major turning point for the Japanese economy. The Nixon Shock, which was caused by the decline of the U.S. position due to the prolonged Vietnam War, and the transition to a floating exchange rate system, were followed by the two oil shocks. The first oil shock occurred when prices and land prices were skyrocketing. This forced severe structural adjustments. Meanwhile, when incomes caught up with those of the Western industrialized countries, the yen began to appreciate and resource constraints brought an end to rapid growth. The economic growth rate dropped to about half of its previous level, and the structure of industry and finance underwent major changes due to industrial sophistication, technological innovation, economic internationalization, rising income levels, and the massive issuance of government bonds.

Faced with a long-term economic downturn, difficulties faced by small and medium-sized enterprises, and intensifying competition among financial institutions, shinkin banks and credit unions, based on the idea of regionalism, strengthened their ties to the local community through a narrow-range, high-density strategy, promoted small-lot, large-volume transactions with a focus on expanding their base, and thoroughly diversified business activities while focusing on demonstrating their individuality. These were the so-called return to origins, an attempt to look back to their beginnings. The strategy of regionalism and small trade orientation was synonymous with the member-orientation of these institutions and was an ideological consideration and practice that reaffirmed that cooperative organizations are founded by and for their members.

During this period, rural areas faced sluggish growth in agricultural income. As well as rice production adjustments and keeping rice prices constant, rising prices would also have affected costs. On the other hand, off-farm income continued to rise. As a result, the amount of savings in agricultural cooperatives also increased. Loans continued to grow around 1965, but the rate of growth eventually slowed. In terms of the breakdown of loans, agricultural funds began to decline, while off-farm business funding continued to grow including an increase in mortgages. Here, too, the transformation of the agricultural structure became apparent and affected the content of agricultural cooperative balance sheets. The purpose of agricultural cooperatives especially in the credit business came into question. In the

narrow sense, these businesses were to support the occupations of farmers, but as the use of the funds continued to shift toward improving the living conditions of farmers, people started thinking that the purpose of these organizations was to raise funds. In other words, their reasons for existing was called into question.

Incidentally, even as shortages of goods due to the oil crisis caused people to panic-buy and sellers to refrain from selling, banks continued to lend money. In particular, lending was concentrated on certain companies. Criticisms of these issues were raised, and a financial democratization movement developed. As a result, the role of labor banks came under renewed scrutiny. The “welfare finance” proposed by labor banks was also emblematic of this. The arguments were about how financial institutions should aim to improve the welfare of workers. The later campaign to combat loan sharks was also an extension of this movement. “Welfare finance” demonstrated that the financial institution was for its members, in other words, a member-oriented institution.

Turning to the 1980s, the financial system, which had tightened after the second oil shock, turned around and continued to ease, because the domestic economy has been sluggish, as seen in housing construction and consumer spending, and many small and medium-sized enterprises continued to face extremely difficult business conditions. Among other factors, wages growth had also slowed.

In the meantime, the financial system had sped up reforms toward full-fledged liberalization and internationalization. Additionally, as large corporations increasingly shifted away from banks (by raising funds on the securities market), urban banks became more active than ever in small business and housing finance to fill that void. At the same time, cooperative financial institutions adopted a homogenization strategy to compete with this competition (notably, shinkin banks had great difficulty lending, and even though they drastically compressed interest margins on deposits and loans, the shinkin banks’ share of loans to small and medium-sized enterprises at the end of fiscal 1985 had fallen below its share at the end of fiscal 1961). This raised concerns about the dilution of their cooperative nature (Sumimoto, 1992). In addition, there were calls to divide agricultural cooperatives (Saeki, 1993) and even calls to dismantle general agricultural cooperatives (Miwa, 1997). There were also strong calls for regional cooperatives to become unionized (Suzuki, 1973), resulting in a diversity of thought regarding agricultural cooperatives.

Labor banks also faced increased competition from banks in the housing finance market. This developing situation brought calls to unify the many labor banks around the country, and the theoretical framework of economies of scale began to loom in the background.

After the Plaza Accord, the yen surged due to the correction of the excessively strong dollar. The economy recovered from its bottom in November 1986, and the so-called Japanese asset price bubble lasted for 53 months until April 1991, the second longest period of growth since the end of the war. This unprecedented economic boom was brought about by economic stimulus measures to expand domestic demand and ultra-loose monetary policy. Asset prices soared as investment attracted more and more investment. These were the beginnings of the bubble economy. The liberalization and internationalization of finance based on liberal ideology was promoted in earnest during this period.

In the bubble booming, while many industries experienced business closures and start-ups, the sudden appreciation of the yen created some ups and downs but some prospered. Investment and consumption had a synergistic effect on all prices, which rose with asset prices leading the way.

