Money on the Road to Empire —Japan's Choice for Gold Monometallism

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Abstract: Matsukata Masayoshi's decision to bring Japan upon the gold standard has often been presented as the self-evident result of his insight in some imperfections endemic to the silver standard and bimetallism. Turning to Marc Flandreau's refutation of the view that the growth toward an international gold standard system was preordained, this article inquires its consequences for discussions of Japan's late nineteenth century monetary situation. I argue that Matsukata's policies should not be discussed in terms of the assumed superiority of one standard over another, but should be studied as a political choice with respect to Japan's place in the world, both strategically (as an imperialist power) and economically (namely as economic partner of the gold standard countries).

I. Introduction

As explained in the former chapter, Matsukata Masayoshi's stay in Belgium was of seminal importance for Japan's financial future, especially where it concerns the construction of a banking infrastructure with a firmly organized central bank in its core. But Matsukata's historical learning must have stretched beyond the emulation of the *Banque Nationale de Belgique*. As a matter of fact, the decennium between 1870 and 1880 is a clearly demarcated period in continental European financial history as well —a point rarely touched upon by Japanese historians or Western students of Meiji Japan. It marks a shift from the somewhat moderate pre-1870 liberalisms to the grim nationalisms that had their heydays in the first half of the twentieth century.[1] *L'Empire c'est la Paix*,

[1] See, especially, Polanyi,K., *The Great Transformation: The Political and Economic Origins of Our Time* (Boston, 1957). I will come back to the importance of this point in my discussion of the origin of Japan's gold standard.

the motto of the 1867 Paris Exhibition, and the expression of the belief that future warfare would be waged on the market, was eventually shattered to pieces.[2] Its fissures originated in the conflict between continental Europe's political and economic hothouses: the Franco-German war (1870-1871) bore the seed of a wide range of opposites that would plague European political, cultural, and economic (including monetary and financial) organization for the following eighty years. As we will see in this and the following chapter, there exists no doubt that Matsukata and especially his aide Katō Wataru 加藤済, who stayed in Belgium from 1878 until 1881 (cf. supra), must have learnt of this profound transformation, if only because both the war and the chain of monetary events in its aftermath received considerable attention at the time.[3] According to Tamaki Norio, Japanese banking historian and instrumental in drawing Western attention to fiscal and monetary matters in the process of Japan's modernization,

> 'Matsukata's European journey was to prove a crucial educational experience. [...] [He] [...] witnessed the collapse of the bimetallic Latin Monetary Union led by the French. From this date he was suspicious of bimetallism, that is the double gold-and-silver standard. And, perhaps most significantly, while in Europe, Matsukata learnt that the Germans had successfully based their gold standard upon the French indemnity paid in the aftermath of the Franco-German War. It was no surprise, therefore, that from this date Matsukata started to dream of putting Japan on the gold standard.'[4]

The strategy of employing indemnity in order to move onto a different standard cannot be discussed here; as it is a matter of considerable complexity, it will be the theme of the next chapter. Instead, we will concentrate on Matsukata's obstinate preference for the gold standard, and especially its assumed obviousness. Indeed, almost all studies at least latently presuppose that Matsukata's adherence to gold monometallism must be considered a self-evident decision, and the result of his sound understanding of the course of monetary matters at the time. In another paper, Tamaki reiterates his view of the demise of bimetallism with an argument that has also been quite common in Western studies of the period. The sharply rising production of silver, he says, created a monetary version of Gresham's Law: gold value rose, and gold coins were quickly exported. Countries with a considerable circulation of silver inevitably suffered great losses. And in the end,

[2] Flandreau / Holtfrerich / James, 'Introduction', p. 5.
[3] This can also be concluded from the relative attention to the Franco-German war and the consequent arrangement of the indemnity payment in several paragraphs of Matsukata's *Report*: Matsukata Masayoshi, *Report on the Adoption of the Gold Standard in Japan* (Tokyo, 1899) [I have used the 2003 facsimile edition, Elibron Classics].
[4] Tamaki Norio, 'Japan's Adoption of the Gold Standard and the London Money Market, 1881-1903: Matsukata, Nakai and Takahashi', in Ian Nish, *Britain & Japan: Biographical Portraits* Vol. I (Richmond, Surrey, 1994), p. 124.

the disadvantages of bimetallism outweighed its advantages.[5] History, the reader is told, is the very explanation of the latter, and is the ultimate judge of Japanese proponents of bimetallism:

> 'It is easy to take bimetallists to task for their dreams. The Latin Union, to which they insisted on returning, worked only for a very short time and produced no remarkable results. On the contrary, Britain had been basing its prosperity on the gold monometallic standard since 1816. Its capital city, London, was the largest market for gold, and as such other financial centres could not rank with its status.'[6]

Yet, was the transition from a multiple standard pre-1873 international system to a relatively uniform gold monometallist system really a self-explanatory course of events? According to Marc Flandreau, it was not. The answer, he points out, can be found in the period *preceding* 1873, in concreto in the extraordinary stability of gold-silver exchange rates between 1820 and 1870. The latter has often been considered a riddle, in view of the existence of several standards throughout that period. Gold and silver being commodities, their price should fluctuate —yet, exactly this was *not* the case. In several studies, Flandreau indicates that the reason hereof was not, as has often been assumed, the attempts of several central banks to provide stability, but the existence of a bimetallic bloc.[7] The argument is deceptively simple (but was hitherto unrecognized), and goes as follows. In bimetallic regimes (i.e. regimes that have adopted a legally defined exchange rate between gold and silver), economic agents have the choice to pay their debts in the metal of their choice, presumably the metal that entails less costs. This triggers an increasing demand for the depreciated metal and feeds back onto its prize, which one may expect to eventually stabilize at a level that has to be close to the legal ratio. Formulated differently: in the pre-1873 multiple-standard international system, the gold-silver exchange was pegged within an interval reflecting the costs associated with melting one metal and minting the other one ('arbitrage'). Bimetallic blocs, provided they are sufficiently substantial in size, thus function as buffers that absorb disequilibria originating on international bullion markets due to, for instance, increased production or discoveries of gold and/or silver.[8] Why, then, in the 1870s, countries started to shift from a multiple-standard system to a system with

[5] Tamaki Norio, 'Economists in Parliament: The Fall of Bimetallism in Japan', in Sugiyama Chūhei & Mizuta Hiroshi, *Enlightenment and Beyond -Political Economy Comes to Japan* (Tokyo, 1988), pp. 224-225.
[6] Tamaki Norio, 'Economists in Parliament', p. 235.
[7] Marc Flandreau, *L'or du monde: La France et la stabilité du système monétaire international, 1848-1873* (Paris, 2000); idem, *The Glitter of Gold: France, Bimetallism, and The Emergence of the International Gold Standard, 1848-1873* (Oxford, 2004); idem, 'The French Crime of 1873: An Essay on the Emergence of the International Gold Standard, 1870-1880', *The Journal of Economic History*, vol. 56, nr. 4 (Dec., 1996), pp. 862-897.
[8] Marc Flandreau, 'The French Crime of 1873', pp. 866ff.

one international standard, must be explained by measuring the advantages of maintaining one (gold) standard in growing international trade against the costs associated with discarding the other metal (silver).

Clearly, the fall of bimetallism may not have been as preordained as often asserted. If considered from a semantical point of view, as we shall see, history proves Flandreau's ideas right. In 1895, almost twenty years after the 'scramble for gold'[9] and two years before Japan formally adopted the gold standard, the prolific Trumbull White published his *Silver and Gold*,[10] a collection of essays proving that the monometallism versus bimetallism debate continued vigorously. In Japan too the issue was far from settled. Taguchi Ukichi 田口卯吉, one of Japan foremost political economists at the time and the founding father of the *Tōkyō Economist* or *Tōkyō keizai zasshi* 東京経済雑誌, remained a relentless defender of bimetallism (cf. infra). At least several observers at the time did not perceive a policy path inevitably leading to the gold standard, as also Tamaki's account testifies.[11]

In the following paragraphs, I will therefore take an in-depth look at Flandreau's dissection and refutation of conventional theories, and his alternative explanation (II-III). Next, I assess the importance of Katō Wataru's experiences in Belgium in order to consider the Japanese domestic debate in a new light (IV-V). I will explain that Matsukata's choice for gold monometallism was more contested that often surmised (VI). It was part of a wider political-economic debate and reveals his projection of Japan's place in the late nineteenth century world order. More concretely, it must primordially be studied as a choice for *industrialization* (versus agricultural growth) and *imperialism* (versus closure) (VII); after all, monetary standards were a major concern when defining which country/countries was/were to become Japan's foremost trading partner(s).

