

**Research Unit for Statistical
and Empirical Analysis in Social Sciences (Hi-Stat)**

**The Economic History of
the Restoration Period, 1853-1885**

Osamu Saito

January 2011

The Economic History of the Restoration Period, 1853-1885

Osamu Saito
Professor Emeritus
Hitotsubashi University

E-mail: O-Saito@ier.hit-u.ac.jp

Manuscript for Volume 2 of the *Economic History of Japan*
Oxford University Press

Abstract

This paper overviews the economic history of the period between 1853, the year when Commodore Perry's 'black ships' arrived at Shimoda, and 1885, the year that marked the end of the so-called Matsukata recession period. The chapter will trace economic, political and regime changes during this transitional period in the first four sections. After having explored the question of continuity and discontinuity, I will have a critical look at what the oft-quoted slogan of the new Meiji government, 'rich nation, strong army', meant. The penultimate section discusses the issue of whether or not early Meiji Japan was a developmental, plan-rational state by taking a close look at actual policy changes in the 1870s and 80s. The last section draws implications for the changing constellations in political economy after 1885.

The Economic History of the Restoration Period, 1853-1885*

By Osamu Saito

1. 1853: Japan under pressure
2. The entry into world trade
3. The economy 1859-1885
4. The Meiji reforms
5. Carry-overs from the Tokugawa past
6. Early Meiji Japan: a developmental state?
7. 1885: looking ahead

1. 1853: Japan under pressure

The prelude to the Meiji Restoration was the forced opening of ports to international trade in 1859, which was in fact an end-product of the cumulative effects of a foreign threat experienced from the late eighteenth century. The century-long seclusion policy was under pressure for much of the latter half of the Tokugawa rule. In 1793 an order to fire on foreign vessels was issued for the first time, and the Morrison incident in 1837 was the precursor to the regular appearance off the Japanese coast of Western vessels, and finally of Commodore Perry's 'black ships' in 1853.

All this forced government officials at various levels to busy themselves working out plans to counter the threat. None of the measures actually taken was satisfactory, however. Nor were they cost free. The deployment of cannon on the coast, for example, was not easy, given Tokugawa technological standards, and was expensive to both central and domainal government administrations. When Commodore Perry's squadron of four ships arrived in Uraga, at the southern end of Edo Bay, it was equipped with high-powered shell guns. Confronting them were 99 cannon on a fort constructed off the shore by the shogunal government. A majority of the 99, however, were much shorter

* This chapter is essentially an amalgam of Shunsaku Nishikawa and Osamu Saito's paper of a similar title (Nishikawa and Saito 1985) with Mataji Umemura and Yuzo Yamamoto's introduction to Volume 3 of the Iwanami series (Umemura and Yamamoto 1989b). However, a good deal of the selection, addition and revision was made on the basis of works published after 1985, including the political historian Junji Banno's chapter in the above Iwanami volume (Banno 1989). Louis Cullen, Penny Franck and Yasukichi Yasuba offered valuable comments and suggestions on earlier versions of the manuscript, for which I am most grateful.

mortar guns. This fort was one of 600 that had been built along the country's coastline since the turn of the century. The earlier ones were mere earthen mounds with wooden cannon. But those constructed by the shogunate and by powerful domains such as Choshu, Mito, Saga and Satsuma must have been somewhat upgraded ones. These domains as well as the shogunate also set up military schools to train troops, inviting teachers who were familiar with Western weaponry, which in turn led to the establishment of iron production and Western-style shipbuilding. The first Western-style sailing boat planned by the shogunal government was built at Uraga in 1854 and the first Japanese steamship, a paddle steamer built in the Netherlands, was launched at Nagasaki in 1855; the same year, a naval training programme was set up under Dutch instructors; and an even more ambitious plan to built a shipyard at Yokosuka was put into action. On the domain side, Satsuma was first to build a Western-style ship, and Mito and Saga followed. All this, however, meant an ever-growing financial burden on the shogunate as well as on domainal governments (Beasley 1989: 261-71; Cullen 2003: chs.5-6).

The impact of rearmament on the treasuries of the shogunate and the domains was unprecedented. First, apart from the obvious consequence of increasing deficits, the weakness of Tokugawa Japan's whole revenue system was exposed. A cursory look at other early modern states in Eurasia reveals that the Tokugawa system relied far more heavily on direct taxation in the form of rice tax, leaving little room for indirect taxation. It is true that within the closed realm interregional trade had developed considerably, and that domainal governments were showing increasing interest in trade and industry; as explored in volume 1 of this series (Nishikawa and Amano 2004), some established domainal 'monopsonies' in order to seize opportunities arising in the expanding countrywide market nexus. However, no excise duties were levied by the shogunate. Nor was any attempt made by the domainal governments to levy tariffs on incoming and outgoing commodities. As a consequence, according to an invaluable estimate of the input-output table made for Choshu's economy in the 1840s, as much as 97 per cent of the domainal government's revenue came from the agricultural sector. Despite its flourishing proto-industries such as cotton textiles, wax making and salt manufacturing, only 3 per cent of the revenue accrued from these and other non-agricultural pursuits (Nishikawa 1987: 325).

