

THE FINANCIAL POLICY OF THE MEIJI GOVERNMENT

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Fundamentally considered, the modernization of Japan which began with the Meiji Restoration was of the same character as that found in the countries of western Europe, typically in the case of England. That is to say, capitalist industrialization was the basis, or axis, of modernization in Japan. However, in backward Japan it was necessary to compress into a short period and carry out at one stroke the process which the advanced country, England, had passed through gradually over a long period of 200 to 300 years. In the case of the countries of western Europe, too, it was generally necessary (as shown typically in the case of Germany) for government protection and aid to be given in greater or lesser measure when backward countries decided to push forward with a programme of capitalist industrialization, and this was also so in the case of Japan. Indeed, we may rather say that in this case government protection and aid of a more powerful character, and by means of more direct methods which would provide a substitute for customs protection, were made necessary by the fact that not only had Japan embarked late on industrialization, but also did not possess tariff autonomy. In the event, too, protection and aid of this kind played a great role.

Now finance may be described as the material basis of the state, the thing which supports the state. Consequently, the fact that state protection and aid for the purposes of industrialization played a great role also means that finance played a great role for these purposes. However, it is not our present purpose to give an account of the role played by finance in this broad sense in the capitalist industrialization or economic development of the Meiji period. Our present subject is somewhat narrower than this—the questions of the connection between the financial activity of the Japanese government and the economic development of the Meiji period and of the financial activity carried out by the Japanese government in the Meiji period with a view to economic development.

I. THE REFORM OF THE LAND TAX

The first matter which we must raise as having established the Meiji government's financial basis and as having provided the prior conditions for capitalist industrialization in Japan is the reform of the Land Tax.

The Meiji government, which came to power in 1868 (the first year of the Meiji era), progressed through the abolition of the fiefs and the creation of Prefectures in 1871 and the centralization of the rights of tax-collection which accompanied it, gradually evolving from a coalition régime composed of a minority of powerful fiefs into a modern centralized régime. But although a centralized state had been established in its main essentials, in the Japan of these days (in contrast to the case of western Europe) a commercial economy was as yet undeveloped, and, as we have noted above, tariff autonomy was lacking. This being so, the position occupied by the revenue from indirect taxation and customs in the finances of the government was markedly low. The greater part of government revenue was derived from the Land Tax, a tax which was an almost unchanged continuation of the feudal dues levied under the Tokugawa régime. Further, as a result of these circumstances, this tax was levied on the basis of the harvest, and by different methods and at different rates in different regions, and in principle was levied in kind.

On the other hand, there was a large number of activities which the Meiji government was obliged to undertake, and consequently there was a great volume of accompanying expenditure. Already before this period the government had expended vast sums in seizing power and in consolidating its power. Since these vast expenditures could not be met out of tax income, the greater part of them were provided by means of a form of inconvertible currency called "Cabinet Notes" (*Dajōkan Satsu* 太政官札), and at the time which we are considering—the time of the abolition of the fiefs and the establishment of Prefectures—the value of these notes had fallen and they were being exchanged for specie on a grand scale, with the result that circulation stagnated and new issues were becoming markedly difficult.

Further, this government was charged with the two great duties of *Chitsuroku Shobun* 秩祿處分 (the commutation of feudal stipends) and *Shokusan Kōgyō* 殖産興業 (the encouragement of industry). The former of these consisted in issuing government bonds in compensation for the stipends which the government had undertaken to pay annually to the feudal lords and their retainers who had supported them in their seizure

of power, these stipends being based on their feudal landowning rights converted into terms of rice, and this measure had the aim of bringing about the liquidation of this class as well as that of reducing the future burden on the government's finances, while the latter aimed at bringing about the development of agriculture, industry and commerce under the leadership and assistance of the government. Although they differed in respect to their positive and negative functions, both of these measures were necessary for the introduction and development of capitalism in Japan. However, at the same time both necessitated large financial burdens.

The reform of the Land Tax, which was begun in 1873, was an undertaking whose direct aim was that of correcting the unbalance between this revenue organization and the necessity of these expenditures, and its content may be summarized as follows.

- (1) The basis of assessment: As we have noted above, the former Land Tax was levied on the basis of the produce of the soil, but as a result of this reform the tax came to be levied on the basis of an assessed land value. These land values were arrived at by finding the average yield of the relevant type of land by means of large-scale land surveys and capitalizing these values with the rates of interest customary in the locality.
- (2) The rate of tax: The former Land Tax had varied between 40% and 50% of the harvested crop from fief to fief, and also according to the state of the harvest in each year, but as a result of this reform the rate of tax was set at 3% of the assessed land value over the whole country, and it was made a general principle that no variations in the rate of tax should be made in accordance with the state of the harvest from year to year.
- (3) Form of payment: The former Land Tax had been paid mainly in kind, but as a result of this reform all payments came to be made in money.
- (4) Taxpayers: Under the former Land Tax, the persons responsible for the payment of the tax differed from locality to locality in accordance with custom, the general principle being that the cultivator should pay the tax, but as a result of this reform the taxpayer became the landowner, whose rights of ownership were confirmed by the issue of Land Certificates (*Chiken* 地券).

In this way the Land Tax was transformed from an almost unchanged continuation of feudal dues into a modern tax payable in money and levied on the landowner at a uniform rate throughout the whole

country on the basis of the assessed value of the land, a tax of the kind called *Ertragssteuer* by German scholars. By this means the income from this tax rose from approximately ¥20 million in 1872 to approximately ¥68 million in 1875, an income which was three times as great, and, moreover, was of a stable character. The financial basis of the Meiji government was markedly strengthened, and only on this basis was it possible for the government to accomplish the tasks with which it was charged.

