Economic History Review (2011)

Money on the road to empire: Japan's adoption of gold monometallism, 1873–97[1]

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In macro-economic literature, Japan has at several times been treated as a canonical example of why countries joined the gold standard. On the one hand, the country has been linked to the argument that there exists a relationship between the gold standard and lowered borrowing costs; on the other, it has been discussed as motivated by a desire to expand its trade with gold standard countries. This article argues against both strands in the literature, and argues for a third interpretation. It demonstrates that the specificities of Japan's gold standard reveal a concern with 'original sin', or the impossibility of raising foreign loans in Japan's own currency, and explains that there were grave costs to gold standard adoption.

信用は無形の財産 'Shin'yō ha mukei no zaisan' ['Credit is formless fortune'].
Japanese proverb

What were the reasons for Japanese policy-makers to adopt the gold standard in 1897? Those acquainted with economic historical literature know this question has received considerable attention. It may have to do with the 'showcase' nature of the country's rapid modernization. Increasingly isolated from world trade especially after the early eighteenth century, Japan was brusquely confronted with the economically and militarily superior western powers around 1850. After that date, it embarked on a rollercoaster ride of institutional, technological, and other development. Monetarily and financially, however, the road was bumpy. In a nutshell, it was confronted with the monumental *bakumatsu* 幕末 currency crisis (approximately 1860) and the encroachment of foreign banks on its territory; adopted *de jure* the gold standard in 1871; introduced a system of national banks after the American example and experienced the consecutive problem of inconvertible paper currency, especially in the wake of suppressing the Seinan rebellion (1877); implemented the clean-up of inconvertible paper money in the early 1880s, and went through a period of strong deflation; adopted a central bank after the Belgian example (1881), and introduced convertible paper money after 1884 as part of a de facto silver standard. In 1897, then, the country left silver for gold.[2] As stated, Japanese monetary decision-making before 1900 has attracted considerable attention, certainly in Japanese, but also in western literature. Japan's

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[1] The author wishes to thank Prof. Itoh Masanao for discussing the article in Dec. 2010; special thanks are extended to Prof. Saitō Hisahiko, who provided crucial information on the Yokohama Specie Bank. The usual disclaimers apply.

[2] For an overview in English, see Shinjo, *History of the yen*.

adoption of the gold standard has on several instances been treated as a 'canonical' example of the reasons why countries supposedly did so.

In the following paragraphs, we scrutinize existing macroeconomic arguments related to the decision to peg the Japanese yen to gold, and address the specificity of Japan's experience with the gold standard. The course of the argument is as follows. First, existing interpretations are inscribed within the existing macroeconomic debate, more especially identified as belonging to two particular camps: (1) one stressing that gold adoption was seen as a means of reducing borrowing costs (the 'good housekeeping seal of approval' argument) and (2) one indicating that gold may have been preferred in order to tap into the rising share of global trade. Importantly, we also couple the arguments to the opinions of contemporary politicians and observers, which interestingly seem to imply that both arguments may be correct (sections I and II). Next, we address the contingent geopolitical and domestic political context of late nineteenth-century Japanese (monetary) policy-making. A review of the imperialist interference at work in the volatile Asian order makes it clear that decisions on which banking institutions and which monetary policies to adopt were never devoid of political considerations (section III). Then, the article assesses the gold-standard-and borrowing-costs and gold-standard-and-trade arguments (section IV). On the one hand, the thesis that gold standard adoption made it possible to attract foreign capital at a lower cost has indeed correctly been refuted in recent literature. On the other, it will be explained that picturing gold adoption only in relationship to the expectation of a higher volume of trade with countries of the 'gold club' suffers from a crucial methodological deficiency: it omits the coincidence of gold adoption with the large military build-up programme in the wake of the Sino-Japanese War. Making extensive use of archival information and secondary literature in Japanese, the article proposes a third explanation (section V). It argues that its leaders' preoccupation with achieving great empire status reveals a concern with the problem of 'original sin', or the difficulty of raising foreign loans in Japan's own currency. The latter explains why Japan's gold standard was organized in the form of large foreign exchange holdings or *zaigai seika*, held in an account in London. This system ultimately led to foreign borrowing in order to uphold the gold standard, not the other way around (section VI). The conclusion of this article stresses the importance of archival research for arriving at research conclusions as presented here; and issues a warning against 'Mickey Mouse numbers' as the danger that underlies much of the panel regression literature.

I

Historically speaking, there are two macroeconomic explanations of why Japan chose to adopt gold monometallism in 1897. First of all, there is the study by Sussman and Yafeh. Interested in whether and which reforms were formative in changing the way a country is perceived by foreign investors, thus possibly lowering the cost of foreign borrowing, they argue that '[m]ost reforms, including the establishment of a central bank . . . did little to affect the way Japan was perceived by British investors'.[3] In their view, the institutional reform that led to an immediate improvement in Japan's 'credit rating' was gold standard adoption.

[3] Sussman and Yafeh, 'Institutions, reforms, and country risk', p. 442.

Obviously, their paper is a case study of Bordo and Rockoff's conjecture that there is a direct relationship between a monetary standard and the 'credit rating' a country earns for adopting it.[4] In short, adopting gold monometallism was perceived as a symbol of financial rectitude. For countries going on gold, this policy was rewarded by the lowering of barriers to foreign capital; conversely, countries not willing or capable to acquire this seal of approval were sanctioned by higher capital costs or a 'risk premium' attached to their foreign loans. Although several authors have formulated strong and sensitively argued objections to this 'good housekeeping seal of approval' theory, it is nevertheless remarkable that contemporaries often seemed to think along similar lines, including in the Japanese context. As early as 1884, one British merchant pointed out that 'Japan could borrow more money favourably in London with gold standard bonds'.[5] The *Sentinel* stated it directly in March 1897: 'It is supposed that the principal object the [Japanese] government has in bringing about the change is . . . to negotiate a loan in Europe on better terms than would be possible, as they believe, if Japan remained on a silver basis'.[6] Two years later, in 1899, Finance Minister Matsukata Masayoshi 松方正義 himself hinted at foreign borrowing as the rationale for gold standard adoption, as follows:

> The hope of inviting capital at a low rate of interest from gold standard countries, in order to help on the industrial growth of the country, will doubtless be realized . . . Since now that the capitalists of the gold standard countries have become assured that they will no longer be in constant danger of suffering unexpected losses from investments made in this country, on account of fluctuations in the price of silver, they seem to show a growing tendency to make such investments at low rates of interest. This tendency . . . will doubtless bring about a closer connection between this country and the central money markets of the world . . .[7]

We will return to these statements at a later stage. For now, it is important to note that the 'good housekeeping seal of approval' explanation has coloured our understanding of Japan's gold standard adoption to a considerable degree. Among others Suzuki's study of Japanese borrowing on the London money market finds Matsukata's statement 'hardly surprising';[8] Metzler also argues that this is the crux for understanding the scheme of 'leaving Asia and entering the West' (*datsua nyūō* 脱亜入欧).[9]

Still, as stated earlier, there are several counterarguments, and these are not easily brushed aside. Flandreau and Zumer in particular are highly suspicious of Bordo and Rockoff's conjecture and its offspring. In their 2004 book, they condemn Sussman and Yafeh's findings as a 'casual look': 'upon closer scrutiny . . . it does not seem that the decline of yield premiums after 1897, of which a large part is spurious, means much'.[10] And indeed, the year 1897 may have been over-determined, as it marks the coincidence of a whole range of political, judicial,

[4] Bordo and Rockoff, 'Gold standard'.
[5] Mentioned in Suzuki, *Japanese government loan issues*, p. 65.
[6] 'Japan's gold standard', *Sentinel*, 30 March 1897. Also quoted in Mitchener, Shizume, and Weidenmier, 'Why did countries adopt the gold standard?', p. 37 n. 23.
[7] Matsukata, *Report*, pp. xii, 348.
[8] Suzuki, *Japanese government loan issues*, p. 65.
[9] Metzler, *Lever of empire*, p. 32; Bryan, *Gold standard*.
[10] Flandreau and Zumer, *Making of global finance*, p. 24.

diplomatic, and institutional changes. This makes it very difficult to link the country's credit rating to one isolated factor such as gold standard adoption. As stated above, some of Japan's gold standard proponents referred to access to foreign (that is, British) capital when arguing in favour of adoption.[11] Yet the gold standard and foreign borrowing argument was—before 1897—marginal at best, and not shared by all members of the gold caucus. Notably Matsukata himself remained deeply abhorrent of any dependence on foreign capital, at least until 1896;[12] he had been asked by the emperor to avoid foreign lending at all costs.[13] (After 1896, his stance changed, but for reasons to which we will later return.)