II. Flandreau's Discussion of the Emergence of the Gold Standard

Marc Flandreau discerns four different arguments on the emergence of the gold standard; they may concur in existing analyses, yet may differ in the weight they attach to each cause:[12]

1. the *fundamentals theory*: draws attention to the importance of rising silver production in the late 1860s and 1870s; this would have led to silver depreciation and thus forced nations to

[9] Giulio Gallarotti, 'The Scramble for Gold: Monetary Regime Transformation in the 1870s'. In Michael Bordo & Forrest Capie (eds.), *Monetary Regimes in Transition* (Cambridge, 1993), pp. 15-67.
[10] Trumbull White, *Silver and Gold or Both Sides of the Shield: The Doctrines of Free Silver, Mono-Metalism and Bi-Metalism* (Philadelphia, 1895) (reprint 2001)
[11] Tamaki Norio, 'Economists in Parliament'.
[12] Marc Flandreau, 'The French Crime of 1873', p. 863ff.

abandon that metal.

2. the *strategical theory*: posits that the economic impact of rising silver production was supplemented by Germany's demonetization of silver; this reinforced the depreciation of the metal.
3. the *technological theory*: stresses that silver was bulkier than gold and hence more costly for international payments.
4. the *political economy theory*: argues that it was the actions of the creditors' class that favored a stable standard of value that produced the convergence to gold in the 1870s.

The *fundamentals theory* has already been mentioned in the introduction to this chapter, and is, as the reader will understand, the most ancient argument for explaining convergence towards gold monometallism. Nineteenth century observations of the process univocally refer to the fall in the price of silver as the defining factor. As such, their legacy is enormous. It does not strike me as inplausible that eventually Tamaki Norio's account, for instance, has been derived directly from Matsukata's original assessment in 1899 (which is a combination of theory 1 and 2).[13] Yet, however compelling the argument may seem, it suffers from an important analytical fallacy. If rising silver production was indeed a major determinant, the 'scramble for gold'[14] should have occurred much earlier, i.e. in the 1850s. Then, the rise in silver production that had affected gold was proportionally much larger, yet it did not trigger dramatic changes. In Flandreau's reasoning, the bimetallic bloc had managed to wash away imbalances at the time; so why would it not have been able to repeat this exercise twenty years later?

Defending themselves against this critique, some observers tend to mention the change in monetary geography as a second factor. Compare for instance Matsukata's *Report*:

> 'The chief [...] causes [for the depreciation of silver] were two: the greatly increased annual output of silver since 1870, and the establishment of the German Empire. The Government of the united Germany immediately took up the scheme of unifying the coinage systems in vogue in the different portions of the Empire, by replacing with gold coins the silver currency in use. [...] It soon began to sell large quantities of silver, which had the effect of causing depreciation. The bimetallic countries of Europe now saw the danger of being turned into silver countries, so that they became contrained to adopt the lines of policy which had the tendency of making them gold standard countries.'[15]

[13] Matsukata Masayoshi, *Report*, esp. pp. 145ff.
[14] After: Giulio Gallarotti, 'The Scramble for Gold: Monetary Regime Transformation in the 1870s'. In Michael Bordo & Forrest Capie (eds.), *Monetary Regimes in Transition* (Cambridge, 1993), pp. 15-67.
[15] Matsukata Masayoshi, *Report*, esp. pp. 145.

At first sight, this sounds quite logical: Germany's decision to employ the indemnity of the Franco-German for moving onto the gold standard brought about a process of positive feedback, from which eventually even France could not escape. Yet, the *strategical theory* too is not without its problems. First of all, and contrary to common belief, French indemnity was not paid in specie; the French government issued a perpetual bond (the so-called *Rente Thiers*), to which Franch and foreign investors alike subscribed, and the proceeds of which were used to obtain short-term bills on international financial markets, which were then transferred to Germany.[16] Thus, the monetary consequences of the indemnity payment were far more limited than is often surmised.[17] From Flandreau's detailed accounts,[18] one understands that the indemnity issue cannot have been powerful enough to cause the destruction of bimetallism.

Recently, two other arguments have been developed to explain the origination of the gold standard. Angela Redish has taken great length to explain that technological developments may have played an important role. In her view, the introduction of the steam press made it possible to produce high-quality token coins (traditionally problematic because being easily counterfeitable), and thus paved the way for silver demonetization. However, as Redish too admits, this only refers to the *preconditions* of the gold standard, and not to the cause for its emergence.[19] Finally, the *political economy theory* defends the viewpoint that gold was traditionally the less deflationary

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[16] On the problems associated with the transfer of the indemnity, see: Michael B. Devereux and Gregor W. Smith, 'Transfer Problem Dynamics: Macroeconomics of the Franco-Prussian War Indemnity'. Queen's University and University of British Columbia Working Paper (2005). Online: http://qed.econ.queensu.ca/pub/faculty/smithgw/transfer.pdf
In the following chapter, we will consider the importance of this point when analyzing Chinese indemnity payments to Japan in the wake of the Sino-Japanese war.

[17] Interestingly, the Iwakura Mission (so called because of being led by Iwakura Tomomi 岩倉具視), one of several official Japanese missions to foreign countries, provides an excellent illustration hereof: "[T]here were claims that the wealth of Britain outstripped that of France four times over, but the British themselves have since been astounded by the French achievement of paying off the huge war indemnity of $950,000,000 [...] in less than two years. [...] The government may have been impoverished, but the people themselves are rich, and daily business has carried on just as before.Thus, the French say that *the wealth of a country does not lie in filling the coffers of the government but rests in the assets of the people*. [...] Therefore, the sum of $900,000,000 (sic) which the French government delivered to Germany they call nothing but a loan extracted from the French people, and one which will be paid back in full within a period of seven years'. From: Kume Kunitake, comp., Graham Healey and Chushichi Tsuzuki, eds. *The Iwakura Embassy, 1871-1873: A True Account of the Ambassador Extraordinary & Plenipotentiary's Journey of Observation Through the United States of America and Europe* [5 vols]. (Chiba, 2002).

[18] See, especially: Marc Flandreau, 'Coin Memories: Estimates of the French Metallic Currency, 1840-1878'. *Journal of European Economic History* 24, no. 2 (1995): pp. 271-310.

[19] Angela Redish, 'The Evolution of the Gold Standard: The Case of France' (UBC Departmental Archives 92-22 , 1992); Angela Redish, 'The Evolution of the Gold Standard in England', *The Journal of Economic History*, Vol. 50, No. 4. (Dec., 1990), pp. 789-805; Angela Redish, 'The Persistence of Bimetallism in Nineteenth-Century France ', *The Economic History Review*, New Series, Vol. 48, No. 4. (Nov., 1995), pp. 717-736.

metal. The reason for this, as Giulio Gallarotti indicates, would be that the progold factions were typically located in the cities, and, being capitalists (merchants, bankers, creditors etc.), they had an interest in stability.[20] Yet, this argument foregoes the fact that it was not gold yet bimetallism that saveguarded stability. Because of its legal gold-silver exchange rate, the latter sharply reduced the risk premium attached to lending money to nations on different standards; to international bankers, bimetallism furthermore offered constant opportunities for arbitrage (cf. supra). Empirical fact makes this clear: a large proportion of the international bankers, including the houses of Rothschild and Bleichröder,[21] were quite active in pro-bimetallism campaigns even after 1873.[22] Furthermore, and unfortunately neglected by Gallarotti, gold was considered the inflationary metal at the time: gold overflowing the European capital markets in the wake of the Gold Rush led several economists to advocate gold demonetization. The question of the origination of the gold standard apparently constitutes an aporia. Apparently, existing theories do not stand up to the tests of empirical verification. So what did cause the continental European powers to move away from silver in such massive way? What was different from the situation before 1873?