However, the reform of the Land Tax did not only modernize the fiscal system of the Meiji government and strengthen its financial basis. At the same time it served as a powerful instrument for what Marx called "the primitive accumulation of capital."

The mere existence of a certain volume of funds is, in itself, insufficient for the purposes of carrying forward the capitalist industrialization of a country. Alongside it there must exist a body of what is known as "free" labour which can be purchased as a commodity with these funds at certain prices. Once capitalist industrialization has got under way these funds and labour are reproduced by the laws of capitalism themselves, but at the outset it is necessary that they should be produced by some means or should already be in existence. This is why "*primitive accumulation*" is so called.

By the reform of the Land Tax and through the medium of the land surveys carried out in association with it the owners of each plot of land were confirmed, while land which had no owners, or in respect to which the rights of ownership were obscure, was made into *kokuyūchi* 國有地 (state-owned land) or *kōyūchi* 公有地 (publicly-owned land). In the course of this process there was an increase in the numbers of peasants who lost land, or who, even if they did not lose their land, found themselves unable to make a living because of the loss of common lands (*iriaichi* 入會地) which had played an important role in their livelihood in association with their land. Again, since, as we have observed above, the Land Tax was practically the sole source of revenue at the disposal of the Meiji government, the land values and rate of tax were fixed in such a way that there would be no reduction of revenue when the reform of the Land Tax was carried out, and hence the tax burden on the peasants was substantially unchanged from feudal times. Further, as a result of the sudden and compulsory change to money payments of the Land Tax the peasants were forcibly involved in the money economy. Because the peasants were obliged to pay this excessive Land Tax in money, and because severe measures were taken

in case of failure to pay, the desintegration of the peasant stratum of society and the lapse into bankruptcy of a certain section of the peasantry advanced rapidly. These bankrupt peasants became proletarians obliged to sell their labour as a commodity.

On the other hand, part of the revenue from the Land Tax was used by the government as capital, as we shall show in the following section, and this revenue played an important role in promoting the capitalist industrialization of the Japanese economy, at the same time supplementing scarcities in the funds accumulated by private enterprise.

In this way the reform of the Land Tax was an important instrument in producing the modern labour and sum of capital which are the indispensable pre-condition for starting capitalist industrialization; or, in other words, the reform of the Land Tax was an important instrument for the carrying out of "the primitive accumulation of capital."

In the two senses that on the one side it equipped and firmly established the financial basis of the Meiji government and on the other promoted the so-called "primitive accumulation," this reform of the Land Tax was an indispensable ladder for the capitalist industrialization of the Japanese economy and the economic development of the Meiji period. This does not mean, however, that this was done smoothly and without friction. In spite of the fact that the implementation of the reform of the Land Tax was an event of sufficient importance for an Imperial Edict (*Jōyu* 上諭) to be issued in connection with it, there was furious opposition to the reform, both while it was being carried out and after it had been completed, and on no small number of occasions this opposition exploded in the form of peasant uprisings. However, the stage of development of world history in the 1870's, unlike that of the present day, could not allow this opposition to be directed against the *capitalist* industrialization which had been adopted as an instrument for the modernization of Japan. Again, because of the international relations in which Japan was involved at that time, this opposition never combined with political forces in foreign countries to threaten the government. That is to say, the Meiji government, enjoying the benefit both of the period of history and of the state of international relations, was able to carry through successfully the reform of the Land Tax which was the indispensable ladder for capitalist industrialization.

II. THE EQUIPPING AND FIRM ESTABLISHMENT OF THE CURRENCY AND CREDIT INSTITUTIONS

Although we may say that with the reform of the Land Tax the pre-conditions for the capitalist industrialization of the Japanese economy were more or less provided, Japan, a backward country, was unable to allow the situation to follow its natural course if she were to press on with industrialization in a realistic manner, obliged as she was to move among the advanced countries, and being, as we have noted above, in the condition of lacking tariff autonomy. For Japan to be able to stand up to competition from the advanced countries without the aid of protective tariffs, Japanese industry would have to be provided from the first with a level of technology not inferior to that of the advanced countries, as well as having the scale of operation required by such a level of technology. However, "the primitive accumulation of capital" in Japan was insufficient for the supply of the funds which were required in the natural course of events for this purpose, while the accumulation of technology in the productive and management aspects of the economy—a factor which always develops step by step in parallel with the accumulation of funds—was also very backward.

Thus, as is shown by the words: "The prime economic policy since the establishment of the Meiji government has consisted in providing financial facilities and giving encouragement to the establishment of industry,"¹ powerful government aid was needed in taking steps to provide the funds required in industrialization as well as in introducing productive and managerial technology.

For the purposes of "providing financial facilities" the method at first employed was that of making payments from government funds to private industry in the form of subsidies, investments, loans, etc. As well as being made from the government's general account, these payments were also made from the Reserve Fund, the Industrial Promotion Fund, etc. The Reserve Fund had originally been instituted as a currency conversion reserve or sinking fund, but loans denominated "capital loans for the encouragement of industry" were made from this fund, the sums lent during the period 1873–1881 reaching a total of ¥53 million, or somewhat more than 1.2 times the average annual revenue from the Land Tax during the same period, approximately ¥44 million. Again, the Industrial Promotion Fund was made up from a part of the proceeds

¹ Meiji Zaisei-shi Hensankai 明治財政史編纂會, *Meiji Zaisei-shi* 明治財政史 (A History of Public Finance in the Meiji Period), Vol. 12, Tokyo, 1905, p. 307.

of the Industrial Promotion Loan of 1878, and from it approximately ¥6 million was loaned as funds for general industry.