II

The other attempt at explaining Japanese monetary policy-making around 1897 was made in a recent paper by Mitchener, Shizume, and Weidenmier.[14] Their central argument is that what mattered most was trade. This too fits within a broader macro-economic tradition. López-Córdova and Meissner, and, in the Asian context, Mitchener and Voth indicated that the gold standard increased bilateral trade flows by reducing transaction costs or exchange-rate volatility.[15]

Interestingly, there is a fair deal of contemporary evidence supporting this view as well. References to the impact of the gold standard on trade abound. During the heated 1897 Diet debates on Matsukata's submission of the new coinage law, Ministry of Finance officials suggested that the advantages of being on silver were transitory, and spiritedly stressed the advantages of eliminating exchange-rate risk, if the gold standard were adopted.[16] Business leaders, such as Shibusawa Eiichi 渋沢栄, on the other hand, condemned the bill as hurting Japanese exports. According to him, the strong rise in exports was a benefit that far outweighed the costs of being a silver standard country. The struggle was resolved to the advantage of the former, who, to put it in current terminology, seemed to propose the argument of endogeneity. For instance Sakatani Yoshirō 阪谷芳郎 (Yoshio), arguably Matsukata's most loyal aide, stated in 1895 that 'many of the once-famous silver standard countries . . . have already moved to the gold standard. These trends indicate the natural course for Japan in financial and economic spheres'.[17]

However, the trade argument is less straightforward than it seems. First of all, the argument that adopting a common monetary regime eliminates exchange-rate risk (and vice versa, that not sharing a common regime entails such costs) presupposes a world in which there are no banks to sell trade insurance, which flies in the face of historical fact. In 1889, the Yokohama Specie Bank was given special rediscounting facilities with the Bank of Japan with the objective of bearing and managing exchange-rate risk. Secondly, Flandreau and Maurel have considerably

[11] Mitchener et al., 'Why did countries adopt the gold standard?', p. 31; for a complete argument, see Bryan, *Gold standard*, pp. 164–73.
[12] Tokutomi, *Kōshaku Matsukata Masayoshi den*, p. 536.
[13] Muroyama, *Matsukata Masayoshi*, p. 112.
[14] Mitchener et al., 'Why did countries adopt the gold standard?'.
[15] López-Córdova and Meissner, 'Exchange-rate regimes'; K. J. Mitchener and H.-J. Voth, 'Trading silver for gold: nineteenth-century Asian exports and the political economy of currency unions', unpub. working paper prepared for the Asian Development Bank (2009).
[16] For an overview of arguments, see Mitchener et al., 'Why did countries adopt the gold standard?', pp. 31–2.
[17] Ibid., p. 32.

nuanced the endogeneity issue when reporting the multi-collinearity of trade and protection.[18] This is crucial, as tariff autonomy (taken away from Japan by the 'unequal treaties', and seen as a means of protecting against an import binge from Great Britain as the 'workshop of the world') was understood by several politicians as a precondition for pegging the yen to the currencies of the world's economic centre—an issue conspicuously not further explored by Mitchener et al.[19] These are very important topics, each worthy of testing in separate analyses.

Central to our discussion, however, is a problem with the (apparently neutral) observation of a shift in composition of Japan's trade partners from silver countries to gold countries after 1894.[20] Reminiscent of the 'Lucas critique', it is argued in this article that it obfuscates the fact that a large determinant of the latter was a policy change, and with it, a political choice. It is in this context that this article attempts to offer a contribution. For, from the historian's point of view, it is inherently problematic to confine one's scope of investigation to narrow economic motives, particularly when trying to explain the gold standard in late nineteenth-century east Asia, which was at the time very much part of the world's economic and monetary periphery.[21] The one disturbing and unavoidable variable is imperialism. The latter manifested itself most clearly in several explicitly political institutions: the 'unequal treaties', for instance, or imperialist uses of 'extraterritoriality', which have been given due attention in histories of the period.[22] However, there was also an array of economic means to extend imperialist influence, and these were not limited to the rhetorically obvious 'imperialism of free trade'; some of those means were of a distinct monetary nature as well. Within Japan, there exists a well-established tradition of historiographical literature focusing on the role of empire in financial affairs. In fact, early Japanese scholarly interest in the country's gold standard arose from the very perception of its semi-peripheral nature and the role of empire in defining Japan's role in the gold standard as the world's monetary system at the time.[23] Unfortunately, this literature (both relating to Japan proper and its relationship with its colonies) has not yet found its way into the few analyses in English.[24]

In the context of a different debate, Flandreau et al. have demonstrated just how structural empire (and its institutions) is, and therefore urge caution when using it as an explanatory device—methodologically, the proper specification of the regression framework is not an easy task.[25] For Japanese policy-makers too, empire was not a variable that would have a marginal effect, 'other things being equal'. On the contrary, it would literally make all the difference—hence the frantic obsession with the fates of Turkey and Egypt (see section III. The following paragraphs attempt to show just why and how it mattered.

[18] M. Flandreau and M. Maurel, 'Monetary union, trade integration, and business cycles in 19th century Europe: just do it', CEPR discussion paper, 3087 (2001).
[19] Japan did not regain full tariff autonomy until 1911.
[20] By 1897 nearly 60% of all Japanese exports and trade were conducted with gold standard countries.
[21] See the convincing account in Flandreau and Jobst, 'Ties that divide'.
[22] It would be beyond the scope of this article to provide an extensive overview here.
[23] For a very good example, see Matsuoka, *Kin kawase hon'isei no kenkyū*. In this work, Matsuoka draws on the ideas of French analysts, who saw the gold-exchange standard as a means of extending British power and influence.
[24] For an overview, see Ishii, *Nihon ginkō*.
[25] Accominotti, Flandreau, and Rezzik, 'Spread of empire'.

III

The shaping of the imperialist contours of Japan's monetary debate coincide with the process that Andrew famously called 'the end of the Mexican dollar', the silver coin that had for approximately three centuries functioned as the main medium of exchange for international commerce between Asia and the west.[26] The dynamics behind the Mexican dollar's demise were succinctly political: what sealed its fate were attempts by the imperialist powers to replace the quasi-monopoly power of the Mexican dollar with coins of their own.[27] The reason for the timing of this process was events on the European continent. For, as in Germany in the early 1870s, the decision to move on to the gold standard did not only entail a financial problem (the accumulation of sufficient gold reserves before the implementation of monetary reform). There also was a considerable, if not enormous, liquidation problem: where would German Thalers, its silver reserves, have to go? A major reform effort increased the aggregate (monetary) demand for gold at the expense of the aggregate (monetary) demand for silver. In other words, the very decision to demonetize silver would feed back onto the silver price, making it more costly to exchange silver (Thalers) for gold on the world markets, and possibly difficult to implement the reform effort in the first place. German authorities and economists were very much aware of this problem; indeed, Adolf Soetbeer's proposal to create a German trade dollar for use in the Orient was explicitly aimed at creating 'a means of facilitating the disposal of its surplus silver'.[28]

Asia's geopolitical situation played a crucial role in forming Japan's political class's concern with countering foreign power and influence, hence modernization slogans such as 'Rich nation, strong army' (*fukoku kyōhei* 富国強兵) or 'Promoting industry and enterprise' (*shokusan kōgyō* 殖産興業), and so on. Importantly for our discussion, Ono (still considered the most representative reference)[29] has demonstrated how the aforementioned monetary development attempts infused Japan's monetary and financial decision-making with a strong sense of 'empire'. He has drawn attention to the fact that the intention behind the creation of the *bōeki gin* (貿易銀; trade dollar) was not just to 'drive off the Mexican dollar';[30] we know that its rationale was to 'give our trade dollar sufficient sway to turn around the Mexican dollar's monopoly position . . . and become the main means of exchange for the regions in the east'.[31]

Arguably, the creation of the *bōeki gin* marks the birth of Japanese monetary 'imperialism'. Autonomy, control, and, ultimately expansion (vis-à-vis countries and regions in its immediate environment) became the causes célèbres of consequent events. For instance, British interventionism in monetary matters was the reason for driving the British and other foreign advisers from the Osaka Mint. But