III. The Alternative Explanation

Flandreau's answer to these questions marks an interesting departure from existing analyses, and may very well affect our thinking about monetary standards and regimes in a fundamental manner. There were no inherently monetary reasons for that process, he explains; the externalities of *political decision-making* made all the difference. In order to understand this fully, one must be aware of the climate of increasing world trade in the 1860s, and, as a corollary of this, mounting attention to problems of foreign exchange, especially with regard to countries 1) with whom foreign trade was substantial and 2) that at the same time were on a different monetary standard. The issue was especially precarious in silver standard Germany. Its financiers were especially concerned about having convenient means of payment for its large imports of raw materials through or from London. Moreover, as explained above, its exchange stability was to a large degree dependent on the well-functioning of the arbitrage mechanism in bimetallist countries, particularly France.[23] This

[20] Giulio Gallarotti, *The Anatomy of an International Monetary Regime : The Classical Gold Standard, 1880-1914* (New York, 1995).
[21] On the house of Rothschild, see: Niall Ferguson, *House of Rothschild : Money's Prophets: 1798-1848* (New York, 1998); idem, *The House of Rothschild: The World's Banker 1849-1998* (New York, 2000); on Bleichröder, see: Fritz Stern, *Gold und Eisen, Bismarck und sein Bankier Bleichröder* (Frankfurt am Main, 1978); idem, *Bismarck, Bleichröder and the Building of the German Empire* (New York, 1977).
[22] Marc Flandreau, *L'or du monde*, esp. pp. 193 ff.
[23] Marc Flandreau, 'The French Crime of 1873', p. 883.

created the following policy dilemma. On the one hand, Germany seemed the one country that was the least likely to convert to gold monometallism. This was the Scylla of reform *feasibility*. It was not only confronted with the *financial problem* of finding sufficient resources for building up a gold reserve needed to initiate the process of moving onto the gold standard. There also was the *liquidation problem* of being able to exchange its silver Thalers into gold once the gold standard would have been formally adopted; and this was in no way obvious, as the very decision to move onto the gold standard may very well have the undesirable effect of driving the price of silver down, and thus trigger an evolution towards increasingly less attractive terms for completing the process. Yet, on the other hand, exactly its dependency on bimetallist countries and the apparent deadlock in which it found itself made the need for a sea change in its monetary policy so pressing —this was the Charybdis of *necessity*.

The huge Franco-Prussian war indemnity payment of 1871-1873 changed the situation radically.[24] It solved at least the financial problem: five billion of French francs was more than what was needed to purchase and accumulate gold needed to launch the monetary transition. Furthermore, a crippled France was believed to be incapable of hindering Germany's plans to massively sell its silver reserves and undertaking gold coinage; indeed, early German policy moves reveal an extraordinary optimism with regard to the smoothness of the transition. Yet, France's reaction, whatever the original assessment of its potential outcomes had been in the heads of its originators,[25] would prove to have dramatic and unseen consequences. On September 6 1873, exactly one day after the last portion of the indemnity payment had been transferred, it limited silver coinage to 280,000 francs per day. The effect was immediate: the silver price fell through its floor. Germany, which —by the law of 1873— had set a minimum price below which no silver sales would take place, waited for the price to go up; the markets, on the other hand, waited for Germany to complete its transition before they considered bidding up the silver price. As a result, the *Reichsbank* was forced to abandon the original idea of selling silver and, instead, to attract gold through discount rate increases, which in turn sent international exchange rates (mainly London) soaring.

Making matters worse, the aforementioned 'double-bind' also re-entered as a considerable threat to French interests. Limiting silver coinage (and thus sabotageing the mechanism of arbitrage through which the gold-silver par was pegged around the legal ratio) had the adverse effect of

[24] On the war itself, see the *locus classicus* of Michael Howard: *The Franco-Prussian war : the German invasion of France, 1870-1871* (London, 1981); for a detailed analysis of the terms and instalments of the indemnity payment, see: Arthur E. Monroe, 'The French Indemnity of 1871 and its Effects', *The Review of Economic Statistics* I, 4 (October, 1919), pp. 269-281.

[25] Flandreau provides evidence of French self-confidence in its capability of eventually returning to the pre-war gold-silver par, and resuming its position as arbitrageur of last instant. See: Marc Flandreau, 'The French Crime of 1873', p. 885.

increasing silver supply, due to which the intrinsic value of French *écus* dropped below their nominal price; clearly, one could not have it both ways. Successive further limitations of silver coinage, and its eventual complete suspension, sent strong signs to the public that France may not be willing to play according to bimetallist rules. On November 19 1873, when the *Banque de France* imposed a discount rate of one-thousand on silver *écus*, the dam burst. *Écus* flowed into the *Banque* and caused its silver holdings to double. By 1876, it was obvious to everybody that France, together with fully suspending silver coinage, was also suspending its commitment to bimetallism.[26]

In origin, there may have been a domestic motivation behind these decisions. France's financial system, already put under considerable stress due to the indemnity payment, would have to deal with another blow once Germany started to sell its silver reserves, and French financial policy makers may therefore have decided to ward off the troubles of aggravated sensitivity. Yet, as Flandreau explains, *the very decision was also undeniably founded on deeply rooted anti-German sentiment*. The indemnity had already been a considerable price. Now the French felt that Germany could use French bimetallist arbitrage as a ladder to climb to the gold standard, and they were determined to kick it away by all possible means. Nowadays, this attitude has become known as the *attitude expectante*: France would not re-establish free silver coinage as long as Germany had not completed its reform.[27] Nationalist antagonism and a striking *lack* of international cooperation would thus be at the origin of an unseen transformation. The French decisions, which contemporary economists would only identify as 'irrational', had led the Continental European monetary constituency into dangerous waters:

> '[In 1879], France and Germany found themselves in a very analogous situation. Although they had both stabilized their exchange rate in terms of gold, neither was fully on gold, both had a substantial silver circulation that was still legal tender, neither could sell overvalued silver holdings without making huge losses, and both needed an active commitment of their central bank to peg the value of their silver coins.'[28]

Despite several international efforts to restore bimetallism,[29] it appeared exceedingly unattractive.

[26] Marc Flandreau, 'The French Crime of 1873', p. 888.
[27] See: Marc Flandreau, 'The French Crime of 1873', p. 886.
[28] See: Marc Flandreau, 'The French Crime of 1873', pp. 888-889.
[29] There was a central role of the United States, an important silver producing country, in trying to bring the Continental powers to the negotiation table and convince them of the merits of bimetallism. They were the main supporters of the conference of 1892 in Brussels, where especially France was demanded to restore its former role; France replied that it had been the cornerstone of international monetary stability for decades, and that it thus had done enough efforts —such renewed role should not be expected. See: Alfred De Foville, 'A History of the Latin Union' [review of: Henry Parker Willis, *A History of the Latin Monetary Union* (Chicago, 1901)], *The Journal of Political Economy* 10, 1 (December, 1901), p. 118; Henry Parker Willis, *A History of the Latin*

As an ironical twist of fate, the first era of the gold standard would in the first half of the twentieth century come to be remembered as an example of nineteenth century liberalism and international cooperation...