On the other hand, with the same aim of "providing financial facilities" measures were taken to equip and firmly establish the currency and credit institutions, and to transplant the joint-stock company system. For example, the National Banks set up under Regulations issued in 1872 on the model of the national banks of the United States of America made a fair contribution to "the provision of financial facilities" through their note-issues, particularly after the revision of the Regulations in 1876, and the reserve funds for these currency issues were the government bonds issued for the purpose of the commutation of stipends, and of calling in the government's paper currency. Taking another example, in order to attain such equipment and firm establishment of the currency and credit institutions as had not been accomplished by the National Banks system by the setting up of a central bank and the adoption of the currency conversion system associated with it, and to take steps towards a true "provision of financial facilities" it was necessary on the one hand to call in the government paper currency issued since the Restoration, and on the other hand to accumulate a certain sum in specie, but these measures were possible only after a change had been made in the government's finances and financial policies. We now propose to give a somewhat fuller account of the role performed by finance and financial policy in the equipment and firm establishment of the currency and credit systems, concentrating our attention on the latter of the two points mentioned above; that is, on the conversion of government paper currency and the accumulation of specie which were the pre-conditions for the setting up of a central bank and the adoption of a currency conversion system.

These measures in government finance and financial policy were carried out by Matsukata Masayoshi 松方正義, who became Minister for Finance as a result of the so-called "political upheaval of the 14th year of Meiji" in October, 1881. When he came to office the premium on government paper currency in relation to specie (silver) had reached more than 73%.¹ This had been caused by the issue of vast sums of inconvertible paper currency to meet the expenditures of the Seinan Sensō 西南戰爭, the war fought in south-western Japan in 1877, as well as

¹ Matsukata Masayoshi, *Shihei Seiri Shimatsu* 紙幣整理始末 (An Account of the Regulation of the Paper Currency), in Ministry of Finance, *Meiji Zenki Zaisei Keizai Shiryō Shūsei* 明治前期財政經濟資料集成 (Collection of Documents on the Financial and Economic Policies in the Earlier Half of the Meiji Era), Vol. 11, Tokyo, 1932, p. 205.

by the positive policies, typically loans from the Reserve Fund (the funds accumulated in the past), adopted by Matsukata's predecessor, Ōkuma Shigenobu 大隈重信, who wrongly ascribed the cause of the rise in the price of commodities (the price of silver) which resulted from these currency issues to an efflux of specie caused by an import surplus deriving from the unprosperous condition of domestic industry, and in this way the total sum in the various kinds of inconvertible paper currency, which stood at approximately ¥106 million at the end of June, 1877, had been inflated by more than 1.5 times to approximately ¥160 million by the end of December, 1880.

On the one hand this inflation spurred the disintegration of the former military class and the peasant stratum of society through the medium of the rise in prices and the penetration of the commercial economy, and on the other gave opportunities for the acquisition of profits from speculation and hoarding, etc., thus promoting "the primitive accumulation of capital" in general, and in this sense it performed a positive role in the capitalist industrialization of the Japanese economy. But on the other hand the inflation had a negative effect in relation to capitalist industrialization by making impossible stable calculation of future profits, particularly by stimulating imports, discouraging exports, and bringing about an efflux of specie. Indeed, there was even some danger that, if the inflation and the efflux of specie which accompanied it had continued, it would have destroyed the currency system, the very foundation of capitalism itself. Now, when this inflation had performed its partially positive role, or after it had gone beyond certain limits, it became necessary to restrain it for the benefit of the development of the economy and capitalist industrialization. The restraining of the inflation for these reasons was the task required of Matsukata.

The measures which he took for this purpose were first to stop the issues of inconvertible paper currency and next to take steps to ensure a balance or surplus in government receipts and expenditures in order that he might withdraw that currency until it was of such a volume that there would no longer be any premium in relation to specie. The methods which he chose for this purpose were on the one hand the repressing of annual expenditure and on the other increases in taxation. Thus, in the three years between 1882 and 1884 he enforced a pegging order on all budget expenditures except those for military purposes. Again, avoiding a rise in the Land Tax, which would have produced much political friction, he took steps to increase taxation by means of consumption taxes, in 1882 instituting for the first time a stamp

tax on pharmaceutical articles and broker's tax on the rice and stock exchanges and increasing the taxes on alcoholic beverages and tobacco, while in 1885 he instituted for the first time a tax on soy sauce and a tax on confectioneries. In this way a total budgetary surplus of ¥40 million was produced over the four years from 1881, and of this approximately ¥14 million was directly assigned to the withdrawal of paper currency, while approximately ¥26 million or more was put into the Reserve Fund.

The second measure taken by Matsukata for restraining the inflation and bringing about the establishment of a central bank and the currency conversion system associated with it was the accumulation of specie by means of the Reserve Fund. Thus he transferred back to its original function the Reserve Fund which had been used for "loans for the promotion of industry" over and above its original purposes, the administration and accumulation of reserve funds for currency conversion, and in this way he positively promoted the accumulation of specie. The method he adopted for this purpose was the so-called "foreign documentary draft system," and by this means he sought to accumulate specie by lending to exporters on the security of their export goods (through the Yokohama Specie Bank) government paper currency held in the Reserve Fund, causing them to repay the loans in foreign currency when they had received payment for their export goods. Further, loans were made under this system only to Japanese exporters, and the system also had the aim of encouraging so-called "direct exports," excluding exports through foreign exporters by affording these financial facilities to Japanese exporters.

When in this way the volume of government paper currency had been reduced and the specie reserve increased, the paper currency premium in relation to silver gradually declined, and in 1885 it was almost non-existent. Matsukata now caused the Bank of Japan, which had been set up in 1882, gradually to replace the government paper currency with its own notes, and in June, 1885, it was declared that the Bank of Japan would undertake the conversion of paper currency into silver with effect from January, 1886.