[26] Andrew, 'End of the Mexican dollar'.
[27] Ono speaks of currency contests (*tsūka tōsō*); see Ono, *Kindai nihon heisei*, especially pp. 114–20.
[28] Andrew, 'End of the Mexican dollar', p. 329, n. 1.
[29] See, again, Ishii, *Nihon ginkō*.
[30] Matsukata, *Report*, p. 11.
[31] 法規分類大全第一編目録 *Hōki bunrui daizen daiichihen mokuroku* [*Catalogue of the great collection of laws and stipulations*] available at http://kindai.ndl.go.jp/BIImgFrame.php?JP_NUM=72008103&VOL_NUM=00005&KOMA=112&ITYPE=0 (accessed 3 March 2010).

the end of the 1870s witnessed a much more fundamental change. The shift of monetary and financial leadership from Ōkuma Shigenobu 大隈重信 to Matsukata was a tectonic shift indeed, in that it signalled a turning away from the earlier accommodationist stance with respect to foreign intrusion towards a more proactive role in foreign affairs, including international trade and finance.[32] Significantly, the Ōkuma–Matsukata dispute revolved around the issue of foreign borrowing as the solution to the problem of inconvertible paper currency;[33] Matsukata's victory endorsed the activist strand in Japanese (monetary) politics for years to come. Contention with regard to the viability of cutting back on foreign dependence was refuted by repeated references to the fate of Egypt and Turkey.[34] Under Matsukata's tenure, Japan would not borrow internationally until 1897—an issue that should have been addressed by Sussman and Yafeh, and something with obvious consequences for our discussion.[35]

Equally important is the implementation of a mercantilist and bullionist programme under Matsukata's guidance.[36] Through the adoption of a hard peg with silver (the newly established Bank of Japan commenced issuing silver-convertible notes in 1885), Japan could take full advantage of the latter's fall in price in order to boost exports. In particular the restructuring of the Yokohama Specie Bank under its fourth president Hara Rokurō 原六郎 was part of the same plan to promote exports. The Yokohama Specie Bank was buttressed in its role as foreign exchange bank (a function that had formerly been held by western banks) through special discount facilities with the Bank of Japan bestowed upon it by the government.[37]

The combination of (1) a policy of fiscal retrenchment (Matsukata's alternative for solving the inconvertible paper issue)[38] with (2) the policy of promoting exports on (3) the foundations of a hard-money silver standard formed the core of Matsukata's political-economic intentions. It was a successful strategy. Until the Sino-Japanese War of 1894–5 Japan constantly ran mercantile trade surpluses; the only exception was the year 1890, but this was for a specific, and again, political, reason: the Sherman Silver Purchase Act of 1890. Matsukata's policies also fitted within the militarist strand of Japanese politics at the time. As Miller has acutely pointed out, export revenues accrued during the period of plummeting silver prices 'enabled the Imperial Navy to purchase British cruisers that defeated China in the Sino-Japanese War of 1894–95'.[39]

[32] For a discussion of the debate, see Okada, *Meiji-ki tsūka ronsō-shi kenkyū*.
[33] For more information on thinking about foreign loans, see Kaida, *Meiji zenki ni okeru nihon no kokusai hakkō*; Takahashi, 'Meiji makki no gaisai'.
[34] At the time Ōkuma suggested his scheme of foreign lending, Great Britain was seizing control of Egypt under the pretext of collecting loans owed to them, mostly accrued in the context of the deal to underwrite the construction of the Suez Canal. Compare the related statement: 'As Sakatani Yoshio saw it in 1881, Japan should strive for independence, for, if it failed to repay one of its loans, it "would have no alternative then to be like the Egyptians" '. Cited in Metzler, *Lever of empire*, p. 24. For similar remarks, see Mitchener et al., 'Why did countries adopt the gold standard?', p. 45.
[35] For a very strong analysis of Japanese sovereign debt in English, see Suzuki, *Japanese government loan issues*.
[36] Muroyama, *Matsukata Masayoshi*.
[37] Compare with Ishii, 'Japanese foreign trade'.
[38] Ericson, ' "Poor peasant, poor country!" '.
[39] Miller, *Bankrupting the enemy*, p. 56.

IV

How does all this connect to the decision-making process in 1897? Why did Japan trade one hard peg (silver) for another (gold)? In other words, for what reason did Matsukata embark on the journey to gold, or as a contemporary French observer put it:

> Will Japan, when abandoning the silver standard for the gold standard, lose the benefits of this [former] situation in its commercial contacts with Europe and the United States? Will it make all this effort to put itself on the same rank with the Great Western Powers, in monetary terms as well as in other matters? That would be extraordinary indeed, and we may assume, before even inquiring into the matter, that the statesmen of this country are too well informed to sacrifice a sure advantage, which the Japanese themselves consider to be one of the main causes of their prosperity, only for the vain satisfaction of possessing the same money as those peoples enjoying commercial hegemony.[40]

It is, at this point in the discussion, unnecessary to evaluate Sussman and Yafeh's findings with regard to Japan's sovereign debt after 1897. As has been correctly pointed out by Mitchener et al., Sussman and Yafeh's findings have a bias, as they take into account a bond issue that is factually unrelated to gold standard adoption: it concerns a resale of a domestic bond issue that had been planned long before, and that was only accidentally taking place in the same year (this debt conversion being another link in the chain of coincidences *à la* Flandreau and Zumer; see section I). Using a single bond issue that traded both before and after gold standard adoption, Mitchener et al. 'find no discernible trend in bond prices that would indicate that investors anticipated lower rates of borrowing . . . Likewise, we find no evidence of domestic investors' bidding up stock prices in anticipation of an investment boom, nor do we observe a boom in domestic investment in the wake of adopting the gold standard'.[41]

So, is it safe to agree with Mitchener et al.'s contention that trade was the key argument for both gold proponents and opponents? This would be unwise. One should be cautious about lumping together the deliberations of the 1893 Commission on the Monetary System and the Diet debates in 1897, for various reasons. One of them concerns procedure: the 1895 report is simply not representative of divisions among the Commission's members. As has been pointed out by others, the findings of the special 'task force' were shrewdly manipulated by Matsukata.[42] More importantly, however, and (again) reminiscent of Flandreau and Zumer's observation that the year 1897 is statistically overdetermined, Mitchener et al. omit the coincidence of gold standard adoption with a 10-year postwar expansion programme or *sengo keiei* 戦後経営 (postbellum fiscal administration).[43] This spending spree, with a focus on heavy industries and especially military expansion (the acquisition of a modern navy), makes it clear that one should not establish a direct relationship between the Commission's findings and the 1897 Diet debates. National expenditure (*kokuhi* 国費) was typically not an issue for the

[40] Bourguin, 'L'Etalon d'or au Japon', p. 836.
[41] Mitchener et al., 'Why did countries adopt the gold standard?', p. 29.
[42] Bryan, *Gold standard*, pp. 122–3.
[43] This *sengo keiei* is the topic of one of Matsukata's own publications; Ōkurashō and Matsukata, *Post-bellum financial administration*. For the decision-making process leading up to the formulation of the *sengo keiei* policy, see Ōkurasho, *Meiji Zaiseishi*, vol. III, pp. 460–72.

Commission on the Monetary System. As its report explicitly states, national expenditure did not constitute an argument pro or contra one or another monetary standard because of Japan's favourable balance of trade and its eschewing of foreign borrowing.[44]

Yet in 1897 national expenditure mattered a great deal and thus caused a shift of priorities. Ono correctly speaks of a 'displacement effect' on the country's finances.[45] To a certain extent, this was connected with evolutions in the silver price in the 1890s. Especially after the 1890 Sherman Silver Purchase Act (and its consequent repeal) and in the wake of new gold discoveries, exchange rates became impossible to predict. For that very reason, Watanabe Kunitaka, who preceded Matsukata as finance minister, argued in favour of having the indemnity (that is, the money that China paid to Japan to end the war) paid half in silver and half in gold.[46] Yet, Matsukata's insistence on receiving the Chinese indemnity in (gold denominated) British pounds made all the difference. The latter were to be used for boosting the country's military-industrial base ('without this even the dearly-bought effects of victory would be hard to retain') by acquiring foreign technology.[47]

More than a decade of mercantile trade surpluses was brought to an abrupt end by the Sino-Japanese War of 1894–5; for two decades, until 1914, the country ran deficits, with 1906 and 1909 as the only exceptions. The expenses of war itself (approximately 233 million yen) are only one part of the picture. After the war, the acquisition of foreign military technology played an overarching role.[48] British manufacturers, such as Vickers and Armstrong, Thames Iron Works, and John Brown, were leading the global arms race in steel-hull battleship construction, and Japan's policy-makers were determined not to miss out on this shortcut to great-power status (and the indigenization—*kokusanka* 国産化—of its crucial technologies). Matsukata had held back from such efforts at militarization precisely because of the 'predicament' of the country being on a silver standard. In 1887, he urged then Minister of War Ōyama Iwao 大山巌 to use caution when ordering munitions from western countries, because of the ever-declining value of silver.[49] After the war, the military budget took a stunning jump. Ono estimates the share of armament expenditures in total state expenditures for the period from 1894 until 1913 as consistently around 30 per cent with record shares around 50 per cent in the period immediately after 1896 (see tables 1 and 2).