IV. The Latin Monetary Union and Belgium's Predicament

Obviously, French monetary policy was closely watched by the other members of the Latin Monetary Union. This was especially true for Belgium, not only because it was so close to France, but also because its monetary situation at the time *and before* can only be described as peculiar. Put bluntly, it was de facto a *monetary satellite* of France.[30] After declaring its independence from Holland in 1831, it had abolished the old Dutch currency and adopted the French monetary system in its entirety. By dint of its currency legislation (1832), closely resembling the French law 1803, Belgium had adopted the *franc* as its currency unit, and even allowed French gold and silver pieces as legal tender in Belgium. The same legislation also stipulated the minting of Belgian gold and silver coins, yet its operation resulted in a mere silver circulation, just as in France. As a matter of fact, Belgium did not mint one gold coin for 15 years.[31] In the same period, Dutch 10-florin gold coins remained legal tender by weight. After this most disorderly first period, the Belgian Chambers introduced legislation with the objective of introducing a gold currency. It put a premium of 1.1 % on the English sovereign, and was apparently helped by the Dutch decision to demonetize gold (1847) and the French move to mint extra quantities of gold coin (which were equally given legal tender quality). This second period ended abruptly. After depriving legal tender quality of English, French and Dutch coins in resp. 1849 and 1850, Belgium also demonetized its indigenously struck gold currency in accordance with the international tendency. It finally appeared to be able to appease its monetary situation.

Nothing, however, was less true. Sharp differences in the quality of French and Belgian silver coin stock, and the perverse effect of French arbitrage resulted in the inflow of increasingly worn silver coin, while it was unprofitable for Belgium, now on a silver standard, to continue minting silver.[32] In a later instant, the gradual disappearing of even the abraded coins and several

Monetary Union (Chicago, 1901), esp. pp. 236ff..

[30] For a short and authoritative overview, see: H. Parker Willis, Belgian Monetary Legislation, *The Journal of Political Economy*, Vol. 3, No. 2. (March 1895), pp. 222-232; Henry Parker Willis, *A History of the Latin Monetary Union* (Chicago, 1901), esp. pp. 15-25; this discussion is also taken up in: C.A. Conant, *The National Bank Of Belgium* (Washington, 1910), pp. 163-179.

[31] For an overview of amounts of coins minted in the countries of the Latin Monetary Union, see: Henry Parker Willis, *A History of the Latin Monetary Union* (Chicago, 1901), esp. pp. 87ff.

[32] H. Parker Willis, 'Belgian Monetary Legislation', p. 207-208; on the financial-technological intricacies of arbitrage, cf. supra.

flawed policies (e.g. the decision to declare French gold coins once more as legal tender and thus to bring Belgium upon an alternating standard) only exacarbated matters. Belgium's geographical location may also have been an unfortunate factor in this respect. In the heart of Europe, practically at the crossing of the great Continental European metallic blocs, and lacking the vastness of French gold and silver holdings, it was almost destined to become the victim of arbitrage and speculation. The fastidious influences of monetary matters on Belgian commerce prompted the Belgian government in 1865 to call for the establishment of the Latin Monetary Union. Originally, its outlook was promising. Apparently, Belgium would be able to reap only the benefits of allying with what was beyond doubt the pivotal agent in Europe's monetary constituency.[33]

Yet, in the wake of the Franco-Prussian war indemnity payment, Belgium's status of being bound to the fate of a union overwhelmingly dominated by one nation once more created serious problems. As Alfred De Foville, once director of the French Mint, would much later exclaim, '[t]he convention of 1865 has been compared to a marriage contract; that of 1885 has somewhat the form of a will'.[34] In fact, those stipulations that made the Union's unity (esp. the provision that each of the contracting governments agreed to receive freely at their public offices the money coined by the other three states) were later neglected by France, much against the spirit of the Union; French self-interest and political unwill became the dagger aimed at Belgian monetary and financial sanity.

The main problem was that the convention of 1865 did not touch the question of the legal tender quality and the free coinage of silver 5-*franc* pieces. This was alright as long as silver remained undervalued at the coinage ratio —i.e. as long as it remained profitable to coin silver pieces. But once the course reversed, when gold appreciated and silver fell below its legal value at the coinage ratio (as was clearly the case in 1873), the only solution would have been to follow the French lead, and immediately suspend the coinage of 5-*franc* silver pieces. In that respect, Belgium seriously failed. Under minister of finance Jules Malou, the extended coinage of the silver coins had risen to the dramatic proportions of 111,704,795 *francs*; and even after 1873, Malou was seduced into coining yet another 37,704,130 *francs* at the advantage of the Belgian treasury, which were later converted into serious losses.[35] As no indigenous commercial use for the excessive coinage could be found, Belgian coins at first flooded into France (which, as we know, had been a problem already before the establishment of the Union); but once the latter put strict limitations on its silver coinage, Belgium had to pay the full price for its uncontrolled monetary offspring. It was then that it would learn of the great disadvantages of being the underdog in an alliance. Years later, at the conference in 1885, France pressed for a provision stipulating that the other Union members were

[33] P. Kauch, *De Nationale Bank Van België, 1850-1918* (Brussels, 1950), pp. 150ff.
[34] Alfred De Foville, 'A History of the Latin Union', pp. 113-119.
[35] C.A. Conant, *The National Bank Of Belgium* (Washington, 1910), p. 170; P. Kauch, *De Nationale Bank Van België, 1850-1918* (Brussels, 1950), pp. 212-218.

responsible for redeeming the excess of 5-franc pieces they had coined and which circulated in France; the redeemed amount would have to be paid to France in gold.

If it had been effectuated, such clause would have been an enormous burden for the Union members, especially for Belgium. However, Walthère Frère-Orban, as so many times ahead of events, anticipated that the fall in the silver price was far from having reached its end and therefore advocated the immediate liquidation of the silver coins according to the French demand. The longer such action would be postponed, he reasoned, the more onerous the price would be. Already in 1873, he had therefore also urged for the convocation of the Union, and for Belgian action to move onto the gold standard. As history has it, his proposals were not taken seriously. Instead, in 1885, Belgium chose to withdraw from the conference, only to return later and negotiate a compromise agreement,[36] as matters grew worse. By then, however, the tide could not be reversed.[37] Now on the gold standard, Belgian policy makers reckoned that it would be impossible to absorb the enormous amount of 300,000,000 *francs* circulating in France, and therefore chose not to dissolve the Latin Monetary Union (which would officially be disbanded in 1927). Yet, the conference of 1878 de facto meant the funeral of bimetallism and the tragic end of Europe's first experiment with monetary unification. These were the circumstances of which Katō Wataru must have learnt when staying in Belgium.

V. Matsukata Masayoshi and the Reconstruction of the European Experience

How can we assess the impact of Matsukata's and Katō's learning of the Continental European *Question Monétaire* on the Japanese debate on metallic standards in the aftermath of the Sino-Japanese War? At first sight, such link seems rather implausible. Belgian and Japanese monetary developments represent very different types of policy preoccupations, and are furthermore separated by very different temporal, political and even geographical factors. Whatever Matsukata and Katō may have concluded from the Belgian experience during their respective stays, their

[36] See: C.A. Conant, *The National Bank Of Belgium* (Washington, 1910), pp. 171-177.

[37] Compare: 'If the counsel of M. Frère-Orban in 1885 had been followed, Belgium might have reorganized her monetary system upon a basis independent of that of France at a much smaller cost than a few years later. [...] At the average price [of silver in] 1885 the loss would have been about 20 per cent of the face value of the coins. At the average price for the year ending June 30, 1908 [...] the depreciation was nearly 60 per cent below legal parity. [...] A policy of waiting has several compensations. The growth in population and in the economic resources of the country tends to increase the demand for currency, while the lapse of time increases the extent of the slow disappearance and absorption of the excess coins. [...] In monetary matters time is usually a cure for evils whose sources have been suppressed'. C.A. Conant, *The National Bank Of Belgium* (Washington, 1910), pp. 177-179.

conclusions were unlikely to have retained their relevance twenty years later, in the context of the Japanese victory over China. Furthermore, the frequent changes of leadership, including in the fields of monetary and financial policy making, and the frequent and documented cases of dissensus and political rivalry cast further doubt as to substantive continuities. And yet, abundant references to monetary and political happenings on the European Continent in the writings of various Japanese monetary policy makers reveal an extraordinary attention to the function of foreign learning in matters of decision-making. The references to world happenings, and the role and domestic political dynamics of especially the European powers in for instance Matsukata's reports and treatises, the works of Maeda Masana 前田正名, and the diary of Takahashi Korekiyo 高橋是清 are undeniable; they hint to the existence of strong connective threads, if only with regard to ideological emulation and experiment. How is this to be reckoned with?