It need hardly be said that this modern currency and credit system, combining as it did the currency system and the credit system and having as its axis the currency conversion system of the Bank of Japan, performed a basic function in the development of the Japanese economy and capitalist industrialization, not merely in the Meiji period but also thereafter, but for the firm establishment of this system the series of

measures which we have described above was required, measures which are usually referred to by an appellation incorporating the name of the man who carried them out, "the Matsukata financial policy."

Further, this policy of inflation restraint, or policy of deflation, carried out by Matsukata produced in the course of its implementation a fairly severe fall in commodity prices, with the inevitable result that the enterprises which could not stand up to this were ruined. Among these were many which had been started in the inflation period with the bonds given in compensation for military class stipends as capital, and as a consequence of these events the members of the former military class rapidly fell into bankruptcy. Again, the fall in the prices of agricultural products made a doubly heavy burden of the Land Tax, now set at a fixed sum since the revision of the Land Tax, and led to bankruptcies among the peasantry. In a word, the Matsukata financial policy also played a great role in promoting "the primitive accumulation of capital," and it would seem that we should not ignore this aspect of the Matsukata financial policy.

III. THE SALE OF GOVERNMENT ENTERPRISES

In Japan the accumulation of productive and managerial technology, like that of capital funds, was insufficient in an extreme degree when compared with the levels and scales called for in undertaking capitalist industrialization. Under the circumstances prevailing, there was no alternative but to transplant or introduce these from the advanced countries abroad, but for this purpose a certain amount of knowledge and a vast sum of capital funds were required, and it was also necessary to recognize the fact that the undertaking might be accompanied by considerable dangers. Thus it was inevitable that the greater part of this transplanting and introduction was done by the government, and took the form of the starting and operation of government enterprises and the selling-off of these enterprises to private interests. As need hardly be said, the starting, operation, and selling-off of government enterprises is intimately connected with finance, and at this point also finance and financial policy played an important role in the economic development and capitalist industrialization of the Meiji period.

The majority of the government enterprises started and operated by the Meiji government may be classified into (1) military arsenals, (2) railways and communications, and (3) manufacturing and mining, and it is with the third of these that we are concerned here.

This, of course, does not mean that enterprises in the first two classes had no great significance in the development of the Japanese economy and capitalist industrialization. By the introduction and development of military technology the military arsenals not only strengthened the base of the Meiji government, but also served to expand overseas the markets called for in consequence of large-scale, high-level and rapid industrialization, in addition to which they also directly promoted the development of the economy by undertaking the production of prime movers, machine tools, etc., required by private interests. Again, the construction of railways, telegraphs and telephones not only gave mobility to Japan's armed might, but also stimulated the expansion and unification of the domestic market for the developing production of commercial goods, thus making a great contribution to the development of the economy and capitalist industrialization.

However, the government enterprises which were started and operated with the *direct* aim of transplanting or introducing productive and managerial techniques which were considered necessary for the capitalist industrialization of the Japanese economy but which could not be supplied by private capital at that time were principally in the field of manufacturing and mining.

The first of these government enterprises which we must take up are those in the textile industry. The basal axis in the capitalist industrialization of a country is the cloth industry, and in particular, the cotton industry, and it is necessary first of all that capitalist production should be firmly established in this branch of industry. In the case of Japan at this period, too, it is not true to say that there was no spontaneous development of technology and development of capitalist production based upon it, a fact which is illustrated by the invention of the Gara spinning machine by Gaun Tatsumune 臥雲辰致 in 1877 and its rapid diffusion. However, there was a great technological gap between Japan and the advanced countries, in addition to which the country was in the condition of lacking tariff protection for its industries, with the result that it was impossible to contrive the firm establishment of the cotton industry by means of these spontaneous developments, and the domestic cotton industry was gradually oppressed by competition from imported cotton goods and fell into decay. At this point the government imported two 2000-spindle spinning machines from Manchester in England in 1878 with a view to bringing about the transplanting and establishment of the technology of the advanced countries, and set up the Hiroshima and Aichi spinning mills. Again, although it is not an instance of the starting

of government enterprises in the strict sense, the government imported another ten 2000-spindle spinning machines in the following year, 1879, and sold them off to private enterprise for ten annual interest-free payments, thus causing 10 spinning mills to be set up in the domestic cotton producing areas, and when the running of these mills proved unsatisfactory it gave assistance to them by exempting them from these payments.

The second case which we must take up is that of government enterprise in the manufacture of silk, tea, and other commodities for export, and in particular in the silk-reeling industry. Japan was also under the necessity of encouraging exports in order to pay for the products of the advanced countries which were flowing into Japan at low prices as a result of differences in productive capacity which could not be compensated for by the restricted customs tariffs, and to pay for the machinery and technology which had to be transplanted or introduced so that this gap in productive capacity might be narrowed. At this period, however, the production technology in the industries producing the export products, especially the silk and tea which made up the bulk of exports to the advanced countries, was considerably inferior to that of the advanced countries. In regard to the silk-reeling industry the government established the Tomioka Silk Reeling Factory 富岡製糸場 in 1872 and the Kankōryō Silk Reeling Factory 勸工寮製糸場 in 1873, and made efforts to introduce and diffuse the technology of France, Italy, etc. The former of these factories was a large undertaking having 300 boilers and employing approximately 250 female operatives. It amply fulfilled its function as a model factory, and contributed greatly to the development of mechanized silk-reeling in place of the traditional hand-reeling technology. Again, in respect to the tea industry, experiments in tea manufacture and plant breeding were carried on at the agricultural experiment station established by the government at Shinjuku, Tokyo, in 1872.