This in itself demonstrates that the oft-repeated claim that Matsukata used the indemnity to bring Japan on to gold needs considerable nuance:[50] at least the larger

[44] Bank of Japan, *Kin'yūshi shiryō*, vol. 16, pp. 894–5.
[45] Ono, 'Meiji makki no gunji shishutsu'.
[46] *Tōyō Keizai Shinpō*, 25 Feb. 1897, p. 1.
[47] Ono, *War and armament expenditures*, p. 52.
[48] For an extensive discussion, see Muroyama, *Kindai nihon no gunji to zaisei*, esp. pp. 201–10, 310–14. Soeda (Soyeda)'s contribution to the *Political Science Quarterly* of March 1898 similarly stresses the burden of foreign payments, particularly in view of the 'necessity of strengthening her navy, her fortifications and other instrumentalities of warfare'; these expenses were to continue because of 'her aspiration to becoming the England of the east'; Soyeda, 'Adoption of gold monometallism', p. 73.
[49] M. Matsukata, *Tōkyō Keizai Zasshi*, 7 May 1887.
[50] Including Takahashi, *Jiden*, p. 58.

Table 1. *Military expenditure, 1890–1904, and percentage of total national expenditure*

Year	*Total armament expenditures (yen)*	*Share of armament expenditures in total state expenditures (%)*
1890	26,201,920	31.8
1891	24,244,316	29.0
1892	23,504,272	30.0
1893	23,746,641	28.0
1894	21,621,701	28.4
1895	24,526,182	28.6
1896	54,073,128	32.1
1897	106,763,897	47.5
1898	111,733,877	51.0
1899	116,861,361	45.5
1900	113,476,693	38.6
1901	97,191,796	36.6
1902	87,305,771	30.2
1903	85,775,493	34.2
1904	36,470,929	13.2

Source: Based on Ono, *War and armament expenditures*, pp. 302–4.

Table 2. *Armaments expenditure of the navy, fiscal years 1893/4 until 1903/4*

Fiscal year	*Ordinary expenditure (yen)*	*Index number (%)*	*Extraordinary expenditure (yen)*	*Index number (%)*
1893/4	5,315,310	100	2,959,445	100
1894/5	4,767,806	89	5,679,550	192
1895/6	5,091,454	96	8,607,025	281
1896/7	7,632,529	143	11,204,668	378
1897/8	9,855,473	187	40,242,383	1,360
1898/9	11,523,448	191	47,023,682	1,490
1899/1900	14,968,528	282	46,961,910	1,480
1900/1	17,334,477	327	35,520,462	1,190
1901/2	19,935,471	376	23,521,429	795
1902/3	21,571,093	405	15,259,424	514
1903/4	22,094,699	451	14,566,631	458
Total	134,774,978	299	248,587,164	959

Note: Index number: 1893/4 = 100.
Source: Ono, *War and armament expenditures*, pp. 302–4.

part of it (53.1 per cent, or more than 196 million yen) was *not* used for, say, acquiring bullion, but directly for paying for military build-up.[51]

V

We may ask why the indemnity became an argument in and of itself for adopting the gold standard. To be precise, was the decision to keep the indemnity in British pounds in an account in London, at the Bank of England, not rather a threat to the country's monetary sovereignty? Would not that invite the danger of the country's Egyptization?

[51] Ōkawa, 'Nisshin sengo no zaisei seisaku', p. 50.

At the time, fellow politicians and Japan's nascent economic journals criticized Matsukata's policies exactly for these very reasons. With regard to the danger of the country's Egyptization, the *Tōyō Keizai Shinpō* 東洋経済新報 (*Oriental Economist*) decried the idea as a threat to the country's national security, stemming from the difference between state and private property. Whereas the latter was, due to international law and custom, mostly unaffected by international conflict, the former was at risk of confiscation.[52] In a similar vein, Suenobu Michinari 末延道成 had earlier insisted that the indemnity immediately be converted into gold and held in Japan proper, as a war chest (*sensō junbikin* 戦争準備金).[53] Militarists were quick to point out that the war chest would not be an idle fund, and suggested provoking Russia into a major conflict at an early date.[54]

So did the year 1897 thus mark a shift in Matsukata's priorities? Not really. The key to understanding Matsukata's three principles is to understand them in their interrelatedness. For indeed, Matsukata's appetite for empire status and expansion in east Asia had been far from suppressed. Informed by (mainly German) the political-economic writing of the time, however, Matsukata also realized that having a war chest of gold (British pounds) would be insufficient. To be precise, one needed only a limited material gold reserve at home.[55] What mattered was 'hard currency', or foreign exchange for dealings with the leading nations of the world, as he put it in 1899.[56] It was also necessary to be able to mobilize capital through domestic and/or foreign borrowing.

Here the gold standard enters the picture. For, as many a commentator noted, bonds issued in silver would merely inspire 'pity' in foreign money markets, and would, due to the continuously falling price of that metal, fail to be attractive to the foreign investors needed to fund Japan's military and economic build-up.[57] Moreover, being at the world's periphery (as Japan's leaders were well aware), Japan would not be able to borrow in its own currency. Were Japan to attempt to have access to foreign capital, it would have to pay a price for this 'original sin'.[58] That price was the gold standard itself, and in particular the *zaigai seika* 在外正貨 or 'foreign exchange' system that set Japan's gold standard apart from gold standards in so-called core countries.

In fact, there is considerable debate in Japanese sources about the origins of the decision to keep the indemnity proceeds in London. In 1931, Inoue Junnosuke, the governor of the Bank of Japan, claimed that the Bank of England had included a provision that the amount sent from London be limited, so as not to disturb the

[52] 「償金回送法を論じて正貨準備に及ぶ」'Shōkin kaisōhō wo ronjite seika junbi ni oyobu' ['Discussing the remittance of the indemnity in the light of bullion reserves'], *Tōyō Keizai Shinpō*, 5 (25 Dec. 1895), pp. 1–5.

[53] M. Suenobu, 「固定資本を論じて：償金処分に及ぶ」'Kotei shihon wo ronjite: shōkin shobun ni oyobu' ['About fixed capital: discussing the use of the indemnity'], *Tōyō Keizai Shinpō*, 3 (5 Dec. 1895), pp. 8–9; idem, 「再び償金を現送すべきを論ず」'Futatabi shōkin wo gensō subeki wo ronsu' ['Once more discussing the necessity of bringing the indemnity home'], *Tōyō Keizai Shinpō*, 6 (5 Jan. 1896), pp. 9–10. Details of the indemnity are to be found in tabs. A1, A2, and A3.

[54] Mentioned in Ōkawa, 'Nisshin sengo no zaisei seisaku', p. 39.

[55] For an instructive overview, see Ogawa, *Kōsairon*, pp. 82–103.

[56] M. Matsukata, 'Nihon ginkō wo shite shōkin ginkō wo sekinin dairiten to nashi gaikoku kawase ni jūji seshimuru nado no ken', in Bank of Japan, *Nihon kin'yūshi shiryo*, vol. IV, p. 1452.

[57] M. Ōishi, *Tōyō keizai shinpō*, 5 March 1897, pp. 11–12.

[58] On the notion of 'original sin' in the context of sovereign debt, see Eichengreen, Hausmann, and Panizza, 'Pain of original sin'; idem, 'Mystery of original sin'.