Second, the need to find non-conventional sources of additional income became pressing. Sporadic attempts were made to squeeze money out of wealthy merchants' coffers by both central and local authorities. On the shogunate side, there was a tendency to shift some of the defence burdens onto daimyo administrations, successfully at least until 1853, which thus prevented the shogunate's fiscal position from worsening. However, more effective was currency debasement. Successive debasements since 1818 provided a huge amount of extra income to the treasury while triggering modest to high,

if not hyper, rates of price increase. In the local domainal economy, as we will see a little more closely in section 5 below, this option of increasing the money supply in the form of paper money had long been pursued. The lesson learnt eventually by the domains was, not surprisingly, that an adequate currency reserve had to be maintained if the value of notes issued was to be kept at an acceptable level. Moreover, some daimyo authorities came to realise that, if increases in the money supply were coupled with a policy of promoting domestic industry and commerce, they were less likely to result in financial chaos. Partly because time was too short for the shogunal officials to absorb these lessons, but also because the issue of legal tender was monopolised by the shogunate, habitual resort was made to debasement. It is no surprise, therefore, that the huge cost of rearmament after 1853 was financed largely by profits from the Man'en debasement of 1860 (Yamamoto in this volume).

Third, Western studies gained weight. Since the early eighteenth century Dutch learning had already, though gradually, been taking root in Tokugawa intellectual circles. But it was medical science and, to a lesser extent, astronomy that Dutch learning actually meant. The necessity to learn more about Western weaponry and warships turned the authorities' attention from tradition Confucian learning to more practical, technical studies, which eventually led some of intellectuals to the realisation that behind the West's military superiority lay industrialisation. Having learned the Dutch language and Western military science, they were convinced that Western-style shipbuilding and arms industries should be transplanted from the West. As men brought up in the neo-Confucian tradition, most of the samurai held a traditional view of polity and society. But their stance led many to realise the importance of Western technology and its material base.

Fourth, the process of contacts and negotiations with foreign countries gave rise to a kind of nationalism. This was not so much of ultranationalist or nativist doctrines, but of a newly emerging orientation towards 'one nation'. Over the centuries since ancient times, Japanese discussions of state governance had been confined within the classical Chinese framework of 'feudal' (*hōken*) vs 'central' (*gunken*, literally a hierarchy of administrative districts and prefectures). The Tokugawa system was regarded as one kind of *hōken* rule. Confronted with Western superpowers, this Tokugawa *hōken* system came to be seriously questioned. It was argued that the lack of a unified sovereign state lay behind all the domestic confusion in the negotiation process of the treaties with the West. Thus, the polity (*kōgi*) came up as a central agenda in the discussions of diplomatic issues (Mitani 2006: 113). Even daimyos who were not in the inner circle of the shogunate government now openly discussed thorny diplomatic issues in relation to the *kōgi*. For example, a reformist group of daimyos, led by Matsudaira Shungaku of Fukui, a Tokugawa related house, but including eminent 'outside' daimyos as well, talked about a reform of the existing *kōgi*. The need for a unified nation grew.

All this paved the way to the consensus that '*fukoku kyōhei*' (rich nation, strong army) should be achieved under government leadership. At this stage, the 'government' meant each daimyo government as the abolition of daimyo domains was never in sight. However, we will see the new Meiji unified nation launching development programmes under the same slogan.

2. The entry into world trade

One immediate economic consequence of the opening of the country in 1859 was a substantial outflow of gold coins. The commercial treaties with the West included a clause setting exchange rates between Japanese and foreign currencies on the basis of weight for weight. The standard currency circulating in that period had an intrinsic value different from its face value, while for the Mexican dollar, widely used in the Far East, both were virtually equal. Since the gold-to-silver ratio was about 1 to 5 within the country as against 1 to 15 outside Japan, the Mexican dollar was exchanged for Japanese gold coins by Western merchants, who could pocket large profits by selling the gold at the world ratio abroad. This inevitably led to a 'gold rush' in the treaty ports.

In order to counter this crisis, the shogunate re-minted old coins to bring Japanese coinage into line with international gold-to-silver ratios. It was this 1860 debasement which enabled the government to stop the outflow of gold coins, on the one hand, and, as noted above, to finance further programmes of rearmament, on the other.¹ The cost to the Japanese was inflation. In the traditionally gold-using regions the price rise was five-fold from the time of the opening of the ports to the year 1869, but if measured in silver, the increase was as high as ten-fold (see Figure 1).