Thirdly, we must consider government enterprise in such manufacturing industries as cement, glass, sugar, and beer. In these cases, technology which was almost entirely lacking in Japan at that time was transplanted or introduced, and we may perhaps say that this aimed at the checking of imports.

Lastly, we must consider government enterprise in mining. This case differs to some degree from that of manufacturing industry. At the beginning of the Meiji period the majority of the mines operated by the government had been confiscated from the Shogunate and the feudal lords, and the direct aim in running them was that of ensuring supplies

of raw material for the minting of money or of obtaining specie by means of mineral exports. But since the transplanting or introduction of new technology was necessary for the better attainment of these aims, these government enterprises played, in the result, the same role as that played by the government enterprises in manufacturing industry which were started with the direct aim of transplanting or introducing foreign technology.

Government enterprises started in this way produced some fair successes in the introduction and diffusion of new technology, the purpose for which they were set up, but it is not necessarily true to say that they were successful from the point of view of management, and there was no small number of government enterprises which showed huge deficits year after year. On the other hand, again, because of the necessity of financial restriction aiming at the full equipping of the currency and credit institutions, the government decided in 1880 to sell off the government enterprises to private interests, and this line of policy was carried into effect in due course. But since the military arsenals, as well as the railways, telegraphs, telephones, etc., were excluded, chiefly on military grounds, the enterprises which were sold off were those which had been started with the sole aim of transplanting, introducing and diffusing new technology and which were now in danger of entering into more fierce competition with private enterprise after this aim had been more or less attained.

In these cases the question at issue is that of the persons to whom these enterprises were sold off, and the conditions of sale. The first to receive enterprises sold in this way were privileged businessmen with political affiliations such as Mitsui, Mitsubishi, Furukawa, Asano, Kuhara, and the rest. Again, among the conditions of sale, the prices of the enterprises as such reflected the financial state of each enterprise and might be either above or below the invested capital price, but in all cases payment was to be made by interest-free annual instalments over a long period (5 to 25 years).

The fact is that the starting and selling-off of government enterprises played a role which cannot be ignored, not only because of the connection with the introduction and diffusion of new technology but also because government funds or long-term and interest-free loans were made available to a minority of privileged businessmen with political affiliations, so that these policies may be said to have killed two birds with one stone. Further, if we take into consideration the fact that the revenues of the government were chiefly made up from a heavy Land Tax on the

peasantry and indirect taxes on consumption, we will perceive that in this case, too, the government's action in using its funds in this way was of assistance to "the primitive accumulation of capital."

IV. THE SINO-JAPANESE WAR AND POST-WAR UNDERTAKINGS AND FINANCE

As we have seen in the above three sections, the financial policies of the early Meiji period created capital-relations, and played a leading role in industrializing the Japanese economy under these capital-relations. With the help of these financial policies the Japanese economy was able to establish itself in the form of capitalism around the year 1890. In the cotton industry—the nucleus of capitalist industry—"surplus" production appeared as early as 1890, and in 1891 production exceeded imports while in 1897 exports exceeded imports.

However, this establishment and development of capitalism centred on the cotton industry was possible only when the Korean and Chinese markets had been secured. Out of the necessity of standing up to price competition from the advanced countries the Japanese economy was obliged from the first to introduce a high level of technology and carry on mass production, this being especially the case in the cotton industry, while on the other hand foreign markets were absolutely indispensable as outlets for the mass production which could not be absorbed at home because the domestic market was too narrow, a fact which was due to such reasons as the insufficient differentiation within the peasant stratum of society, chiefly as a result of this early introducing of a high-level technology and the heavy burdens imposed by the Land Tax and taxes on consumption which we have mentioned above. Although it is of course true that many motives were involved in the Sino-Japanese War, we may say that the war was fought with this interest in markets as the basic motive. Further, we may perhaps say that the Russo-Japanese War represents an attempt on the part of Japanese capitalism, which, as we shall see below, made a spectacular advance in development as a result of the Sino-Japanese War and its victorious conclusion, to get an even firmer grasp of this market in the midst of a complicated configuration of international relations with the great powers, who had come to show interest in the Chinese market after the war.

Thus the development of the Japanese economy and Japanese capitalism in the later Meiji period made inevitable the wars with China and Russia, and at the same time was possible only with the occurrence of

these wars. Again, since, as need hardly be said, it was possible to carry out these wars only with the backing of government financial policy, we may say that in this sense government finance played a great role in the economic development of this period. On the other hand, however, government finance in the later Meiji period also had a great and direct effect on the development of the economy and the capitalism of this period through its financial activities themselves, with two peaks at the Sino-Japanese and Russo-Japanese wars, by making available and disbursing the vast sums required in preparing for and prosecuting the wars as well as in the undertakings embarked upon in the post-war periods. In the following we propose to narrow our attention to the latter of these points, of which we will give a somewhat more detailed account. Let us begin with the financial policies centred on the Sino-Japanese War.

The expenses of the Sino-Japanese War were approximately ¥200 million, a sum roughly 2.5 times the average annual general budgetary expenditure in the five years preceding the outbreak of war (1889-1893), approximately ¥81 million. This vast sum was disbursed within the space of only one year (between June, 1894 and April, 1895), and more than 70% of it was spent on non-personnel expenses.¹

Directing our attention to the means adopted in supplying funds for these war expenses, we find that approximately ¥117 million, or nearly 60%, was produced by the issue of government bonds. Further, since the sum of government bonds issued at this time was a considerable burden to the money market, the government took steps to ensure their absorption by causing the central bank, the Bank of Japan, to take part of the bonds, and also to give the banks increased credit in order to alleviate the tightness of money resulting from their subscriptions to the bond issues. Part of the remainder of the war expenses was supplied by means of transfer within the national treasury, namely, from the fiscal revenues of the year in question, but the greater part was supplied from treasury surplus funds accumulated in the past and by means of short-term loans from the Bank of Japan (later repaid from the indemnity).