Cooperative financial institutions also made loans to a number of companies and individuals involved in asset purchases, regardless of the type of business. With the loan-to-deposit ratio on a downward trend, perhaps all cooperative financial institutions may have sought a way forward in the bubble. The mission of the cooperative organization was never questioned and almost forgotten. Then, the bubble economy burst. As financial liberalization progressed, stakeholders called for the mission of financial institutions as cooperative organizations to be reconsidered. However, this was an extremely difficult task considering that the bursting bubble had to be handled, i.e., non-performing loans had to be dealt with.

These general trends affected rural areas differently. In the early 1980s, agricultural and off-farm income growth had been sluggish, but in the latter half of the decade, the bubble economy led to a sharp rise in land-related income in both urban and rural areas. Correspondingly, lending for housing and apartment financing grew. This was also accompanied by an increase in lifestyle-related loans. It is true that there were promotional efforts, typified by unified loans provided by agricultural cooperatives. More than that, however, the price of land as agricultural capital rose not because of its value in producing agricultural products, but because of speculations generated by the bubble economy, which brought about an asset effect. Farmers were also caught up in the bubble economy. For a long time, agricultural cooperatives, which are aggregations of their members, failed to confirm the value of their existence as

cooperative organizations and came to exist as mere economic collectives. The bursting of the bubble economy may be said to have brought this to the surface.

During this period, labor banks developed in stark contrast. Although loan terms were affected by housing prices, labor banks almost never lent to businesses closely related to the bubble economy, and hence did not experience the real estate-related debt issues that accompanied the so-called bubble collapse. Members of the labor banks simultaneously demonstrated an understanding of the principle of governance of labor banks for the workers.

Long-term Stagnation Period

The first half of the 1990s saw the bubble economy burst, which also caused friction in the financial system. This period was known as the “Heisei recession” and was a correction phase in response to the bubble economy. Land prices fell to about two-thirds and stock prices dropped to less than 40% of their level at the bubble peak, in a period known as asset deflation. To address these issues, economic stimulus measures centered on aggressive public investment were adopted. The financial system was in a period when financial reforms had been ongoing since the 1990s. These included complete liberalization of interest rates and mutual entry between different types of financial institutions through the establishment of subsidiaries for each type of institution. The system was changing to one that placed more emphasis on markets. However, the collapse of the bubble economy led to bankruptcies of several credit unions and second regional banks, beginning with the collapse of two credit unions. These events brought heated public debate about using public funds to resolve bankruptcies of financial institutions, especially of non-banks such as housing finance specialty companies. At this time there were signs of financial system instability.

There were question marks over the management approach in cooperative finance. In other words, the question of “who” these organizations were “for” became the subject of much debate. It was argued that the cooperative nature of these organizations had declined as they became oriented towards profit maximization^{xv}.

Later, stock adjustments were completed, and the economy entered a recovery phase. However, the Great Hanshin-Awaji Earthquake in 1995, a sharp drop in stock prices, and the sharp appreciation of the yen, which reached 79 yen to the dollar, raised concerns that the economy would falter. In addition to strengthening economic stimulus measures, the government also introduced ex-post regulations to strengthen the financial system, such as strengthening capital adequacy ratio regulations, thorough disclosure, and the introduction of early corrective measures. In November 2008, it announced the Financial Big Bang, and accelerated structural reform of the financial system, focusing on the transition to a market-based system based on the principle of self-responsibility and competition. However, the financial system remained unstable due to delays in the disposal of nonperforming loans following the collapse of the bubble economy.

In this environment, shinkin banks and credit unions worked to restore their damaged balance sheets while supporting their members of small and medium enterprises however they could. As a result, delays in the disposal of nonperforming loans became conspicuous. Meanwhile, for individuals, these organizations sought to make household finances their main focus.

Agricultural cooperatives also responded similarly to liberalization by making their focus on household finance essential. In lending, however, these organizations had suffered from a long-term decline in the savings to loan ratio, which fell to 28.2% in 2009 - a clear problem compared to 44.7% in 1960. Agricultural and off-farm revenues declined, and demand for agricultural financing declined as well as off-farm business financing. Rental housing financing demand had grown but began to decline. The continued growth was in demand for housing finance.

The JA Bank system was launched in 2002, and what were previously separate agricultural cooperatives, prefecture-level and central-level banks essentially began to function as a single financial institution. The same was true for the fishing cooperatives. Unlike other cooperative organizations, this was to reap the benefits of economies of scale by strengthening the functions of the central organization. These were also trends seen in Europe. This was particularly true of agricultural cooperative organizations^{xvi}.