Undoubtedly the price hike fuelled the social and political troubles of the day. The number of peasant uprisings and urban riots involving property destruction increased during the 1860s, at least in part as a result of such disruptive price rises. However, there

¹ By the time the treaties with the West were concluded, silver currency by weight had ceased to circulate. Instead, it was coins made of silver but denominated in a gold unit that were in circulation. Of these silver coins, the *ichibu-gin* was the most widely used. This is why the *ichibu-gin* was targeted for the exchange with the Mexican dollar on the basis of weight for weight. The initial measure taken by the Tokugawa government was, rightly, to devalue silver against gold. In 1859 the shogunate issued a new silver coin (called the *Ansei nishu-gin*). However, this move was blocked by the foreign representatives. In February 1860, the shogunate had to announce the re-minting of the existing gold coins, bringing Japanese coinage into line with world gold-to-silver ratios. This February 1860 measure did check the export of gold, with no profit to the shogunate treasury. It was the large-scale debasement of those gold coins undertaken four months later that fuelled inflation and brought about a huge profit to the government (Ohkura and Shimbo 1978: 111-7; Yamamoto in this volume).

was another aspect to this ‘price revolution’. Once the intrinsic values of the Japanese currencies were adjusted to world ratios, the entry into international trade meant that domestic prices, which had been insulated from world market trends for so long, had to be adjusted to world price levels. The decade of inflation in Japan reflected that process of price adjustment. For commodities confronting an influx of imports, a price rise meant the weakening of their competitive power in the market. On the other hand, Japan’s exportable goods sold at attractive prices overseas. Given the magnitude of the price change, the impact, be it positive or negative, on industry and commerce must have been profound (Ohkura and Shimbo 1978). The differential impact of this price change can best be inferred from the movement in the export price series relative to the price series for commodities competing with imports. As shown in Figure 2, the level of the relative price index in the 1860s and later was about 30 per cent higher than the level in the 1830s through the early 1850s. The swiftness of the shift is worth noting.

The balance of payments was not particularly adversely affected for the first years after the opening of the treaty ports. However, as foreign trade grew, the country suffered a persistent import surplus until World War I (Sugiyama in this volume). The import-related price series used for Figure 2 is a weighted average of prices for ginned cotton, cotton yarn, cotton textiles, seed oil and sugar. A glance at earlier trade statistics shows that imports of cotton yarn and of cotton and woollen goods were three-fifths of the total, while other major imports were sugar and weaponry. Much of the competitive pressure from imports, therefore, is reflected in this series. Among imports, cotton goods were most disruptive in their impact. On the other hand, the export series consists only of raw silk and silk fabrics. Although silk cloth did not appear on the list of exports in the early statistics, raw silk and silkworm eggs accounted for about three-fourths of total exports. Raw silk remained by far the most important export for the entire Meiji period. It should be remembered that silk had been imported from China before the Tokugawa shogunate closed the country. Silk was a product of Tokugawa Japan’s century-long process of substitution of domestic products for imports. Had this import-substitution not taken place under the ‘seclusion’ regime, Meiji Japan’s trade deficits would have been prohibitively large. Besides silk and silk-related goods, tea, rice and coal occupied a non-negligible place in the export statistics. Of the three, tea reduced its share over time while rice and coal increased their share, at least until the end of the century.

Three additional points can be made in relation to the nature of the commercial treaties concluded with the West. The first is that *laissez faire* was imposed by the treaties. Import duties were fixed at the low rate of 5 per cent *ad valorem* for most commodities coming into Japan, such as textiles, steam engines and minerals. Just as Tokugawa daimyo governments had been unable to raise revenue through levying ‘tariffs’ on incoming goods, the Meiji government was ‘robbed’ of a means to increase revenue and,

more importantly, to take control of its macro economy. Second, judicial autonomy was also ‘stolen’. Western traders in foreign settlements in the treaty ports had the benefits of extraterritoriality. All these arrangements, modelled on the Chinese treaty port system, were thus referred to as ‘unequal treaties’ and a revision of the treaties with the Western nations became an obsession of later governments. Present-day scholars too tend to think that the treaty port system worked only in favour of the Western countries. However, Shinya Sugiyama questions this conventional view, suggesting that it ‘acted as a non-tariff barrier to economic penetration by the industrialized West and protected the domestic market from Western manipulation’ (Sugiyama 1988: 75. For details, see Sugiyama in this volume). Whether or not distribution was under the total control of Japanese merchants is debatable. Whichever the interpretation, however, it is certain that the system discouraged foreign direct investment in Japanese distribution and industry and that the domestic market remained largely unscathed by Western commercial interests. Third, the fact that Japan entered world trade under the Western impact does not necessarily imply that Japanese traders’ chief competitors were Western merchants. It is true that Lancashire-made cotton goods such as grey shirtings occupied a central place in Japan’s imports, but a substantial portion of such cotton imports were actually re-exports from Shanghai in the hands of Chinese merchants. Later, moreover, Indian-made cotton yarn became the major competitor of Japan’s cotton industry in the Asian market. Much of the impact of the entry into world trade, therefore, took the form of competition with Asian merchants and producers (see for example Furuta 2005).

3. The economy 1859-1885

As noted above, the restoration period was a time of inflation. But at the same time, it was a period of growth. The domestic economy grew *in real terms* despite the very sharp price increase. This owed much to export-led increases of production in rural areas, especially silk-producing and, to a lesser extent, tea-growing areas. In fact, these two commodities made up well over 50 per cent of the total exports even after the 1860s. This inflationary growth did not go on uninterrupted. It was terminated by the so-called Matsukata deflation, an austerity policy taken by the then finance minister Matsukata Masayoshi and the resulting fall in prices in the early 1880s. Until then, however, the period saw the macro economy growing, if not in a sustained manner.