London money market.[59] Later Bank of Japan governor Fukai Eigo 深井英五 contested this, claiming that there was no such thing as a 'tacit understanding' (*naiyaku* 内約).[60] A specialized secondary source also mentions that there is no archival information corroborating Inoue's claim.[61] But even then, an absence of evidence for such agreement should not be mistaken for evidence of an absence as such. One only has to think of the similar, and acknowledged, agreement coupled to the 1899 4 per cent loan.[62]

Also, and importantly, this provision did not particularly make borrowing cheaper. As we know from Mitchener et al.'s study, country risk even *increased* after adoption. Before formal gold standard adoption, the London-based *Economist* had anticipated this. It stated that 'the Japanese imagine that because they are adopting a gold standard currency their 5 per cent loans should command a higher price', and added that 'if any large amount were placed on the market there would soon be a considerable decline in the price'.[63]

However, from the viewpoint of a policy-making constituency bent on heavy industrialization in tandem with military build-up, tying the yen to the British pound by means of the gold standard and adopting the *zaigai seika* system was a price worth paying, especially because the heavy military spending could not possibly be covered by domestic borrowing. In effect, it was an optimal second-best policy—a way of insuring against the risk of so-called 'sudden stops'. If not done in this way, that is, if sovereign debt had been denominated in Japanese yen, foreign investors might have been wary of exchange rate risks (the fact that real exchange rate depreciation, by reducing the purchasing power of domestic output over foreign claims, makes it more difficult to service foreign debt) and consequently be less forthcoming in financing Japan's modernization, thus exacerbating the problem of procyclical capital flows to a peripheral country such as Japan. Taking and insuring against this risk of 'mismatch' was an important frontier in Japan's development, as, indeed, Japanese foreign borrowing after 1897 was especially continuous and massive; some of the loans were issued on rather tough terms (see table 3).

Even then, the distance to the 'first best' policy (that is, being able to denominate debt in Japan's own (silver) currency and fully to employ the Chinese indemnity for the development of domestic industries) was substantial, and it is in this context that the difference between mercantile and imperialist interests must be understood.[64] In the immediate aftermath of the Sino-Japanese War, the *Tōyō Keizai Shinpō* decried the notion of using the indemnity for military spending as scandalous, comparable to 'throwing away the horse but keeping its harness'.[65] In the wake of gold standard adoption, the liberal *Tōkyō Keizai Zasshi* 東京経済雑誌 (*Tokyo Economist*) considered it a grave mistake to keep the indemnity in London. Holding it abroad in a non-interest bearing account was economically wasteful, it said; instead, it should be

[59] Junnosuke, *Problems*, p. 74.
[60] Fukai, *Kaiko*, pp. 81–2.
[61] H. Saitō,「金本位制下の在外正貨」'Kinhon'iseika no zaigaiseika' ['Specie held abroad under the gold standard system'], United Nations Univ. working paper (Tokyo, 1981), pp. 17–26.
[62] Saitō, 'Kinhon'iseika no zaigaiseika' (see above, n. 60), p. 20; for a recent parallel, consider the non-interest bearing deposit requirement for Chilean firms in the 1990s. Gallego and Hernandez, 'Microeconomic effects'.
[63] *Economist*, 19 June 1897, p. 879; also Mitchener et al., 'Why did countries adopt the gold standard?', p. 44.
[64] Also highlighted in Bryan, *Gold standard*, pp. 134–50.
[65] *Tōyō Keizai Shinpō*, vol. 1, pp. 9–11 (quotation p. 9).

Table 3. *Japanese government loan issues, 1870–1913*

Year	*Rate of interest (nominal) [yield at issue] (%)*	*Issue amount (£000s)*	*Issue price (public) (%)*	*Borrowing period (years)*	*Object*	*Loan issuers*
1870	9 [9.2]	1,000 (London)	98	13	Railway construction	Schröder
1873	7 [7.6]	2,400 (London)	92.5	25	Redemption of pension fund	Oriental Bank
1897	5 [4.9]	4,389 (London)	101.5 (resale)	53	Military	Capital & Counties Bank Hongkong Bank Chartered Bank Yokohama Specie Bank
1899	4 [4.4]	10,000 (London)	90	55	Railways, steelworks, and telephone	Parr's Bank Chartered Bank Hongkong Bank Yokohama Specie Bank
1902	5 [5.0]	5,104 (London)	100 (resale)	55	Military, steelworks, telephone, and tobacco	Baring Bros. Hongkong Bank Yokohama Specie Bank
1904	6 [6.4]	10,000 (London 5,000, New York 5,000)	93.5	7	Military	Parr's Bank Hongkong Bank Yokohama Specie Bank
1904	6 [6.6]	12,000 (London 6,000, New York 6,000)	90.5	7	Military	Parr's Bank Hongkong Bank Yokohama Specie Bank
1905	4.5 [5.0]	30,000 (London 15,000, New York 15,000)	90	25	Military	Parr's Bank Hongkong Bank Yokohama Specie Bank
1905	4.5 [5.0]	30,000 (London 10,000, New York 10,000, Hamburg, Berlin 10,000)	90	25	Military	Parr's Bank Hongkong Bank Yokohama Specie Bank
1905	4 [4.4]	25,000 (London 6,500, New York 3,250, Hamburg, Berlin 3,250, Paris 12,000)	90	25	Conversion	Parr's Bank Hongkong Bank Yokohama Specie Bank London Rothschilds Paris Rothschilds
1907	5 [5.0]	23,000 (London 11,500, Paris 11,500)	99.5	40	Conversion	Parr's Bank Hongkong Bank Yokohama Specie Bank London Rothschilds Paris Rothschilds
1910	4 [4.2]	17,813 (Paris)	95.5	60	Conversion	Paris Rothschilds
1910	4 [4.2]	11,000 (London)	95	60	Conversion	Parr's Bank Hongkong Bank Yokohama Specie Bank

Sources: Based on Suzuki, *Japanese government loan issues*, pp. 198–9.

Figure 1. *The injury to the shinbone and the lump above the eye*

Note: In this drawing, Matsukata visits a doctor. The bandage on his leg says 'failure of the gold standard system' (*kinsei shippai*); the lump on his forehead says 'admonition to step down' (*jishoku kankoku*).

Source: Marumaru chinbun, 26 Aug. 1897.

remitted home using foreign exchange. If it were done gradually and with care, the indemnity's remittance would not result in violent fluctuations in the rate of exchange, and it would thus not hamper trade.[66]

To put it another way, Matsukata's policies in question entailed a tradeoff between long-term access to external finance on the one hand and mid-term financial stability on the other. The latter was most certainly a problem for Japan's mercantile community in the aftermath of gold standard adoption. Mitchener et al. correctly report that several newspapers and economists commented on the battered state of Japan's economy, so that needs no repetition here.[67] They all subscribed to the view of the *Jiji Shinpō* 時事新報, that 'the Matsukata ministry . . . must bear the full responsibility for it'.[68] Matsukata suddenly faced an insecure political future (figure 1).

VI

In the wake of gold standard adoption, the country's credit situation was in especially bad shape. Realizing the burden associated with the expansionary

[66] U. Taguchi, 「償金受取りの方法」 'Shōkin uketori no hōhō' ['Ways of receiving the indemnity'], *Tōkyō Keizai Zasshi*, vol. XXXI, no. 772 (1895), pp. 596–7.

[67] Mitchener et al., 'Why did countries adopt the gold standard?', pp. 52–3.

[68] Mentioned in 'Japan and her gold standard', *Denver Evening Post*, 2 March 1898.

Table 4. *Revenue from taxation and military taxes, fiscal years 1893/4 to 1903/4*

		Total revenue from taxation		*Revenue from military taxes*	
Fiscal year	*Population*	*Amount (yen)*	*Average per capita (yen)*	*Amount*	*Average per capita*
1893/4	41,388,313	70,004,763	1.691	—	—
1894/5	41,694,424	71,286,579	1.710	—	—
1895/6	42,225,080	74,697,623	1.769	—	—
1896/7	42,669,469	81,764,610	1.916	—	—
1897/8	43,181,048	101,175,681	2.343	—	—
1898/9	43,714,142	108,938,510	2.492	—	—
1899/1900	44,205,873	145,536,900	3.292	—	—
1900/1	44,710,073	153,459,491	3.432	—	—
1901/2	45,227,464	162,716,212	3.598	4,328,925	0.069
1902/3	45,758,821	177,300,470	3.875	16,076,007	0.352
1903/4	46,588,000	175,504,646	3.767	18,889,514	0.405

Note: —indicates that military taxes in the strict sense did not exist in these fiscal years.
Source: Kobayashi, *War and armament taxes*, p. 28.