As the reader will remember from the introductory methodological chapter, learning and memory need not be conceptualized in terms of continuity or linearity —this would only cause a system to be overburdened by its experiences. Instead, I argued that adaptation, growth, and evolution are made possible only through dealing selectively with those experiences. Conceptualized as a mechanism in the present of systemic (i.e. political, financial etc.) practice, memory provides a ground for *re*defining, *re*negotiating, and (*re*)*constructing* 'what has been learnt'. In other words, memory and learning do not simply react to the historical realities to which they refer, but stand for the way in which systems self-referentially process the *images of their experiences* of those realities, how they interpret them and/or forget them; in still other words, they are the expression of the fact that systems create (selective) histories in order to select possible futures, and only thus to make sense of their present.

Recent literature on imperialism reinforces this view, as I also indicated in the introductory chapter. Critical of the Mannheimian view of imperialism as a clearly circumscribed path of action determined by a rationally defined set of strategical objectives and well-considered tactical means geared towards the envisaged gains, historians as David Landes, Daniel Headrick and Yoshihisa Matsusaka have arrived at the idea that imperialist conquest is rather *adaptive* or *opportunistic*.[38] Objectives, they say, are seldom determined at the outset, but are prone to change, shrink or expand in the course of conquest. The formulation of policy commonly proceeds through rationalization

[38] David S. Landes, 'Some Thoughts on the Nature of Economic Imperialism', *The Journal of Economic History*, Vol. 21, No. 4. (Dec., 1961), pp. 496-512; Daniel R. Headrick, *The Tentacles of Progress: Technology Transfer in the Age of Imperialism, 1850-1940* (New York / Oxford, 1988); idem, *The Tools of Empire: Technology and European Imperalism in the Nineteenth Century* (New York / Oxford, 1981); idem, 'The Tools of Imperialism: Technology and the Expansion of European Colonial Empires in the Nineteenth Century' *The Journal of Modern History*, Vol. 51, No. 2, (issue: Technology and War) (Jun., 1979), pp. 231-263; Yoshihisa Tak Matsusaka, *The Making of Japanese Manchuria, 1904-1932* (Cambridge / London, 2001).

after the fact of acquisition,[39] as statesmen and policy makers do not possess clear information of the territories gained and/or resources acquired. Regularly shifting domestic policy coalitions and the volatile issues of public opinion contribute to imperialist appetite either through limiting (e.g. in the public's fear of huge military losses) or feeding (as e.g. in the case of 1930's Japanese 'culture of empire') the latter.[40] So do the rise and decline of private enterprises with an imperialist interest, the mechanisms of army-navy factionalism; and not to forget the peculiar and autonomous dynamics of the semantics of 'modernization' and 'civilization'.[41] *It is obviously no mistake to extend these insights to the realities of policy-making as a whole*. Constrained by limited information flows, decision-making deadlines, coalition politics and so on, policy-makers necessarily orient themselves to short-term objectives, while their decisions and ever changing environmental factors (including public opinion) recreate the context in which further decisions can and have to be taken.[42]

One crucially important yet often neglected agent of change is *technology*, especially with regard to its potential to recast the horizons of what is possible and/or desirable. Daniel Headrick argued with reason that 'the appearance of a new technology can reinforce or trigger a motive by making the desired end possible or acceptably cheap'.[43] Apparently, technology should not be dismissed as a neutral factor, although its potential can only be brought to action if policies and policy makers pay sufficient attention to it and are willing to accommodate its consequences.[44] Matsusaka demonstrated that such interaction of technological and psychological factors was at work in the development of Japanese imperialist enterprise in Manchuria:

> 'Technological innovations could lead to new ways of exploiting territorial resources, just as the development of the railway, telegraph, and shallow-draft steamer in the first half of the nineteenth century had created the basic framework of opportunity for the grand grand expansionism of the second. [...] [In Japanese Manchuria], the railway would seem particularly important as a

[39] Obviously, Matsukata's *Report* is exemplary hereof.

[40] Louise Young, *Japan's Total Empire: Manchuria and the Culture of Wartime Imperialism* (Berkeley, 1998).

[41] On the argument of 'civilizing' Manchuria as a motivation of Japanese imperialism, compare: Matsusaka, *The Making of Japanese Manchuria*, pp. 49ff.

[42] For a good example on how domestic politics interacted with defining Japanese economic and financial position in the world economy of the late nineteenth century, see: Iokibe Kaoru 五百旗頭薫,『大隈重信と政党政治―複数政党制の起源 明治十四年-大正三年』*Ōkuma Shigenobu to seitō seiji — fukusōseitōsei no kigen meiji 14 nen- taishō 3 nen* (Ōkuma Shigenobu and party politics — the birth of the multiple party system, meiji 14 – taishō 3) (Tokyo, 2003).

[43] Daniel Headrick, 'The Tools of Imperialism', p. 234; compare furthermore: Clarence B. Davis / Kenneth E. Wilburn, Jr. / Ronald E. Robinson, *Railway Imperialism* (Westport, Conn., 1991).

[44] For an argument in favor of such 'optative' view of historiography, see David S. Landes, 'What Room for Accident in History?: Explaining Big Changes by Small Events', *The Economic History Review*, New Series, Vol. 47, No. 4. (Nov., 1994), pp. 637-656; idem, 'Some Further Thoughts on Accident in History: A Reply to Professor Crafts', *The Economic History Review*, New Series, Vol. 48, No. 3. (Aug., 1995), pp. 599-601.

technological source of opportunity, [...] also in the more specific context of formulating a course of action in Manchuria. The versatility of the railway as an instrument of war, of economic development, and of territorial integration allowed for a wide range of imperial policy goals, from the modestly commercial to the more ambitiously colonial.'[45]

Imperialism thus appears as an extremely dynamic and open-ended process, in which the role of the political system[46] is about attempting to coordinate all motivations and interests, and —quite literally— reinventing imperial policy over time, while trying to keep up pace with the mercurial nature of opportunity itself.

VI. The Monetary Commission 貨幣制度調査会

Is one justified to draw similar conclusions about the impact of *financial* or, in this case, *monetary technology*? Matsukata Masayoshi was, beyond doubt, one of the major nineteenth century Japanese masters of opportunity. At the time of the Chinese war indemnity transfer, he felt the time had come for the execution of a master plan he had probably been pondering since the beginning of his career as minister of finance and which, according to Takahashi Korekiyo, directly derived from his learning of the Franco-Prussian war indemnity payment.[47] Ironically, opportunity was not so much provided by his own actions, but by then minister of finance Watanabe Kunitake 渡辺国武 in 1893. Fearing that Japanese adherence to the silver standard would not be in the Japanese economic interest, he intended to establish a 'Coinage Investigation Commission' (*kahei seido chōsakai* 貨幣制度調査会). On October 14 1893, the Japanese government promulgated the Commission's regulations.[48] According to these regulations the commission was appointed, and the first thing it did was appointing a special sub-committee which did several preliminary researches; these were reported to the commission, which consulted several times on the basis of these research results.

The commission was, as we know, composed of twenty-two members.[49] The questions the

[45] Yoshihisa Tak Matsusaka, *The Making of Japanese Manchuria,* pp. 12-13.
[46] For the sake of the argument, I omit at this point references to the role of economics, education, culture etc.
[47] Takahashi Korekiyo, p. 58; mentioned as well in: Metzler, *Lever of Empire*, p. 31.
[48] Matsukata Masayoshi, *Report*, pp. 160-161.
[49] The chairman was Viscount Tani Kanjō 谷干城; the deputy chairman was Tajiri Inajirō 田尻稲次郎, then secretary to the minister of finance; one official from the Ministry of Foreign Affairs and one of the Ministry of Trade and Agriculture; two officials from the Ministry of Finance; the governor of the *Bank of Japan*; the governor of the *Yokohama Specie Bank*; the governor of the *First National Bank*; the presidents of the *Mitsui Trading Company* and the *Mitsubishi Corporation*; two professors of the Imperial University of Tokyo, the president of Keiō University, and one

commission was to deliberate were the following:

1. What were the causes and results of the recent fluctuations in gold and silver?
2. What were the influences thereof on the Japanese economy?
3. Which metallic standard should be adopted: gold, silver, or the bimetallic standard?