When did this growth start? Did it begin after the treaty ports were opened, or some time before 1859? According to recent scholarship, the growth of the domestic economy seems to have started in the 1820s and 30s, well before the country entered world trade. One piece of evidence comes from price history. Having estimated price series for Osaka and Kyoto, Hiroshi Shimbo found an unmistakable increase in the price

level from the 1820s and argued that the country had entered a phase with a long-term price rise which carried on into the Meiji era (Shimbo 1978; Shimbo and Saito 2004). The price rise was occasioned by the Tokugawa government's 1818-20 debasement. The point of his argument is that the increased money supply must have had an impact similar to that of Keynesian fiscal policy, because much of the enormous increment of money newly minted took place by means of increases in both the household and government expenditure of the shogunate.

Although Shimbo gave no direct evidence concerning whether or not the economy actually grew after the 1820s, this issue was taken up by Mataji Umemura. His argument is that the inflation process enabled entrepreneurs to make a profit because the movement of money wages was more or less stationary until the 1850s. What was taking place was therefore profit inflation and Umemura provides some evidence that the profits thus accumulated were used for capital formation. First, there are clear indications that agricultural investments increased from the late Tokugawa period. The number of civil engineering works in embankments, irrigation and other forms of river improvement rose in the first half of the nineteenth century, all of which increased either the arable area or the quality of existing farmland. Most of these public works, moreover, took place in the underdeveloped, eastern regions of the country (Umemura 1981).

A second piece of evidence is concerned with shipping along the Japan Sea coast. Umemura finds that the number of arrivals at two ports, for which data are available, increased in the same period, and that the distribution of ships entering these ports changed. In the eighteenth century a majority of the owners of these ships came from in the core regions, i.e. the Inland Sea and Osaka areas, while in the nineteenth the proportion of those from the Japan Sea areas rose substantially. This is interpreted as indicating both that trade grew in regions which had so far been relatively backward, and that investment in shipping increased in those regions. The development of transport, whether coastal or overland, was important in other respects. It meant, for example, that more commercialised fertilisers were available, which in turn resulted in improvements in farming. It also facilitated the supply of raw materials to local industry and the marketing of its products. Indeed, both these trends seem to have occurred in one province on the Japan Sea side, i.e. Etchu (present-day Toyama prefecture). Growth in the early nineteenth-century was *rural*-centred.

No doubt there must have been considerable regional differences in the pace of growth. Generally the western half of the country was wealthier than the eastern half. For example, Choshu, the western-most domain of Honshu island, was probably well advanced in both market growth and rural industrialisation at the turn of the eighteenth century. However, there is no evidence of increase in the per capita output of non-service products between the 1840s and 1874. The share of the non-agricultural sector,

furthermore, remained unchanged over the same period (Nishikawa 1987: 335-6). If Choshu was representative of all the western provinces, then it is likely that while the west showed little growth, there occurred a substantial expansion of production in central and eastern regions of the country, thus narrowing the gap between the regions. Indeed, all the evidence put forward by Umemura is consistent with this regional picture.

This contrast between the regions merits special attention, for it was in the central and eastern regions that silk goods, Japan's major export category, had long been produced. Growth potential, however low the initial level of per capita output had been, was being accumulated there. Indeed, Umemura quotes figures showing an impressive improvement in breeding techniques of silkworms in an area of the north-eastern region (Umemura 1981: 27-9). In another silk-producing district, Suwa, too an upturn in output was unmistakable in the 1820s and this would eventually secure for this central Japan district the undisputed supremacy in the silk trade of the Meiji period.

Economic growth in the restoration period was export-led, but it represented neither an abrupt change, nor a passive response to an external event. The country's entry into world trade stimulated the areas where growth was about to take place or had already been taking place. It is true that the commencement of foreign trade had a disruptive effect on cotton-producing areas, which were found mostly in the western half of the country. Japanese cotton and cotton yarn could not compete in the world market. Domestic producers were hit hard when British-made cotton goods flowed into the country. As a consequence, cotton spinning, once a rural handicraft trade, had to be re-established as a factory industry in the 1880s. Cotton weaving, on the other hand, was able to survive the competition, mostly by switching from hand-spun yarn to imported, and later domestic, factory-made yarn. On balance, therefore, it is safe to conclude that Japan's rural economy gained from the entry into world trade although how large such a gain might have been is still debatable (see Huber 1971; Crawcour 1989: 603-5). Export-led growth in the restoration period was rural-centred, and in this we see much continuity from the Tokugawa period.

4. The Meiji reforms

In practical terms, the Meiji Restoration meant the establishment of central government with the emperor 'restored' as effective sovereign. However, all the political, diplomatic and financial forces that led to the collapse of Tokugawa rule necessitated the commencement of a series of institutional as well as constitutional reforms. Reform programmes were carried out along the lines of centralisation and Westernisation. Centralisation was thought necessary because the old shogunate-domain structure no longer enabled Japan to survive in a world of competitive, sometimes confrontational

relations. In order to survive, it was generally agreed, the country had to become a ‘rich nation’ with a ‘strong army’. For most of the new Meiji leaders, it was the West that provided models for the newborn nation. Inevitably, ‘civilisation and enlightenment’ (*bunmei kaika*) became another slogan.