programmes, the government implemented among others a scheme of reform of the taxation system. Before fiscal year 1895/6 land and income taxes had been the only two items in the category of direct taxation. Other, indirect taxes existed as well, but Matsukata regarded them as a 'legacy of petty despotisms, being indeed a most miscellaneous kind of taxes without any sort of system whatever'.[69] The systematization of the tax system was considered one factor in obtaining revenue for the ambitious plans for militarization and industrialization (see table 4).[70]

The increase in taxes was directly related to the difficulties of raising public loans. At the outset of and during hostilities, the latter had been fairly easy. As a matter of fact, if one compares the total expenditures of the Sino-Japanese War with the actual receipt of revenue for covering the war cost, there even was a surplus of approximately ¥25 million.[71] After the war, however, the subscribed amount of the loans soon declined to alarmingly low levels. The government, reluctant to issue loans with a rate of interest higher than 5 per cent, chose to adopt the method of subscription below par. This strategy proved unsuccessful: quotations for the second military loan (23 October 1894) fell steadily, and subscriptions for the third military loan (March 1895), this time at a 6 per cent interest rate, were totally unsatisfactory. In order to meet the mounting deficit, the government increasingly resorted to measures such as short-term loans from the Bank of Japan and transfers from the National Treasury. This was a risky affair. The de facto inflation of the currency (as funds transferred from the National Treasury, itself mainly built up through taxation, flew into the market) translated into leaps in the prices of commodities. As the latter increased imports, it was the engine behind another wave of specie exports to foreign countries, thus further exacerbating Japan's balance-of-payments problems and stringency in the money market[72] (figure 2).

[69] Ōkurashō and Matsukata, *Post-bellum financial administration*, p. 109.
[70] For further explanation, see Kobayashi, *War and armament taxes*, especially pp. 22–8.
[71] Kobayashi, *War and armament loans*, p. 42. If one breaks down the actual revenue of ¥ 225 million, one finds that more than half, that is, ¥ 116 million, was paid for by public loans.
[72] For an analysis of events, see Ono, *War and armament expenditures*, pp. 186–93.

Figure 2. *The outflow of gold coins in the maelstrom of imports*
Note: Maelstrom (*kawase*) is a homonym for 'foreign exchange' (*kawase*).
Source: *Marumaru chinbun*, 30 Jan. 1904.

In 1899, when Inoue Kaoru 井上馨 thought the time was ripe for inviting foreign capital, Matsukata signed the 'Law on Issuing National Loans Abroad'. Eventually, the government issued the infamous 4 per cent sterling loan (1899),[73] aimed at raising ¥100 million, or £10,208,333. Efforts to present the loan as a safe investment were to no avail. Only 9.8 per cent of the loan was applied for; the bond quotes quickly fell; and the underwriters, forced to take up the unsubscribed bonds, suffered seriously from the lack of a market.

Behind this financial situation lay a structural principle, totally neglected in English macro-economic studies: the very specie held abroad that enabled Japan's military and economic growth. Above, we have already seen that several authors perceived this trait as an indication that Japan's gold standard actually was a gold-exchange standard. Setting aside the matter of the country's sovereignty, the function of the *zaigai seika* was remarkably similar to those of currency boards for gold standard countries. It neutralized the workings of the price-specie-flow mechanism as debtor countries could use foreign exchange to settle their trade balances directly, without endangering the stability of the rate of foreign exchange. This was a 'managed gold standard' indeed: the Japanese government (mainly through the Yokohama Specie Bank) intervened in the foreign exchange market directly in order to sustain fluctuations within the zone of the gold points,

[73] Suzuki, *Japanese government loan issues*, pp. 69–74.

especially when rates moved to the gold point.[74] Kojima furthermore points out that, when foreign banks within Japan presented yen bills for conversion, they were instead given foreign exchange at a favourable rate—presumably as a means of keeping the value of the yen close to the gold export point and stimulating exports, if only marginally.[75]

Yet there was a non-negligible side-effect of this 'gold device'. By neutralizing or 'sabotaging' the 'natural' outflow of gold specie and thus also offsetting the deflationary aspect of a 'pure' gold standard for debtor countries, Japan's gold standard was by its very nature inflationary[76] (and this would lead to strong controversies among Japanese economists in later years).[77] This was certainly the case, first, because the proceeds of foreign loans were added to the foreign specie holdings and mostly sold to foreign exchange banks, thus indirectly creating a demand for imports; and second, because they were (after the Russo-Japanese War, 1904–5) sometimes sold to the Bank of Japan who used them as reserves for issuing bank notes, and in return paid paper yen into the treasury.[78] In the decades after 1897, although confronted with a mounting trade deficit, the Bank of Japan note issue, and with it the commodity price index, grew steadily (see table 5 and figure 3).

The relationship between the gold standard and foreign borrowing then reappeared, with a vengeance. It is quite unfortunate that almost all related studies have neglected Suzuki's conjecture that 'the main purpose of the Japanese government foreign loans . . . lay in the settlements of . . . trade deficits'.[79] As shown in his study, it is striking that long-term capital movements in the period until 1913 were more or less equivalent to the total of trade and invisible balances (including repayments of loans and their interests). There was indeed a relationship between the gold standard and foreign borrowing, but not in the sense identified by Sussman and Yafeh.

Having chosen to embark on an expansionist and imperialist path (at least 75 per cent of the total loan amount before the First World War was used for military outlay),[80] yet confronted with a paralysed domestic credit market, the gold standard was what logicians call a 'Morton's Fork'. In Japan's case, foreign borrowing (even on hardly favourable terms)[81] became a prerequisite for upholding the hard won gold standard system and not the other way around, as Bordo and Rockoff would have us believe. No one else expresses this more clearly than Bank of Japan governor Fukai, who stated in 1922: 'Because the gold raised by overseas bond issues became [our] overseas gold funds, one could even say that we floated overseas bonds in order to maintain the gold standard'.[82]

[74] Japan was certainly not the only country to use foreign exchange reserves in this way. Compare, for example, Jonung, 'Swedish experience'; Jobst, 'Market leader'.

[75] Kojima, 'Dai ichiji taisenmae no zaigai seika seido', pp. 7–12.

[76] A similar conclusion is reached by Ōkawa, 'Nisshin sengo no zaisei seisaku', pp. 54–5.

[77] Hanawa and Ogawa, 'Taisho era controversies'.

[78] On the role of foreign specie holdings in the expansion of the money supply, see Ōkawa, 'Nisshin sengo no zaisei seisaku', pp. 55–60.

[79] Suzuki, *Japanese government loan issues*, p. 174.

[80] Again, note the central importance of British military industries. Compare with Nagura, Yokoi, and Onozuka, *Nichi-ei heiki sangyō*.

[81] The 1899 bond offering went off at a 4.4% yield and 4% nominal interest rate. Thereafter, yields at issue ranged from 6.6% to 4.2%. See Suzuki, *Japanese government loan issues*, pp. 198–9.

[82] Fukai, *Kaiko*, p. 80 (emphasis added).

Table 5. *Bank of Japan notes issued and in circulation (1,000s of yen)*

Year	*Notes issued*	*Specie reserve*	*Securities for fiduciary issue*	*Excess issue*
1885	3,956	3,311	644	—
1886	39,549	23,855	15,694	—
1887	53,454	31,579	21,874	—
1888	65,770	45,022	20,747	—
1889	79,108	57,409	21,699	—
1890	102,931	44,622	58,309	—
1891	115,734	63,178	52,556	—
1892	125,843	81,158	44,685	—
1893	148,663	85,928	62,734	—
1894	149,813	81,718	68,095	4,197
1895	180,336	60,370	119,966	55,083
1896	198,313	132,730	65,583	—
1897	226,229	98,261	127,967	47,312
1898	197,399	89,570	107,829	24,016
1899	250,562	110,142	140,419	20,721
1900	228,570	67,349	161,220	41,220
1901	214,096	71,358	142,738	22,738
1902	232,094	109,118	122,795	2,975
1903	232,920	116,962	115,958	—
1904	286,625	83,581	203,044	83,044
1905	312,790	115,595	197,195	77,195
1906	341,766	147,202	194,564	74,564
1907	369,984	161,742	208,241	88,241
1908	352,734	169,504	183,229	63,229
1909	352,763	217,843	134,919	14,919
1910	401,624	222,382	179,242	59,242
1911	433,399	229,154	204,244	84,244
1912	448,921	247,023	201,898	81,898
1913	426,388	224,365	202,022	82,022

Source: Bank of Japan, *Hundred-year statistics*, p. 170.