The commission submitted its report in July 1896.[50] With regard to the first question, its members had been unanimous. [...] And with regard to question two, they more or less agreed that any advantages associated with the low silver prize would only be felt in the short term. Indeed, cheap silver had resulted in a large increase of Japanese exports,[51] but the committee judged the inversely proportional decrease of Japanese purchasing power (rightfully) as a threat to Japanese commerce and industry. But there was much less agreement on how to cope with these challenges. After all, the costs associated with moving onto a different standard may outdo any comparative advantage towards China and Korea; one should proceed with caution, the argument went. And yet, the commission projected a shift of the government's attitude towards monetary matters 'in the future', but it conspicuously omitted reference to any specific date.

As indicated by Tamaki, this rather ambiguous guideline was crucially colored by the

professor from the Tokyo School of Special Studies (now Waseda University), two senators, four members of the Diet, and one jornalist. See as well: Tamaki Norio, 'Economists in Parliament: The Fall of Bimetallism in Japan', in Sugiyama Chūhei & Mizuta Hiroshi, *Enlightenment and Beyond -Political Economy Comes to Japan* (Tokyo, 1988), p. 231.

[50] For the full report, see:「貨幣制度調査会報告」, in 大内兵衛・土屋喬雄編 (eds.)『明治前期財政経済史料集成』Vol. 12 (Tokyo, 1932), p. 202-23

[51] This was also realized by foreign commentators at the time. Compare:

> 'Le Japon, en abandonnant l'étalon d'argent pour l'étalon d'or, va-t-il perdre le bénéfice de cette situation dans ses rapport commerciaux avec l'Europe et les Etats-Unis? Y-renonce-t-il de gaité de cœur, dans le seul but de se mettre, en matière de monnaie comme en tout en autre, a l'unisson des grandes nations occidentales? Ce serait bien singulier, et nous pouvons présumer, avant tout examen de la question, que les hommes d'Etat de ce pays sont trop avisés pour avoir sacrifié un avantage certain, considéré par les Japonais eux-mêmes comme une des causes principales de leur prospérité, pour la vaine satisfaction d'avoir la même monnaie que les peuples qui détiennent l'hégémonie commerciale.'

[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 do 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, and if only considering that the Japanese themselves have been one of the main causes of their prosperity, that the statesmen of this country are too well informed to sacrifice a sure advantage for the vain satisfaction of possessing the same money as those peoples enjoying commercial hegemony.] M. Bourguin, 'L'Etalon d'or au Japon [the gold standard in Japan], *Revue d'économie politique* XI (1897), [pp. 703-725 (part I); pp. 816-848 (part II); pp. 899-916 (part III)], p. 836.

findings of the special committee, and especially by Matsukata's shrewd and careful manipulation of the latter (cf. infra).[52] This special committee was actually a select group of monetary specialists and academics: Sonoda Kōkichi 園田孝吉, chairman and then governor of the *Yokohama Specie Bank*, Sakatani Yoshio 阪谷芳郎, an ex-student of Tokyo university, an extremely able official, and Matsukata's right-hand man;[53] Soeda Juichi 添田寿一, who is responsible for a whole range of publications on Japanese financial issues in English;[54] Kanai Noboru 金井延, professor of political economy of Tokyo University;and Taguchi Ukichi 田口卯吉, as said the founding father of the *Tokyo Political Economy Club* (cf. supra). Later, its ranks were expanded to include Watanabe Kōki 渡辺洪基, Diet member and former president of the Imperial University of Tokyo and Masuda Takashi 益田孝, president of the Mitsui Trading Company.

Exactly at the time when the committee struggled with its reports (1894-1895), the war with China broke out, and was eventually brought to successful conclusion for Japan. In May 1895, the special committee formulated its findings, but, as already said in the introduction to this chapter, the opinions of the committee's members tended to differ drastically. As could be expected, Sakatani, Soeda and Watanabe favored the gold standard; yet, Taguchi and Kanai argued for bimetallism;[55] Sonoda, the most senior member preferred the status quo (i.e. silver); Masuda did not commit himself either way. As a result of this contention, no member, except for the outspoken and radical gold monometallist Sakatani, was a proponent of any immediate change.

This outcome clearly did not please Matsukata, who immediately tried to force a way forward. Consultations with Sonoda, a fellow Satsuma man, broke the stalemate. At the general meeting of the Commission in June 1895, Sonoda demanded a vote to decide whether a change in monetary policy should be needed in the near future. The objective was clear: Matsukata wanted to have the moderate gold monometallists and the few bimetallists in the Commission align with the radical Sakatani and as such outnumber the defendants of the status quo. It proved a well calculated move. The *Report on the Adoption of the Gold Standard in Japan* politely mentions:

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52 Tamaki Norio, 'Economists in Parliament', pp. 231 ff.
53 On Sakatani, see as well: anon.,『阪谷芳郎傳』*sakatani yoshio den* (a biography of Sakatani Yoshio) (Tokyo, 1951).
54 Soeda's publications in this respect: *A History of Banking in Japan* (Surrey, 1996) [this is a facsimile of the original 1896 edition, Volume IV of *A History of Banking in all the leading Nations*) 'Letter from Japan', *The Economic Journal*, Vol. 14, No. 55. (Sep., 1904), pp. 473-479; 'Japanese Finance', *The Economic Journal*, Vol. 20, No. 77. (Mar., 1910), pp. 122-128;
55 Taguchi's ideas were, in fact, quite advanced in this respect. As explained by Tamaki, he had probably been strongly influenced by the American economist Francis Amasa Walker, one of the first presidents of the Massachusetts Institute of Technology (MIT), president of the American Statistical Association (ASA) and the first president of the American Economic Association (AEA). He was the son of Amasa Walker, who had played an important role in the bullionist controversy; Francis Walker was a proponent of bimetallism. See, for instance: 'Shall Silver Be Demonetized', *The North American review*, Vol. 140, Issue 343 (1885): pp. 489-492.

'[E]ight members voted for the resolution advocating the need of making changes, while seven voted for maintaining the present system unchanged. Among those who advocated the necessity of making changes, six adocated the adoption of the gold standard while two advocated a bi-metallic system. Thus the majority of the commission were of opinion that there was a necessity of making changes in the present coinage system of the country, and the majority again of those who advocated the need of making changes were in favour of adopting the gold standard. It was thus clearly shown that the coinage reform and the adoption of a gold standard was the pressing necessity of the time.'[56]

VII. 'Entering the West'

Yet, what was the opportunity Matsukata created when bringing Japan upon the gold standard? According to Mark Metzler, it must be discussed as part of the grander semantical scheme of 'leaving Asia and entering the West' (脱亜入欧 *datsua nyūō*).[57] The slogan stems from an influential and famous editorial in *Jiji Shinpō* (時事新報), written by Fukuzawa Yukichi 福沢諭吉 in 1885.[58] To associate with neighboring China and Korea, he explained, would invite Westerners to view Japan as backward and Asian: 'The person who is close to bad friends cannot avoid getting a bad name.'[59] Fukuzawa's slogan became well known, and it served to encapsulate a whole set of systemic changes. First of all, it induced a sharp ideological shift.[60] Impressed by the superiority of Western weaponry, organization, policy makers figured that it would be wise to join the Western ranks, as the Japanese would not be able to beat them at their game. Japanese political classes, opinion makers, teachers etc. therefore engaged in ideological programs explaining the benefits of Western values and beliefs. At several instants, I have referred to the role of slogans aimed at mobilizing the Japanese populace. The central tenet is wellknown: only if Japan would be economically and militarily strong, if it would emerge as the 'Great-Britain' of the East, the Western powers would respect its territorial integrity and political-economic ambitions.