We may well imagine that the disbursement of these huge sums in war expenses, in combination with the methods employed in supplying the funds required, would have produced a so-called "expansion of total demand," and would have stimulated the development of the economy,

¹ Tōyōkeizaishimpō-sha 東洋經濟新報社, *Meiji Taishō Zaisei Shōran* 明治大正財政詳覽 (Detailed Guide to Public Finance in the Meiji and Taishō Eras), Tokyo, Tōyōkeizaishimpō-sha, 1926, pp. 496-497.

and particularly of capitalist enterprises. In fact, over the years 1894-1896 the national income produced rose from ¥1,591 million to ¥1,702 million, within which the national income produced by factory industry rose from ¥254 million to ¥358 million, an increase of more than 40% in only two years.¹

This development of the Japanese economy and capitalism occasioned by the Sino-Japanese War was further spurred on by the so-called "post-war undertakings" of all kinds, led by the armaments expansion plan, which followed upon the receipt of a huge war indemnity (in Japanese currency approximately ¥365 million, or approximately 1.8 times the war costs mentioned above). Further, these indemnity funds were paid in pounds sterling in gold, and in 1897 Japan adopted the gold standard with these funds as a basis. Again, as a result of the rise in Japan's international position after her victory in war some restoration, even though only partial, of her rights of tariff autonomy took place. Thus, by passing through the Sino-Japanese War the Japanese economy established itself firmly in the form of capitalism, not only domestically, but also internationally.

However, the Japanese economy, which had developed and expanded with the help of war orders financed by government bond issues and disbursements to the "post-war undertakings" financed out of the war indemnity funds, must look for other markets and other sources of demand once these two had ceased or contracted, but such markets and sources of demand were not easily to be found. Japan's economy inevitably depended to a high degree on government finance and state demand, and inevitably had great expectations of foreign markets. In response to these demands and expectations on the part of the Japanese economy, government financial policy in the period of approximately 10 years between the conclusion of the Sino-Japanese War and the outbreak of the Russo-Japanese War aimed at expanding armaments, and, with these armaments in the background, at securing the Korean and Chinese markets.

Thus the average annual expenditure over the ten years' period from 1894 to 1903, ¥213 million, was approximately 2.7 times the average annual expenditure in the preceding ten years (1884-1893), ¥79 million, and in particular military expenditure was at an annual average rate of ¥86 million in the period 1894-1903, which was as much as 4.1 times

¹ Yamada Yūzō 山田雄三 ed., *Nihon Kokumin Shotoku Suikei Shiryo* 日本國民所得推計資料 (Materials for the Estimation of the Japanese National Income), Tokyo, Tōyōkeizai-shimpō-sha, 1951, pp. 114-115.

the average annual military expenditure in the period 1884-1893, ¥21 million.¹ It is of course true, however, that over these two periods the national income also increased by approximately 1.7 times from an annual average of ¥950 million to ¥1,615 million. But even taking this into consideration, we must conclude that the significance of the demand effect of government finance, particularly in the form of armaments orders, was clearly increased after the Sino-Japanese War.

These inflated government expenditures were partially supplied, as we have already noted, by war indemnity funds, and partially by the issue of government bonds, but in addition a considerably large part had to be supplied out of taxation. For these purposes, on three occasions in the ten years following the Sino-Japanese War a national business tax and a registration tax were instituted for the first time, the trade in leaf-tobacco was brought under a government monopoly, and increases were made in the Land Tax, the tax on alcoholic beverages, the tax on the consumption of sugar, etc. As a result, the total tax revenue in the ten years following the Sino-Japanese War, approximately ¥124 million, was roughly double that of the ten years preceding the war, approximately ¥65 million. What is particularly deserving of note is the fact that, whereas in the ten years preceding the war, tax revenue comprised approximately 64% direct taxation (of which more than 62% was derived from the Land Tax), and 36% indirect taxation (of which approximately 23% was derived from the taxes on alcoholic beverages and tobacco), in the ten years following the war direct taxation amounted to approximately 45% (of which slightly more than 37% was derived from the Land Tax) and indirect taxation to approximately 55% (of which 35% was derived from the tax on alcoholic beverages and profits from the tobacco monopoly), so that over this period a reversal took place in the relative importance of direct and indirect taxation.

Bearing in mind the fact that, by nature, indirect taxation is a tax on the masses and that among the direct taxes, too, the most important of them, the Land Tax, was a heavy burden for the smaller peasantry, these facts may be said to indicate that the demand effect exercised by government finance, centred on armaments orders, which had stimulated the development of the Japanese economy also had the effect of reducing the purchasing power of the nation, an effect which was exercised through the means employed in supplying the government finances. The Japanese economy or Japanese capitalism was distressed by this contradiction for long after this time, but the upshot of the circumstances prevailing at

¹ Calculated from the *Meiji Taishō Zaisei Shōran*, p. 634.

this time was that the Russo-Japanese War broke out, the underlying motive being that of getting a firmer grasp of these foreign markets, in the midst of a configuration of international relations which was showing more and more marked signs of imperialism, with a view to breaking through this contradiction.

V. THE RUSSO-JAPANESE WAR AND THE POST-WAR UNDERTAKINGS AND FINANCE

The costs of the Russo-Japanese War amounted to ¥1,730 million, or approximately 8.5 times those of the Sino-Japanese War, and were approximately 6.4 times the average annual general expenditure of the central government in the five years preceding the outbreak of war (1899-1903). Further, the proportion of these war costs occupied by non-personnel expenses was about 10% higher, approximately 77% as opposed to 70% in the case of the Sino-Japanese War, this reflecting the development of military technology in the interval between the two wars.