Thus, in 1871 the approximately 300 domains were replaced with a relatively small number of prefectures and the former daimyos’ rights to rule were taken away. With the abolition of the domains, the common people received the freedom to move and were, as the Charter Oath of 1868 promised, ‘permitted to pursue their respective callings’. The Tokugawa three-moneies system was united.² In 1869 silver was abandoned altogether as the unit of account, and the *ryō* (renamed *yen* in 1871) became the standard of value. As regards taxation, the land tax reform of 1873 was a significant achievement. The rice tax was replaced with a fixed tax payable in money. To this end a countrywide survey was carried out to establish the ownership and value of every piece of land. The government removed the ban on the sale, purchase and mortgage of land and issued title deeds recognising private ownership of the land surveyed. With this reform, therefore, modern property rights were established while the government was provided with a unified, centralised tax system.

Keen interest in the West can be traced back to the Tokugawa period, but a significant move was taken by the new government when, in 1871, a delegation led by Prince Iwakura was sent to the United States and Europe. Conceived originally as an attempt to revise the ‘unequal treaties’ with the West, Iwakura and his vice-ambassadors’ visit to the West turned out, in retrospect, to be one of the most significant learning missions that modern Japan undertook. Its one-and-a-half-year tour exposed the able leaders in the government to the wealth of Western civilised nations. They were dazzled by the affluence that the people of the West enjoyed. Some of them already had knowledge of how advanced Western science and technology were, but regardless of their degree of familiarity, all were stunned to realise in how many aspects Japan lagged behind the Western countries. The British representative in Japan, Sir Harry Parkes, who accompanied the mission on its tour of Lancashire, Britain’s industrial heartland, told the visitors that ‘as far as Japan’s future traffic with the world and the promotion of new enterprise is concerned, this is the single most significant tour of inspection you are likely to have’ (quoted in Nish 1998: 44). Iwakura and the other ambassadors realised how significant the visit was. Moreover, they understood how technology, industrialism and prosperity had been interrelated in Britain’s progress since the industrial revolution at the

² Under Tokugawa rule, three moneies were used. Eastern Japan was gold-using while silver currency was the standard of value in the western half. Copper cash, on the other hand, was circulated as petty coinage in both regions. For a concise account of the monetary system, see Crowcour and Yamamura (1970): 490-3.

turn of the century.

As a result of this and other learning experiences, virtually all the reform efforts the new government made were along Western lines. The package imported from the West included not only tangible things such as Western-style weaponry, brick-built banks and factories, steam ships and locomotives, but also legal, political, economic and educational systems and institutions. On the economic side, therefore, this package included all the important ingredients of industrialisation, i.e. its economic institutions such as banking, insurance, the joint-stock company and communications systems, on the one hand, and its productive base, ‘iron and coal’, on the other.

5. Carry-overs from the Tokugawa past

In order to carry out reforms and programmes to Westernise and industrialise the country, however, the new Meiji government faced a number of difficulties. In the process of dealing with the difficulties, however, it may well be that the ways in which government leaders recognised problems, analysed situations and proposed plans were not particularly new. Age-old patterns of thinking and response are likely to have been revealed in the policy-making and institution-building processes. We may single out two problem areas in which the Meiji government encountered particular difficulties in the early Meiji years. Leaving aside the question of establishing a stable fiscal basis, the new government’s economic strategy ultimately hinged on the control of the money supply and the determination of industrial policy. And it was in these two areas that we see carry-overs from the past.

The money supply under the Tokugawa system had been controlled by both central and local authorities. Gold and silver coins were under direct control of the shogunate, while each daimyo’s domainal government was allowed to issue its own notes for circulation within the domain. At the end of the Tokugawa period the number of domainal governments issuing paper money grew. Not all of them were successful, but it should be stressed that many domainal governments were able to sustain their note prices at reasonable levels, and that some of the governments which had experienced monetary crises did recover and rehabilitate their money supplies. Know-how concerning how concerning the management of a ‘paper-money economy’ was indeed one of the important legacies of the Tokugawa period.

Paper money was issued by the new Meiji central government too. In this regard, it is useful to consider a pamphlet on currency that Fukuzawa Yukichi, a Meiji enlightenment leader, published in 1878 (*Fukuzawa zenshū* 1958-71: IV, 537-66). The pamphlet was written in support of the then finance minister Ōkuma Shigenobu’s policy stance on the supply of paper money. From 1877 on, the amount of money increased

rapidly, because of the large issue of notes by national banks made possible by the 1876 revisions of the National Bank Regulations by Ōkuma, and also because of the government's own issue of notes to meet the huge expenditures involved in suppression of a samurai rebellion in 1877. Fukuzawa argued that printing money was not a bad policy *per se*. It could be justified if, and only if, the government exercised tight control of the amount of notes issued in relation to the demand for money by the population. He asked: 'How is it that today's economists forget about the situation in the old *han* [daimyo domain] when the domainal notes were in circulation?' In the domain where he was brought up, Nakatsu in Kyushu, said Fukuzawa, neither gold nor silver coins were in circulation; only convertible paper money was used. He set out figures for the population and the amount of paper money in circulation in Nakatsu in the 1850s, then compared by adjusting price changes the per capita stock of paper money in 1877 with the figure for the 1850s. His conclusion was that the current money supply was not yet too excessive.