Second, and clearly closely related to the former, it was a fertile ground for a wave of efforts

[56] Matsukata, *Report*, p. 165.
[57] Metzler, *Lever of Empire*, p. 29-44.
[58] Fukuzawa 3/16/1885, in *Fukuzawa Yukichi zenshū* vol. 10, pp. 238–240
[59] In the original:「悪友ヲ親シム者ハ共ニ悪友ヲ免カル可ラズ。我ハ心ニ於テ亜細亜東方ノ悪友ヲ謝絶スルモノナリ」. A full-text version of the 'datsua-theory' or *datsua-ron* (脱亜論) can be found online:
http://www.jca.apc.org/kyoukasyo_saiban/datua2.html
[60] Carol Gluck, *Japan's Modern Myths; Ideology in the Late Meiji Period* (Princeton, NJ, 1985); Jean-Jacques Tschudin & Claude Hamon, *La Nation en Marche –Etudes sur le Japon impérial de Meiji* (Paris, 1999). Ian Buruma, *Inventing Japan*, 1868-1964 (New York, 2003);

to emulate Western institutions and their institutional practices.[61] Virtually no societal domain (politics, education, the law...) was unaffected by this experiment. In chapter 3, I have explained how and why Japanese financial policy makers to Belgian financial organization when establishing a modern network of banks, characterized by the versatility of activities and responsibilities in the various areas of the credit system (cf. supra). Numerous other studies have analyzed the role of foreign employees, Japanese missions abroad, and the acquisition of foreign institutional models for the rise of 'Western-style' institutions in early modern Japan.[62] *Monetarily too, Japan was ready to join the West*. By moving onto the gold standard, Japan showed the aspiration to be a recognized as a monetarily and financially prudent member of the select 'gold club' of countries dominating the international political and economic scene, and auctioning for the vast territories yet unseen to the imperialist powers. In that respect, the gold standard served as a 'guarantee of financial rectitude'.[63]

As argued by Michael Bordo and Hugh Rockoff, several nations, more or less at the periphery of the international system, preferred close, if sometimes costly,[64] adherence to gold standard rules, as it provided access to Western capital that was crucial to their development: 'faithful adherence significantly reduced the cost of loans from metropolitan Europe'.[65] Moving onto the gold standard and maintaining it meant avoiding the risks associated with gold/silver exchange rates, and, especially, the disadvantages of clinging to the increasingly inattractive silver monometallism at the end of the nineteenth century. In the *Report on the Adoption of the Gold Standard in Japan*, Matsukata (in the person of Soeda Juichi) therefore states:

'Since now [that Japan has adopted the gold standard] the capitalists of the gold standard countries

[61] Eleanor D. Westney, *Imitation and Innovation —The Transfer of Western Organizational Patterns in Meiji Japan* (Cambridge and London , 1987); Hazel J. Jones, *Live Machines: Hired Foreigners and Meiji Japan* (Tenterden, 1980).

[62] With a focus on financial and monetary institutions: Yoshino Toshihiko, 'The Creation of the Bank of Japan —Its Western Origin and Adaptation', *Developing Economies* 15 (December 1977), 381-401; Roy S. Hanashiro, *Thomas William Kinder & the Japanese Imperial Mint, 1868-1875* (Leiden-Boston-Köln, 1999); Miyajima Shigeki and Warren E. Weber, 'A Comparison of National Banks in Japan and the United States between 1872 and 1885', *Monetary and Economic Studies* (2001). Online: http://www.imes.boj.or.jp/english/publication/mes/2001/me19-1-2.pdf; Katalin Ferber, '"Run the State Like a Business": the Origin of the Deposit Fund in Meiji Japan'. *Japanese Studies* vol 22, no.2 (September 2002).

[63] Michael D. Bordo; Hugh Rockoff, 'The Gold Standard as a "Good Housekeeping Seal of Approval"', *The Journal of Economic History*, Vol. 56, No. 2, [Papers Presented at the Fifty-Fifth Annual Meeting of the Economic History Association]. (Jun., 1996), pp. 389-428; on the role of the gold standard as a symbol of modernity, see as well: Giulio M. Gallarotti, *The Anatomy of an International Monetary Regime -The Classical Gold Standard, 1880 - 1914* (New York/Oxford, 1995). pp. 143 ff.

[64] This is stressed as well by Bourguin in his evaluation of Japan's adoption of the gold standard (cf. supra); M. Bourguin, 'L'Etalon d'or au Japon'. *Revue d'économie politique* XI (1897). pp. 703-725 (part I); pp. 816-848 (part II); pp. 899-916 (part III); p. 836.

[65] Michael D. Bordo; Hugh Rockoff, 'The Gold Standard as a "Good Housekeeping Seal"', p. 390.

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, if encouraged, will doubtless bring about a closer connection between this country and the central money markets of the world.'[66]

In other words, for Japan (as for other peripheral countries), the gold standard was desirable chiefly because it opened access to the European capital markets —a quite *tangible* effect of monetary policy indeed! Later, at the beginning of the twentieth century, this would also make it considerably easier to raise loans on the London capital market when Japan was preparing to go to war with Russia.[67] *And imports from Western countries were obviously less risky, too*.

This brings us to a point that has unfortunately been neglected by analyses of the role of the gold standard in the process of modernization.[68] What did the above 'closer connection between this country and the central money markets of the world' concretely mean? Although Matsukata did not identify as such in the *Report*, it relates to especially those sectors of the economy that would be at once an instrument and an agent in the development and formulation of Japanese imperialism.[69]

[66] Matsukata Masayoshi, *Report*, p. xii.

[67] On the business of Japanese loans, see: Suzuki Toshio, *Japanese Government Loan Issues on the London Capital Market 1870-1913* (London / Atlantic Highlands, 1994); on the importance of foreign capital in consolidating the Japanese state and its imperialist ventures, see convincingly: Simon Bytheway, 日本経済と外国資本 *nihon keizai to gaikoku shihon*, 1858-1939 (the Japanese economy and foreign capital, 1858-1939) (Tokyo, 2005).

[68] The debate concerns the question whether the gold standard or rather mere sound financial practice (especially the debt burden) mattered to international financial markets for determining market access. Authors arguing for the importance of the choice of exchange rate regime (the gold standard): Bordo / Rockoff, 'The Gold Standard as a "Good Housekeeping Seal"'; Nathan Sussman and Yishay Yafeh. 'Institutions, Reforms, and Country Risk: Lessons from Japanese Government Debt in the Meiji Era.' *Journal of Economic History* 60 (June 2000): pp. 442-67; Maurice Obstfeld and Alan M. Taylor, 'Sovereign Risk, Credibility and the Gold Standard: 1870-1913 versus 1925-31.' *Economic Journal* (April 2003): 241-75. For a compelling argument gainst the importance of exchange rate regimes: Marc Flandreau and Fréderic Zumer, *The Making of Global Finance, 1880-1913* (Paris, 2004). For an overview of the debate: Hugh Rockoff, 'Review of Marc Flandreau and Frederic Zumer *The Making of Global Finance, 1880-1913*' Economic History Services, Feb 1, 2005, URL : http://eh.net/bookreviews/library/0895.shtml . Interestingly, my analysis reveals that both viewpoints need not be taken as antagonistic as often presented: exchange rate regimes did not matter *per se*, but —at least in the Japanese case— came to bear on the issue of (technology) imports, in turn associated with political economic preferences of industrial growth and, in the end, choices of political development.