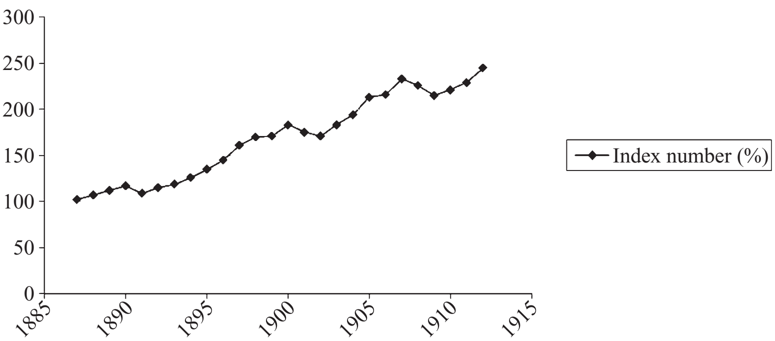

Figure 3. *Wholesale price index according to the Bank of Japan (Jan. 1887 = 100) (%)*

Source: Bank of Japan, *Hundred-year statistics*, p. 76.

VII

This article has reassessed existing macro-economic arguments with regard to Japanese motivations for adopting the gold standard in 1897. It reiterates criticism of Sussman and Yafeh's findings that policy-makers were motivated by a desire to attract foreign capital; and importantly, it considerably nuances the recent claim by Mitchener, Shizume, and Weidenmier that Matsukata's timing of the gold standard adoption was fortuitous for Japanese exports. Although formally correct, the latter omits evidence of policy-makers' preoccupation with an expansionist and imperialist spending programme, referred to as the post-bellum administration or *sengo keiei*.

The article has placed gold standard adoption in the historically contingent economic and political contexts of late nineteenth-century monetary policy-making. We have pointed out that the specificity of these contexts, coupled with the intricacies of receiving the Chinese war indemnity, necessitate a reading of events that extends beyond existing macro-economic explanations of why countries joined the 'gold club'. Interestingly, there was a trade connection (gold standard > military equipment). Also, there was a finance connection (mismatch). And yet, our analysis differs radically from existing explanations, as it demonstrates that imperialist ambition was the defining variable. This article shows that there is much to be gained by archival research and investigation of contemporary journalism, and that a lot more is to be lost if the latter is neglected. To be precise, neglect may result in so-called 'Mickey Mouse numbers', not so much in the original sense of building grand theories on inaccurate data but, more deceivingly, drawing inappropriate (although theoretically plausible) conclusions on the basis of perfectly valid data—the 'fallacy of accident'.

Date submitted *18 April 2010*
Revised version submitted *29 January 2011*
Accepted *13 March 2011*

DOI: 10.1111/j.1468-0289.2011.00619.x

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APPENDIX I: EXPLANATORY TABLES

Table A1. *Japanese exports and imports with China, India, the US, and Great Britain, 1885–1907 (1,000s of yen)*

	China		*India*		*US*		*Great Britain*	
Year	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
1885	8,243	6,342	494	3,399	15,639	2,751	2,453	12,457
1886	9,595	7,124	649	3,561	19,992	3,359	4,195	12,703
1887	10,970	7,986	453	5,272	22,243	3,309	3,479	18,971
1888	11,427	10,360	457	7,689	23,476	5,674	8,710	28,694
1889	5,443	9,200	1,341	7,334	25,283	6,143	7,665	26,068
1890	5,227	8,850	591	8,911	19,821	6,875	5,639	26,619
1891	5,826	8,798	988	5,614	29,796	6,840	5,633	19,966
1892	6,359	12,509	1,422	7,662	38,675	5,988	3,922	20,789
1893	7,714	17,096	2,471	8,679	27,739	6,090	4,996	27,930
1894	8,814	17,512	3,688	10,560	43,324	10,983	5,950	42,190
1895	9,135	22,985	4,359	12,002	54,029	9,276	7,883	45,172
1896	13,824	21,345	4,538	22,517	31,532	16,373	9,012	59,252
1897	21,325	29,266	5,563	29,776	52,436	27,031	8,481	65,406
1898	29,193	30,523	6,134	40,764	47,311	40,001	7,784	62,708
1899	40,257	28,688	6,062	43,884	63,919	38,216	11,271	44,837
1900	31,872	29,961	8,704	23,516	52,566	62,761	11,262	71,638
1901	42,926	27,257	9,658	42,780	72,309	42,769	11,483	50,576
1902	46,839	40,591	5,067	49,303	80,233	48,653	17,346	50,364
1903	64,994	45,458	8,087	69,894	82,724	46,274	16,545	48,737
1904	67,986	54,810	9,405	68,012	101,251	58,116	17,644	74,993
1905	98,682	52,618	7,988	90,227	94,009	104,287	13,039	115,380
1906	117,780	57,397	10,352	60,315	125,964	69,949	22,553	101,311
1907	106,020	67,992	13,088	74,593	131,101	80,697	22,443	116,246

Source: Bank of Japan, *Hundred-year statistics*, pp. 290–4.

Table A2. *Receipts and expenditure in the Chinese indemnity special account in London (as of 30 March 1903 (1,000s of £)*

Receipts		*Expenditures*	
Item	*Amount*	*Item*	*Amount*
Indemnity special account	37,709	Gold purchases	12,632
Sterling bills collected	2,035	Silver purchases	3,091
Government 4% sterling loan purchased	1,440	Exchange operations	9,765
Transferred from the National Debt Department	6,100	Paid in exchange for government expenditure	17,534
Indemnity for occupying Weihaiwei	247	Government 4% sterling loan sold	1,530
Interests on deposits with the Bank of Japan	92		
Interest on government loan belonging to the Ministry of Finance 'Money Section'	68		
Proceeds from sale of war loan	4,386		
Total	55,684	Total	54,551

Source: Ōkurashō, *Meiji Zaiseishi*, vol. II, pp. 702–4.

Table A3. *Breakdown of disbursements of Chinese indemnity proceeds (1,000s of yen)*

Item	*Amount*
Transferred to extraordinary war expenditures special *comptabilité*	78,957
Military expansion expenditures, transferred to general account	54,037
Naval expansion expenditures, transferred to general account	125,267
Expenditures for iron foundry	580
Extraordinary war expenditures and transportation/intelligence expenditures connected with war, for 1897–8 (transferred to general account)	3,214
Making up for deficit in revenue, 1898–9	12,000
Set apart for use by Imperial Household	20,000
Transferred to war-vessels and torpedo-boats replenishing fund, 1899–1900	30,000
Transferred to calamities reserve fund, 1899–1900	10,000
Transferred to education fund, 1899–1900	10,000
Total	334,055
[Total indemnity amount: indemnity + compensation for retrocession of Liaodong peninsula + profits secured by using indemnity]	[364,510]

Sources: Ōkurashō, *Meiji Zaiseishi*, vol. II, pp. 290–1, 698–9; Ōkurashō and Matsukata, *Post-bellum financial administration*, p. 226.

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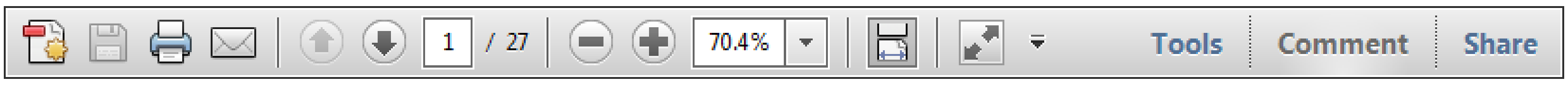

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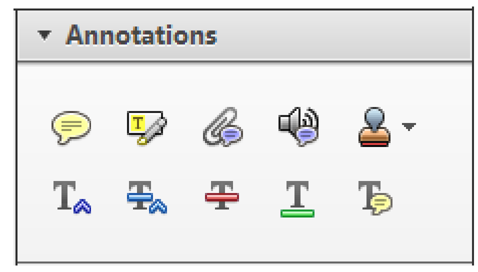
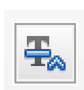


1. Replace (Ins) Tool – for replacing text.



Strikes a line through text and opens up a text box where replacement text can be entered.