This idea was also considered for labor banks but has not been nationally standardized. Meanwhile, at the retail level, the development of loans to non-profit organizations can be seen as a sign of concern about the bias toward housing loans and a sense of crisis about the declining rate of labor union organizations, to which union members belonged. For a labor bank that sees its members as workers, it is fair to say that a redefinition of members (a change in the common bond) was required. Similar redefinitions have also been made at credit unions in the United States, and

changes to the law have actually been made. The common bond is an important concept in facilitating segmentation and risk management in cooperative finance. Discussions have been sporadic but are ongoing.

All these organizations faced stagnation in their existing organizational layers in the increasing competition in the financial markets. Not only that, they also faced other challenges underfoot. That was governance. In short, the members were called upon to exercise control over management, and the importance of managing the company for its members was reaffirmed. Here, members became aware of their participation in the organization. In a sense, this was natural for a cooperative organization. This was an opportunity to consider the principle of one person, one vote.

In parallel with these issues, the issue of compliance came to the fore. This again was natural for a cooperative financial institution that was participating as a member of civil society.

Furthermore, as the loan-to-deposit ratio had slumped after the bubble period, the nature of securities investment as a means of managing surplus funds was frequently questioned. Not only were the investment destinations questioned, but also investment capabilities. Investment ability was expected to be commensurate with an organization's own capital, but these expectations were often not met. Such a state of affairs called into question the very nature of cooperative finance.

New Thoughts on Cooperative Finance Come into Being

As we have seen, Japanese cooperative finance has not been inspired and driven by heroic thinkers. Certainly, there were a few thinkers during the feudal and Meiji periods, but apart from them, these movements were developed by many practitioners who have gone unnoticed by historians. This can be confirmed as we look at the minutiae of materials such as practical journals^{xvii}.

In the more than two decades since the burst of the bubble economy, the Japanese economy has been forced to undergo major structural reforms and the government has tried to implement reforms. While treating the aftereffects of the collapse of the bubble economy, the major challenge was structural reform, namely, to promote the financial Big Bang.

First, in the real economy, deflation was prolonged with falling prices and rising unemployment, and the stock market slumped sharply. To overcome these challenges, the financial economy maintained an unprecedented zero-interest-rate policy for an extended period of time. Now in 2024, in a state of global inflation, central banks in Europe and the U.S. one after another have raised official interest rates. Japan has also been forced to adjust its policies for a world with interest rates about to arrive once again.

Next, in the financial markets, the number of bankruptcies of financial institutions hit by a large number of non-performing loans increased, and financial restructuring, including mergers, was promoted. Meanwhile, the financial Big Bang has eased various financial regulations, and mutual entry and new entry into various financial businesses have developed. Notably, financial services have rapidly come online and new entrants have entered the market. Neoliberal ideology has been at the forefront of institutional reform.

In addition, there have been significant changes in financial administration. The traditional proactive guidance-type administration was replaced by an ex-post facto monitoring type, and a number of new innovations were put in place, such as the development of finance-related laws and regulations, the establishment of safety nets, and the establishment of the Financial Services Agency. This neoliberal direction has remained unchanged to the present day.

In this environment, various demands for reform are being brought to bear on cooperative finance, mainly from both internal and external parties. The main demands, if listed from the perspective of various stakeholders, would be general support for local businesses and individuals (consulting functions, CSR, etc.), more advanced risk management, establishment of internal control systems including compliance, improvements in governance including the structure of general meetings of representatives, increasing the frequency of disclosure of accounting information, enhancing disclosure, promoting processing of non-performing loans, development of financial products and services based on new financial technologies, and improving capital adequacy ratios.

These ideas aim to improve the functions of financial institutions and increase their openness due to their public nature. There were no organizational differences in these demands and they were generally demanded of all organizations. These institutional changes blurred the boundaries between corporations and the cooperative organizations.

In addition to these practical challenges, an ideological movement has emerged that can be considered a major turning point in a long history. This is the emergence of cooperative finance, or value-oriented finance, which supports the realization of specific values of the people^{xviii}.

Unlike public policy, social movements, etc., the approaches to value stakeholders want to realize or to the problems they want to solve through funding do not involve the loss of time (lost opportunities) or assets of their supporters. The reason is that they use the power of money, not authority, through deposits and lending. Considering the economic and social backgrounds that gave birth to them, organizations that are not part of banks that aim to maximize shareholder value or are not involved in public policies that are unrelated to profits, but rather that aim to simultaneously realize profits and social and natural value, will become increasingly prominent in the future.