[69] Matsukata thus once more endorses his position in an earlier debate about the direction of Japanese economic growth. Maeda Masana's「工業意見」*kōgyō iken* (on manufacturing) had argued for the establishment of a bank concerned with the development of Japan's agriculture; Matsukata, a convinved industrialist had passages on agricultural growth removed, and would eventually put an end to Maeda's political career as well. For an overview of the debate, see: Sydney Crawcour, 'Kogyo Iken: Maeda Masana and His View of Meiji Economic Development', *Journal of Japanese Studies* 23:1 (1997), pp. 69-104.

After all, its commitment to become a member of the modern world society of the late nineteenth century implied a thorough absorption of Western technologies to be appropriated (and eventually 'indigenized' (*kokusanka* 国産化)[70]), but which were not available or known to the Japanese at the time of their decision to be part of the West —they would have to be imported at a serious price.[71] Railroad technology, later at the core of strategy and tactics in the occupation of Manchuria, was first zealously imported from Great-Britain.[72] But much more important items of expenditure were the army and the navy, and especially costs associated with naval technology.[73] Not accidentally, Matsukata had already urged then Minister of War Ōyama Iwao 大山巌 in 1887 to use caution when ordering munitions from Western countries, because of the ever declining value of silver.[74]

In acquiring a modern army and navy, the role of gold standard Great-Britain was particularly important. Ever since the fall of the *bakufu*, Japan's dependence on, for instance, British

[70] Or, in the parlance of the time, they would be used as part of the strategy of 'weapons independence' (*gunki dokuritsu* 軍器独立). Mentioned in: Nagura Bunji 奈倉 文二 / Yokoi Katsuhiko 横井 勝彦 / Onozuka Tomoji 小野塚, 知二,『日英兵器産業とジーメンス事件』*nichi-ei heiki sangyō to ji-mensu jiken* (Anglo-Japanese arms production and the Siemens-incident) (Tokyo, 2003). p. 4ff. On *kokusanka* and the formidable role of Japanese 'technonationalism' (the ideology stressing the beneficial aspects of all technology, be it military or civilian, for growth and modernization), see: Richard Samuels, *"Rich Nation, Strong Army"; National Security and the Technological Transformation of Japan* (Ithaca and London, 1994).

[71] Therefore, throughout the period of maintaining a silver standard,

> 'la cherté des produits européens et américains, aggravée au Japon par la baisse du change, ne peut empêcher que les Japonais s'adresser aux pays à étalon d'or pour se procurer les marchandises nécessaires au développement de leur industrie, car ils ne peuvent les trouver chez eux'.

(the high price of European and American products, exacerbated by the deterioration of , cannot withhold the Japanese from turning to the countries on the gold standard for buying those products necessary for the development of their industry, as they cannot find [those products] domestically) See: M. Bourguin, 'L'Etalon d'or au Japon', p. 825ff.

[72] Steven J. Ericson, 'Importing Locomotives in Meiji Japan: International Business and Technology Transfer in the Railroad Industry', *Osiris*, 2nd Series, Vol. 13, special issue: "Beyond Joseph Needham: Science, Technology, and Medicine in East and Southeast Asia". (1998), pp. 129-153.

[73] Yamamura Kozo's account is particularly fascinating: Kozo Yamamura, 'Success Illgotten? The Role of Meiji Militarism in Japan's Technological Progress', *Journal of Economic History*, Vol. 37, No. 1 (special issue: The Tasks of Economic History) (March, 1977), pp. 113-135. See, for an English account of Japanese arms production and its effect on the Japanese economy: Kobayashi Uchisaburo, *Military Industries of Japan* (New York, 1922). For the role of war and armament expenditures in the Japanese economy and gross national product: Ono Giichi, *War and Armament Expenditures of Japan* (Oxford, 1922). Ono estimates the share of armament expenditures in total state expenditures for the period from 1894 (the outbreak of the Sino Japanese War) until 1913 as constantly around 30%, with record shares of 50% and more (!) in the period immediately after 1896. See: Ono Giichi, *War and Armament Expenditures*, pp. 302-303.

[74] Matsukata Masayoshi, *Tokyo Keizai zasshi* 東京経済雑誌 1887, May 7; also mentioned in: Norio Tamaki, *Japanese Banking: A History, 1859-1959* (Cambridge, 1995), p. 83; idem, Tamaki Norio, 'Economists in Parliament', p. 229.

naval technology was substantial, both for acquiring state-of-the-art equipment through direct imports as for enhancing Japan's technology knowledge base, i.e. through experimenting with production modes, maintenance and so on —these mechanisms always went hand in hand.[75] Important for our discussion, Matsukata's remarks were formulated slightly before the period when preparations for the Sino-Japanese War, and later the Russo-Japanese War resulted into sharply rising budgets for military build-up and readiness; domestic production was unable to meet the large demand, so even more reliance had to be placed on imported steel and military technology.[76] In the same period, furthermore, *Japanese dependence on British arms producers was particularly substantial*. Although Japanese shipbuilders had been able to more or less dominate naval production around 1880, the advent of the steamship as the symbol of modern navy and as the engine behind the development of a wholly new kind of strategies and battles forced Japanese military policy once more into what they deemed to be an undesirable large-scale reliance on and collaboration with major English civilian arms producers as Vickers, Armstrong, and Nobel. According to Nagura, Yokoi and Onozuka,[77] the share of British makers in the production of Japanese naval technology in the period between 1880 and 1900 was almost fifty per cent (!), dwarfing the role of the Japanese domestic industry to somewhat of a mere subcontractor (18.7 % in 1890) —whereby the foreign wave of innovation must be regarded as a vector the value of which can impossibly be expressed in numbers and percentages.[78]

As the reader will remember, we encountered similar arguments about the role of trade partners when discussing continental European accounts of preference for monetary standards after

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[75] Nagura Bunji / Yokoi Katsuhiko / Onozuka Tomoji, *nichi-ei heiki sangyō to ji-mensu jiken,* p. 17.
[76] On the role of steel and iron imports in this early period of Japanese militarism, see, convincingly: Kojima Seiichi 小島精一,『日本鉄鋼史・明治篇』*nihon tekkō shi-meiji hen* (A history of Iron and Steel in Japan -the Meiji volume) (Tokyo, 1945), esp. pp. 189ff., where he quotes a speech by then prime minister Matsukata Masayoshi, directly addressing the cost of relying on imports and Japan's ambition for industrial independence:

> 'To meet the needs of our national defense, the army urgently requires more weapons, better explosives, and the construction of batteries, and the navy is in dire need of warships. Howevere, as of this time, we heavily depend on imported iron and steel in producing weapons and ships. This is not only extremely costly, but also exposes us to the high risk of not being able to obtain the required [iron and steel] in the event of national emergence.'

Kojima, *nihon tekkō shi*, p. 189; English translation taken from Kozo Yamamura, 'Success Illgotten?', p. 126.
[77] Nagura Bunji / Yokoi Katsuhiko / Onozuka Tomoji, *nichi-ei heiki sangyō to ji-mensu jiken,* p. 19, table 1-1.
[78] Nagura Bunji / Yokoi Katsuhiko / Onozuka Tomoji, *nichi-ei heiki sangyō to ji-mensu jiken,* p. 19. For a broader discussion on the role of foreign technology in Japan's quest for technology independence, see: Suzuki Jun 鈴木淳,『明治の機械工業・その生成と展開』*meiji no kikai kōgyō —sono seisei to tenkai* (Machinery production in the Meiji period —its origins and development) (Tokyo, 1998).

1873. For the merchant class, as said, there existed no arguments in favor of any intrinsic good of a certain monetary standard; what prevailed was the concern about the facilities of exchange when dealing with foreign merchants. For the pragmatic Matsukata, the monetary problem may have been basically identical, although he probably also realized the political consequences this entailed. The lessons of the Continental European nationalisms were thus encountered in a completely different geographical setting at a completely different historical time: monetary choices as an expression for one's geopolitical positioning, economic destiny, and technological orientation.[79]

[79] For a modern and provocative example of the political meaning of monetary matters, see: Mark Metzler, 'The Road to the Dollar Standard -Monetary Hegemony and Japan's Place in the International Order', In: *The Japanese Economy* 30-3 (June 2002): 46-81.