How to use it

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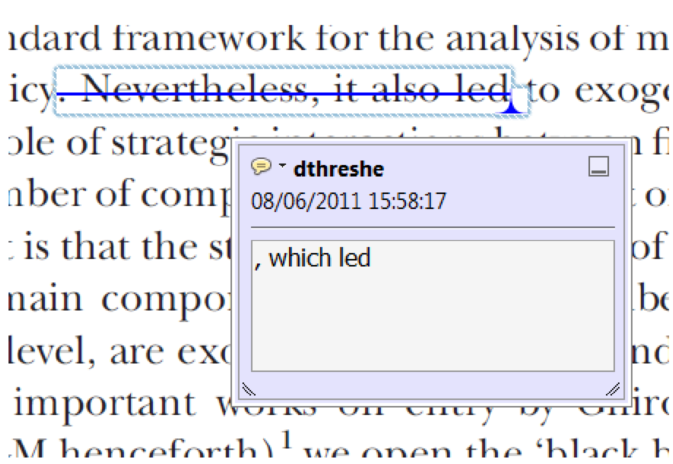
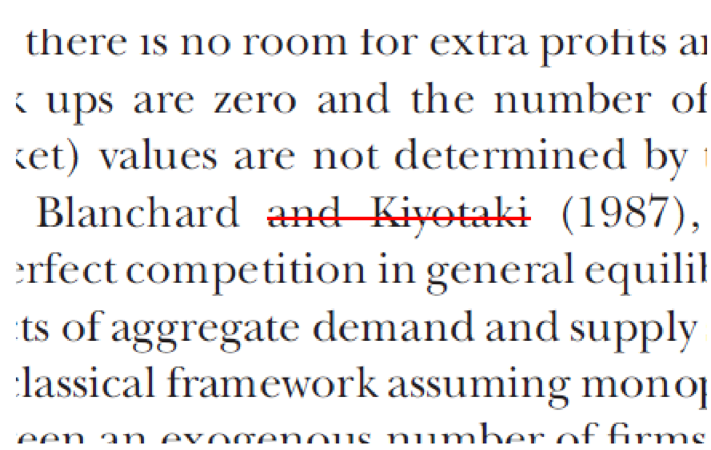


2. Strikethrough (Del) Tool – for deleting text.

Strikes a red line through text that is to be deleted.

How to use it

- Highlight a word or sentence.
- Click on the Strikethrough (Del) icon in the Annotations section.

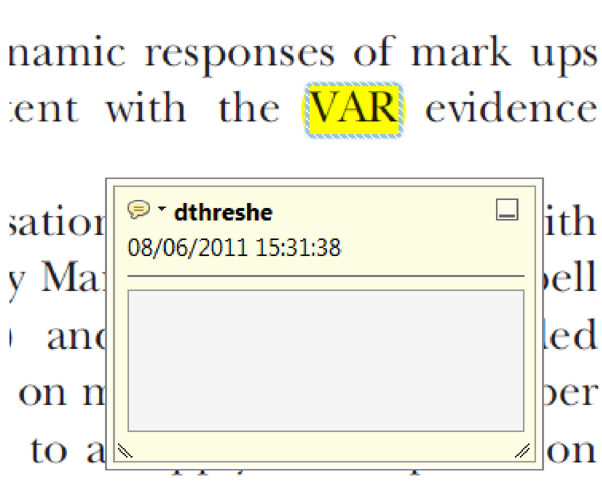


3. Add note to text Tool – for highlighting a section to be changed to bold or italic.

Highlights text in yellow and opens up a text box where comments can be entered.

How to use it

- Highlight the relevant section of text.
- Click on the Add note to text icon in the Annotations section.
- Type instruction on what should be changed regarding the text into the yellow box that appears.



4. Add sticky note Tool – for making notes at specific points in the text.

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How to use it

- Click on the Add sticky note icon in the Annotations section.
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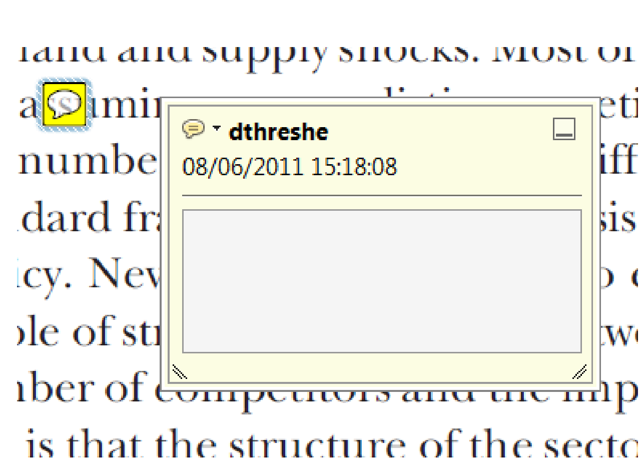
- Type the comment into the yellow box that appears.



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How to use it

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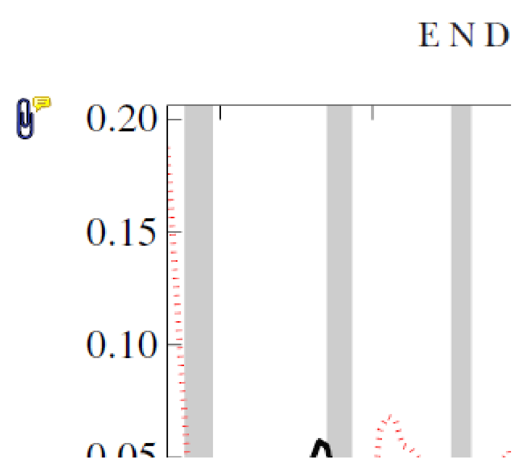

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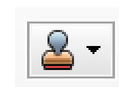

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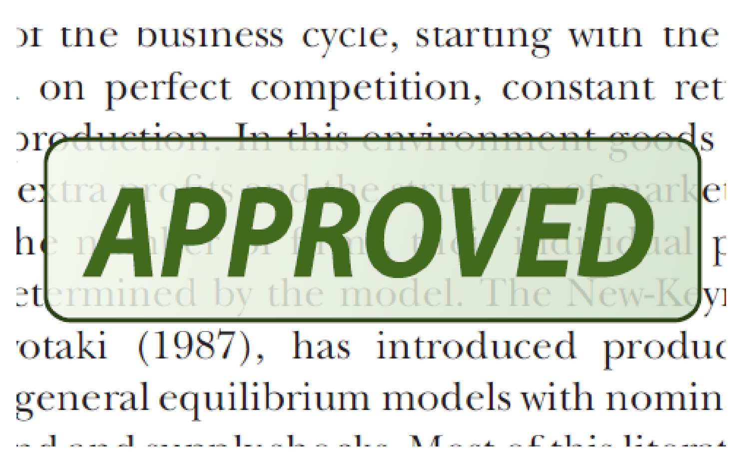

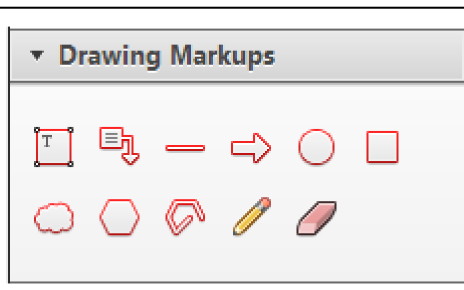

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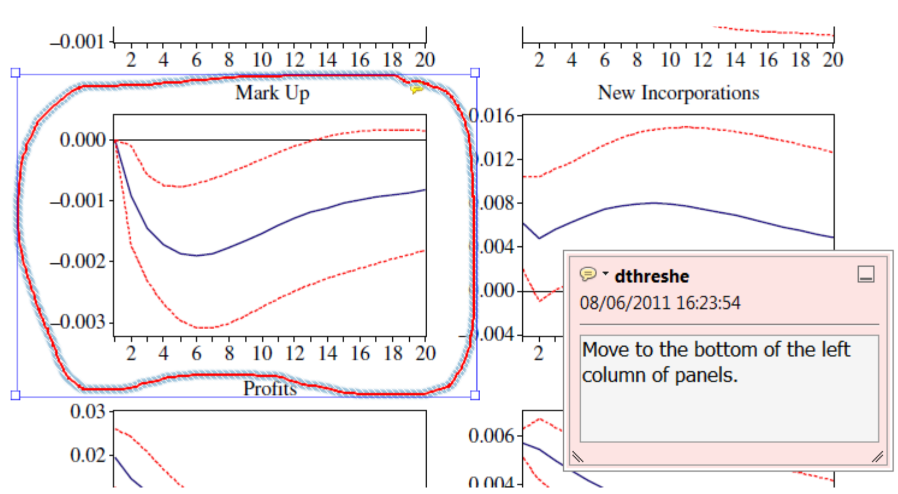

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