Whether Fukuzawa's judgement on the situation in 1877 was correct or not does not concern us. The fact is that the disparity between silver currency and the paper notes issued by the government and national banks was widening during the 1870s, causing a substantial increase in prices just after Fukuzawa's pamphlet was published, such that prices in 1881 were 200 per cent higher than the 1877-78 level (see Figure 3 below). What is significant in his remark is the information he provides us concerning the former domains' experience in stabilising a paper-money economy. His story about the Nakatsu domain suggests that printing money was not taken as a desperate measure to make up for domain debts. Had he used assessed farm output instead of population, he might have been able to provide a better measurement. In fact, for the sample of domains for which data are available, there appears to be a close correlation between the domain's putative farm output and notes in circulation (Nishikawa 1982). Calculations of this kind suggest that by the end of the Tokugawa regime officials of many domains had acquired skills in the management of paper money.

The printing of paper money in the early Meiji period, on the other hand, has not been regarded as a success story. The orthodox interpretation was that the decentralised system of national banks ended up in a state of chaos; it was Masayoshi Matsukata who was able, as finance minister from 1881 on, to return the banking system to normal and lay a foundation for a modern monetary system by setting up a central bank. It is true that in 1880 Ōkuma, whom Matsukata replaced, admitted that the money supply had overshot the target, and that he himself had started working out a plan to redeem bank notes. However, the above account of Matsukata's achievement is significant for just the issue of who did it first. It implies that the banking system and hence the whole monetary policy of the government before Matsukata were ineffective, and especially that the

national banking system was an unsuccessful experiment.

The national banks, authorised by the 1872 regulations, were the first Western-style banking institutions. Having faced the chaotic financial situation caused by the opening of the Treaty ports and the collapse of the old domainal system, the new Meiji government sent Hirobumi Ito to the United States, who brought back a model of national banking with him. This *decentralised* American system had been implemented to supersede the even more decentralised ‘state banks’ in the United States but was still in sharp contrast to the central banking system. Although government ministers knew that it was the centralised system that had been adopted by European countries, a proposal which favoured it was rejected by a majority of the ministers. In 1879 important amendments were made by Ōkuma to the Regulations, increasing the number of national banks set up in the various localities until it exceeded the government-set limit of 150.

Why, then, was this peculiar system favoured by the Meiji leaders? To answer this question, we have to know what Ōkuma, among others, thought were the chief causes of the financial chaos of the day. In one policy document, he mentioned the twin deficits, i.e. the deficits on foreign trade and the deficits in government revenue, as the most serious difficulties that the government faced. The underlying causes for such difficulties, said Ōkuma, were inadequate transport systems and the tightness in financial markets. The latter was a consequence of many factors. The abolition of silver as the unit of account caused a good deal of confusion among financiers, especially those based in Osaka. It is said that about 40 financial houses went bankrupt, including some leading Osaka money exchangers. The land tax reform also had a negative effect on the money markets. In Tokugawa times, it was the domainal administrations that collected rice as taxes and sent it to the Osaka market. Now that taxes were to be paid in cash, cultivators had to sell rice locally while the way in which the remittance from the countryside to the state treasury was to be carried out had to be newly established. Thus, the shortage of money was serious in local economies. Ōkuma noted in a 1875 policy document that the 300 or so domainal governments of the past had themselves effectively been ‘running banking and other businesses for the people’; hence, he argued, their abolition by the new government meant the disappearance of such functions, which were indispensable for the local economy (*Ōkuma monjo* 1958-63: III, 127). Just like Nakatsu domain, Ōkuma’s home domain, Saga, had also issued notes successfully, while Fukuzawa noted in the pamphlet that ‘we had a bank in each castle town in the days of the daimyo’. Clearly Ōkuma and Fukuzawa had much in common with respect to their views of the old domains’ performance in monetary policy. In view of Nishikawa’s finding that domainal note circulation was closely correlated with their population and agricultural output, it is no surprise that when determining the prefectoral quota of the national banknote issues, Ōkuma based his calculations on each prefecture’s population and the amount of taxes

collected. In other words, he hoped that local banks, established under the National Bank Regulations, would function just as the local domainal governments had done with their supply of paper money. In other words, favouring a decentralised system of banking, he was favouring the old system in modern guise.

Ōkuma's stance on monetary policy was closely related to his approach to development policy. One of the salient features of policy-making from 1873 is that he placed his hopes on local industry and commerce, as well as on big businesses such as Mitsui and Mitsubishi, to attain the government's policy objectives. He had every reason to do so. First, as we have already seen, it was rural industries, such as the export-oriented silk industry, that were actually growing in that period. Second, the government was becoming increasingly worried about the adverse balance of foreign trade. Although exports were still increasing, imports were rising even more rapidly. Imports of consumer goods such as cotton cloth, sugar and kerosene increased. Thus the government wanted to see local industries expand, not only because they produced exportable goods, but also because imports might be replaced by products of the domestic rural sector.