Looking around the world at the cooperative financial institutions that are aspiring to these values, we see they are not so much financial institutions for the members of existing social capital, but rather, cooperative financial institutions that have emerged from groups aspiring to new values, due to the diversification of the social capital to which their members belong and similar movements by stakeholders related to the members. While based in local communities, these organizations exist at the center of value communities that transcend the local community and can be said to have entered a new phase of development. We can identify new objectives and functions for cooperative finance that recognizes new groups aiming to realize value as social capital and utilize the capital accumulating in those groups while also promoting the accumulation of that capital.

In Japan, some cooperative financial institutions are partially involved in social finance activities. If we look only at the natural environment sector of social finance, many shinkin banks, credit unions, labor banks, and JA are also involved under the SDG banner. However, there are no examples of this being addressed across the board in management as in the European case. However, we can observe a few of these activities in other forms of legal entities, such as NPO banks.

There is hardly any difference between the domestic and international aspects of the external context that drives social finance, and presumably, there is ample room for development across all fields in Japan as well. Therefore, it is quite predictable that cooperative finance will move into similar territory. The concept of “value orientation” is giving a new direction to Japanese cooperative finance thinking.

Conclusion

As described above, looking at thoughts, movements, and practices through history, the author can see underlying fundamental elements that remain unchanged, while there are also parts that have changed or become stronger or weaker in response to changes in the external environment.

Cooperative finance, which began with the idea of a group working together to prepare for poverty or sudden hardship, is now being joined by the new idea of cooperative finance, which aims to realize various values. One could say that what was previously a passive attitude toward the external environment has now taken up the active aspect of influencing the environment. From another angle, this can be seen as expansion of the perspective on members from single stakeholders to multifaceted stakeholders. At the same time, it is fair to say that ideologies have also diversified. Cooperative financial institutions that target the economically disadvantaged and organizations that have small, self-employed individuals as stakeholders of course still exist and continue as always to demonstrate reasons for their existence. In this sense, the ideological potential and practice of cooperative finance can be seen to have expanded.

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i All over the world there are case studies and theoretical studies on ROSCA. Because of the importance of this in examining the origins of cooperative finance and showing its global reach, the author has listed theory and regional case studies in references.

ii From the Meiji period, mujinko were incorporated to mutual aid companies, and after the war they became mutual banks. These then became second regional banks which remain to this day. See “History of Mutual Banking” for more information. Although not common, this does not mean that mujinko have disappeared in Japan today.

iii See Bellah, Robert, et al. (1985), *Habits of the heart*. (Shimazono, Susumu and Nakamura, Keishi (trans.) (1991), *Habits of the heart*, Misuzu Shobo.)

iv See Okada, Ryohei (1923), “Hotoku-sha, the Japanese-Style Industrial Association” in *Masterpieces of Cooperatives*, Volume 10.

v Honiden, Yoshio states that Ohara Yugaku’s ideas became a spiritual foundation in the Meiji period. (Honiden, 40-41)

vi As noted by Takakura Teru.

vii The following references The Complete Works of Ohara Yugaku, 264-267.

viii See the following for opposing arguments regarding Hirata and Shinagawa. Takahashi, Akira and Yokoi, Tokiyoshi, “Theory of Credit Unions,” Kondo, Yasuo (ed.) (1977) “Collection of Masterpieces of Agricultural Policy and Economics in the Meiji and Taisho Periods, Collection of Theories of Credit Unions and Industrial Associations,” Rural Culture Association Japan.

ix For theory and thought on Germany, see Chapter 1 in Hasegawa, 2000.

x See Shinagawa, Yajiro and Hirata, Tosuke (1896), “Outline of Credit Unions.”

xi A dispute would ensue over morality and economics between the Houtoku-sha and the industrial association established. Okada, Ryoichiro, Yanagita, Kunio, Hirata and Sugiyama

xii See The Shinkumi Federation Bank (1976), “History of Credit Unions,” Chapter 1.

xiii The National Association of Shinkin Banks (1959), *History of Shinkin Banks*, Chapter 5, describes the history of this period.

xiv See National Association of Labour Banks (2002), “50-Year History of the National Association of Labour Banks,” National Association of Labour Banks.

xv Such debates arise regularly in other countries as well. (Puusa, A., 2021) (Novkovic, S., 2022)

xvi Rabobank in the Netherlands is a good example. (Herman, H. J. Bol, 1990)

xvii Various claims can be seen in examples such as “Shinkin Bank,” “Shinkumi” and “Norin Kinyu,” etc., starting with daily practices through to organizational philosophies.

xviii The emergence of social banks is emblematic of this. Cf., Weber, O. and Remer, S., 2011. The following books provide more detailed information on the ideological changes in cooperative organizations in response to new external environments or social demands. Michie, J., et al., eds, 2017.