The ways in which funds for these expenses were supplied were also much different from those employed at the time of the Sino-Japanese War. Thus, in the case of the Sino-Japanese War slightly less than 60% of the expenses of the war were met by the issue of government bonds, all of them in the form of domestic loans, while in the case of the Russo-Japanese War government bonds supplied more than 82% of the expenses, and within this proportion approximately 55% (slightly less than 47% of total war expenses) were issued in the form of foreign loans. Further, in the Russo-Japanese War increased taxation and an expansion of the monopolies system were carried out on two occasions to bring in a total revenue of ¥135 million (of which the Land Tax, consumption taxes, customs, and tobacco and salt monopolies brought in ¥90 million, or approximately 67%), an increase of approximately 84% in relation to the average annual tax revenue of the central government in the five years preceding the war, ¥161 million. The supply and disbursement of huge sums in war expenses in this way resulted in stimulating the economy by expanding total demand in the same manner as in the Sino-Japanese War. Indeed, since the total war expenses were greater, and almost half of them supplied by foreign loans, we may say that a greater degree of stimulus was applied, notwithstanding the negative factor of increases in taxation. If we take as an index the national income produced, and in particular the national income produced by factory industry, we find that between 1904 and 1906 the former rose

from ¥2,612 million to ¥2,970 million while the latter rose from ¥594 million to ¥867 million,¹ showing much bigger increases than during the Sino-Japanese War.

Again, the Sino-Japanese and Russo-Japanese wars had in common the fact that when the war was finished government finance was again called upon to play a great role in maintaining and establishing an economy which had undergone great development and expansion, being dependent while so doing on wartime military orders. Indeed, in the case of the period following the Russo-Japanese War, while on the one hand almost half of the expenses of the war were supplied by foreign loans as we have already noted, on the other hand no indemnity was received on the conclusion of peace, and consequently we may say that proportionately greater expectations of assistance from government finance were entertained. The government now retained as permanent features of the economy the tax increases which been instituted in wartime as emergency taxation, and it continued to float foreign loans in an effort to bring foreign capital into the country. With these financial resources at its disposal it undertook such projects as the expansion of armaments, the nationalization and extension of the railways, the expansion of iron and steel producing plant, and the development of its colonial territories, and while on the one hand it strove to enlarge the demand effect exercised by government finance, or at least to prevent its diminution, on the other it made efforts to maintain the rights and interests which it had acquired on the Asian continent as a result of the war and to make these into a market having real potentialities.

Thus, if we consider the scale of government finance, we find that the average annual general expenditure of the central government was again more than doubled between the five years preceding the war (1899-1903) and the five years following it (1906-1910), rising from approximately ¥271 million to approximately ¥561 million, while military expenditure in the narrow sense rose by approximately 1.8 times from approximately ¥104 million to approximately ¥180 million, and by more than 2 times if expenditure on the expansion of railways, telegraphs, telephones, iron and steel producing plant, etc. is included.² Comparing this with the fact that the annual average national income in these two five-year periods increased by no more than 1.5 times from ¥2,093 million to ¥3,100 million,³ we may be justified in concluding that dis-

¹ Y. Yamada, pp. 114-115.

² *Meiji Taishō Zaisei Shōran*, p. 634; Y. Yamada, pp. 114-115.

³ *Meiji Taishō Zaisei Shōran*, pp. 12-20.

bursements from the government finances had an even greater significance in the period following the Russo-Japanese War.

In one respect, however, the case after the Russo-Japanese War differs from that after the Sino-Japanese War, since during the Russo-Japanese War it was necessary to supply out of taxation the greater part of the funds disbursed. In this regard, the government retained on a permanent basis the emergency special taxation which had been instituted during the war, and in 1908 it enacted further increases in taxation. In all these cases the main emphasis was placed on the Land Tax and the indirect taxes on consumption (including the government monopolies). As a result, the average annual tax revenue rose by more than 2.4 times between the five years preceding the war and the five years following it, from ¥161 million to ¥391 million, showing an increase which exceeded not only that of the national income in the same period, but also that of annual expenditure. Further, within this revenue the annual average yield of the Land Tax was increased by more than 1.8 times from ¥46 million to ¥83 million, while the average annual yield of the indirect taxes on consumption (the tax on alcoholic beverages, the sugar consumption tax, the cloth consumption tax, customs, and profits of monopolies) were increased by approximately 2.6 times from ¥82 million to ¥210 million.¹ These facts may be taken as indicating that government financial policy at this period, while serving to maintain, and further, to develop, a Japanese economy which had been expanded and inflated by the war, led, on the other side, to a reduction of the purchasing power of the nation and had the inevitable effect of constricting the domestic market.

Another special characteristic of public finance in the period following the Russo-Japanese War is the sharp increase in expenditure in respect to government loans, particularly foreign loans. The average annual expenditure in respect to state loans increased by approximately 4.5 times between the five years preceding the war and the five years following it, from ¥37 million to ¥166 million.² In particular, within these sums, average annual expenditure in respect to foreign loans increased as much nearly 14 times, from ¥3.5 million to ¥48 million.³ This means that at this period an average annual sum of ¥48 million was leaving the country in payment of principals and interest on foreign loans, a sum equivalent to 12% of the average annual fiscal revenue, or approxi-

¹ *Meiji Taishō Zaisei Shōran*, pp. 12-20.

² *Meiji Taishō Zaisei Shōran*, p. 634.