If this was to be so, then how did Ōkubo and Ōkuma propose to promote rural industrial growth? One means was to build model factories equipped with brand-new Western technologies. The silk-reeling factories at Maebashi and Tomioka and the cotton mills in Aichi and Hiroshima are such examples, but from this measure alone immediate results could not be expected.

It is in this respect that Ōkuma's monetary policy had unmistakable relevance. His plan of supplying money through the national bank network to local economies was indeed intended to be a means to support the government's industrial policy. And this idea too can be traced back to the late Tokugawa period. As already hinted earlier, from about 1830 onwards many daimyos prompted domainal reforms. Well-known are those of the 1840s in the four south-western domains that later led the anti-shogunate campaign, but the number of such reforms increased sharply in the decade prior to the opening of the treaty ports. This fact is significant, for many of the leaders of the reforms proposed ideas and measures quite similar to those of the Meiji policy-makers. In other words, *fukoku* ('rich country') became the domains' goal and for the achievement of that goal, the 'encouragement of industry and trade' was thought necessary. Various domainal governments thus encouraged the production of cash crops and manufactured goods by monopolising and 'exporting' them to Osaka and other commercial centres. In so doing the domains often issued paper money which, it was hoped, would serve as the supply of capital to the producers of their 'export' goods. Ōkuma's Saga too combined note-issuing with development programmes. Better known perhaps, is the case of Fukui domain. In 1858, Mitsuoka Hachiro (renamed later Yuri Kimimasa), under the influence of Yokoi Shonan, an intellectual of the 'realist' school, took the initiative to issue notes to buy up

raw silk and other products in the domain, which were then sent to Nagasaki. Yuri called the notes *kōsan shihei* (paper money for industry promotion), and the domainal government profited by as much as 50,000 *ryō* from this operation (Mitsuoka 1926: pt 2, ch.5). Although details are not known, leading village men and wealthy merchants from the castle town were involved in the scheme. It seems that the supply of paper money through the town merchant-financiers to the silk-producing villages had an ‘open sesame’ effect. This success in Fukui helped Yuri to gain charge of finance in the new-born Meiji government in 1868. His policy of issuing some 50 million *ryō* in government notes was a failure, however, and he was replaced by Ōkuma in 1870. However, as we have seen, Ōkuma’s idea of supplying money through the national banks for local industry was not very different from Yuri’s notion of ‘paper money for industry promotion’.

6. Early Meiji Japan: a developmental state?

As early as 1962 Alexander Gerschenkron argued that the sense of backwardness acted as an important factor in the European-wide diffusion of industrialisation. The awareness of backwardness made catching-up the goal of latecomer countries. Thus, successful development by the latecomers such as Germany and Russia took a form very different from that of Britain, the first industrial nation. The state, among other actors, could play a crucial role in economic development by importing advanced technology from the advanced countries, building institutions suitable for development, and undertaking ‘hands-on’ measures to strengthen the modern industrial base (Gerschenkron 1962). In Asia too, post-war ‘developmental states’ such as Thailand and South Korea are often referred to as cases in point, while Meiji Japan is considered its historical example.

However, ‘hands-on’ measures the latecomers took varied widely from case to case. Soviet Russia’s command economy is one extreme, while industrial policy pursued by post-war developmental states is another. Chalmers Johnson argues that post-war Japan and her industrial policy administered by the Ministry of International Trade and Industry (MITI) offer archetypical illustrations for the developmental, ‘plan-rational’ state. He stresses that plan rationality should be contrasted with market rationality, which characterises the Anglo-American mode of state orientation, but also with the plan-ideological command economy of the Soviet type. Under the developmental, plan-rational regime, most of the ideas for economic development come from the state; privately owned businesses listen to the signals the government gives, i.e. subsidies and licenses, and also words of mouth given through administrative guidance by bureaucrats. Economic planning is thus made possible through these government-business relationships (Johnson 1982).

As for its historical origins, there is some ambiguity in Johnson’s remarks. It is

noted that this regime started in the 1930s, implying that during the period between 1900 and 1930 ‘an approximation of laissez faire was in vogue’ (Johnson 1982: 33). In other words, much of pre-World War II Japan was *market* rational, rather than plan rational, which is now substantiated by recent studies (Okazaki and Okuno-Fujiwara 1999; Teranishi 2005). On the other hand, he does say that ‘modern Japan began in 1868 to be plan rational and developmental’, and that even after about a decade of experimentation with state entrepreneurship, when it shifted to collaboration with the private sector, ‘Japan was and remained plan rational’ (Johnson 1982: 23). It is, therefore, interesting to examine to what extent the early Meiji state was plan rational and developmental, and whether or not it remained so after the first decade of the Meiji era.

This issue will be explored by examining the words and deeds of a key leader of the early Meiji regime, i.e. Ōkubo Toshimichi, who led the country from 1873, when he returned from the Iwakura mission’s tour of the United States and Europe, until he was assassinated in 1878. We have already seen in the previous section how, under the Ōkubo administration, Ōkuma tried to take control of the economy in the 1870s. Yet since it was Ōkubo who laid down the framework for policy-making during the crucial period of early Meiji, it is worth placing his thoughts in a broader context.