³ Calculated from the *Meiji Taishō Zaisei Shōran*, pp. 612-613.

mately 55% of the average yield of the Land Tax. We may easily imagine that at this period this fact combined with the excessive burden of taxation centred on the Land Tax and the indirect taxes on consumption was to exercise a repressive effect on the development of the Japanese economy.

The drain constituted by these payments in respect to foreign loans is particularly worthy of our attention in that it eventually made necessary, through the necessity of the maintenance of the gold standard, a change in the policy of inflationary finance which had been continued from the time of the Sino-Japanese War.

After the Sino-Japanese War Japan's foreign trade showed an excess of imports over exports in every year, with the exception of the year 1909. This was due to the fact that although exports were increasing from year to year imports were increasing at a still greater rate, but this was inevitable if the economy of Japan—a backward country poor in raw material resources and lagging behind in matters of technology—was to undergo rapid development. However, after the Russo-Japanese War the import surplus gradually declined as exports expanded to overtake imports, and in the five years following the war it stood at an average annual figure of approximately ¥12 million, a reduction to approximately one-third of the figure for the five years preceding the war, ¥35 million.¹ If, however, we add to this the payments made in respect to foreign loans as mentioned above, the aggregate annual average figure becomes one of approximately ¥60 million, representing an even greater surplus of expenditure than before the war. On the other hand, the Japanese economy adopted the gold standard, using as a base the sterling currency which it had received as an indemnity for the Sino-Japanese War, and so it was able to take its place in the ranks of the capitalist states of the world, but the indemnity funds themselves remained in London, apart from approximately one-third of the total which was brought into Japan in the form of gold and silver, and by the end of the interval between the Sino-Japanese and Russo-Japanese wars practically all the indemnity had been spent in making overseas payments required by armaments expansion.

In this situation the Japanese economy must either pay in gold or be dependent on the floating of foreign loans if it were to continue to make the huge overseas payments mentioned above. But not only were

¹ Asahi Shimbun-sha 朝日新聞社, *Nihon Keizai Tōkei Sōkan* 日本經濟統計總觀 (A Statistical Conspectus of the Japanese Economy), Tokyo, The Asahi Shimbun-sha, pp. 238-239.

there limits to the amount of gold held in Japan, but the necessity was to increase the gold reserve so that it would be possible to continue to supply the currency required by an economy rapidly expanding under the gold standard, and it would not do for the gold reserve to be reduced. In this situation the only method which would allow Japan both to make huge overseas payments and to develop the domestic economy while maintaining the gold standard was that of continuously supplementing her gold reserves by floating foreign loans. Thus, even after the war was ended the Second 4% Sterling Loan and the Tokyo and Yokohama Municipal Loans were floated immediately after the cessation of hostilities, representing a total of approximately ¥218 million raised on the foreign market.

Nevertheless, even when it was possible to supplement gold reserves by such foreign loans, there existed discrepancies in quantity and in time between these funds and the overseas payments, and in so far as it was desired to maintain the gold standard—and this was of basic importance for the continuing development of the Japanese economy and capitalism—it was inevitable that the development and expansion of the domestic economy should be held back for a time. We may say provisionally that the financial panic of 1907 originated in this way.

However, the method of undertaking both the huge overseas payments and the development and expansion of the domestic economy by supplementing gold reserves by means of foreign loans was subject to a basic check which went further than mere temporary discrepancies in the requirements for funds. This consisted in the fact that, when a foreign loan was floated it was necessary for the foreign country to have a certain degree of confidence in the loan, and in terms of domestic finance this meant that the sum of the loan must be kept within limits which would make it possible to make annual payment of the principal and interest out of the annual surplus of current income over current expenditure. Thus, if foreign loans are to be floated it becomes necessary to restrain the issue of domestic loans, or to increase taxation, or, alternatively, to cut down current expenditure, but whichever of these measures is adopted it has the result of bringing about a corresponding reduction in the stimulatory effect exercised on economic development from the part of government finance, and in the case of an economy which has been developing in a state of considerable dependence on government finance this cannot but have a repressive effect.

The adoption by the Katsura administration, which came to office in 1908 after the financial panic, of financial retrenchment under the

banner of a "non-loan policy" in place of attempts to stimulate business by financial measures had as one of its important aims the bringing about of the conditions for the floating of foreign loans in a situation in which the burden of taxation had reached such proportions that there was practically no room for any further taxation increases. In this aim these policies were more or less successful, and in 1910 loans totalling approximately ¥282 million were floated in England and France. Further, of this sum ¥100 million was brought into Japan in cash, and its use in the repayment of domestic loans was one factor in the recovery of business which took place between 1910 and 1911. However, it was not possible for this recovery of business to lead to development and expansion of the economy of the kind which occurred in the period beginning with the Sino-Japanese War and continuing through the Russo-Japanese War, and it did not go beyond a species of temporary boom.

For Japan's economy to take a renewed turn to development and expansion at the end of the Meiji period it was necessary for it to receive a still greater stimulus, but by now it was no longer possible for government finance, which had provided the stimulus in the past, to continue with inflationary policies. Government finance, facing the interest payments on the foreign loans contracted for the purposes of past two wars and post-war undertakings and an import surplus resulting from the fact that it was hardly possible for the Japanese economy, which had developed and expanded under the stimulus of government finance in the process of these wars and post-war undertakings, to get actual, if not military, control of the foreign market it required, had now to be carried forward with the prime aim of on the one hand reducing as far as possible both of these items of expenditure, and on the other hand securing absolutely essential foreign exchange. Indeed, in order to realize these aims it was even necessary to repress, for a time, the development and expansion of the economy. This is the posture of government finance at the end of the Meiji period, government finance which had produced the various conditions for capitalist industrialization with the help of the methods which we have described in this paper, and which had played the leading role in promoting capitalist industrialization.