The visit to the West as a member of the Iwakura mission opened the eyes of the man who had already established himself in the inner circle of the Meiji oligarchy. In a letter he wrote from England (to Ōyama Iwao, 20/11/1872: *Ōkubo monjo* 1927-29: IV, 467-70), Ōkubo remarked that Britain was fifty years ahead of Japan, implying *not* that the gap was vast, *but* that the West was within reaching distance. Kume Kunitake, the mission’s official chronicler, shared this view: ‘It is since 1800 that Europe has attained its present wealth; and it is only in the last forty years that it has achieved the truly remarkable level of prosperity we now see’ (Kume 2002: 57). Undoubtedly there was a sense of economic backwardness among the Meiji leaders, but they believed that the frontrunners were not unreachable.

In another letter home (to Saigo Takamori and Yoshii Tomozane, 15/11/1872: *Ōkubo monjo* 1927-29: IV, 447-51), Ōkubo mentioned as extremely impressive the mills, shipyards and factories he saw on the tour of Liverpool, Manchester, Glasgow, Newcastle, Bradford, Sheffield and Birmingham. Also mentioned in the same letter is the excellence of Britain’s transport network with its roads, bridge, railways and canals linking even remote places to the commercial centres. He realised that iron and coal had transformed Britain. It is not unlikely that he believed that, if borrowed from the West, ‘iron and coal’ technology would also transform Japan into a ‘rich nation’. Interestingly, a very similar view was expressed by Fukuzawa in *Minjō isshin*, a sequel to his own book on the history of civilisation. He listed as four innovations that had changed history, steam locomotion, electric telegraph, the postal system and printing, and concluded that because mails were

delivered by steamships and the telegraph system and printing operated by means of the steam engine, ‘the underlying driving force of human society lies in steam power’ (*Fukuzawa zenshū* 1958-71: V, 6-7). It should be noted that Fukuzawa, a leading proponent of enlightenment, emphasised the role of the advance of such technology in ‘civilizing’ the nation by raising the general level of public opinion, whereas Ōkubo, being an authoritarian statesman who had also been impressed by the Iron Chancellor Bismarck’s remarks during the mission’s visit to Germany, confined his attention to its effects on material progress. Despite these differences in approach, however, the observations of both Ōkubo and Fukuzawa imply that economic development has to be achieved by means of catching-up by borrowed technology.

Let us now turn to what Ōkubo actually did after his return from Europe. First, during the year 1873 there emerged a disagreement within the government over policy towards Korea, which broadened into an assessment of the national aim, ‘rich nation, strong army’, as a whole. Ōkubo decidedly and successfully objected to an expansionist plan for a military expedition to Korea. In his famous memorial against the war proposal, he stated:

‘Our government has started to stimulate industries, but it will be several years before we obtain results. … If we now begin an unnecessary war, spend a huge amount of money, shed blood, and worsen the daily life of people, all these government works will break like a bubble and lose several decades of time’ (*Ōkubo monjo* 1927-29: V, 53-64, quoted from the translation in Lu 1997: 325).

As Junji Banno notes, by saying that the proposed war was ‘unnecessary’ and by placing an unmistakable priority on ‘stimulating industries’, he effectively showed that ‘rich nation’ and ‘strong army’ were separable as policy objectives (Banno 1989).³ Under his rule, therefore, economic development was the nation’s goal. Interestingly, this stance was endorsed eight years later by the liberal leader Fukuzawa in another influential pamphlet on ‘current affairs’ (*Jiji shōgen*) in 1880-81, at the time when the development policy was about to suffer a set-back (*Fukuzawa zenshu* 1958-71: V, 95-231).

Second, with the pro-warfare campaign quashed, Ōkubo spelt out an outline of the government’s industrial and trade policy. He declared in an 1874 document that:

‘the strength or weakness of a country is dependent on the wealth or poverty of its people, and the people’s wealth or poverty derives from the volume of available products. The industriousness of the people is a major factor in determining the volume

³ After the opening of the country, there had merged two goals shared by influential samurai leaders, the political objective of *kōgi yoron* (government by public deliberation) and the economic and military objective of *fukoku kyōhei*. In this period the former objective too was split into two separate goals: the introduction of a party cabinet government and the establishment of a constitutional monarchy (Banno and Ohno 2010).

of products available, but in the final analysis, it must be traced to the guidance and encouragement given by the government and its officials. ... We have come to a point where all the internal conflicts have ceased, and the people can now enjoy peace and can securely engage in their respective callings. This is the most opportune time for the government and its officials to adopt a protective policy which has as its goal the enhancement of people's livelihood' (*Ōkubo monjo* 1927-29: V, 561-6, quoted from the translation in Lu 1997: 320 with alterations).

Clearly he saw both 'guidance' and 'encouragement' by the government as the keys to the successful development of a latecomer nation like Meiji Japan. In this document, however, he stopped short of making specific proposals along these lines.

Third, therefore, we have to look at the actual industrial and trade policies adopted by the Ōkubo administration. Despite the publicly declared emphasis on state guidance and protective measures to stimulate the economy, it was the adverse balance of foreign trade, as well as the inability to raise revenues through indirect taxation channels, that dictated the government's policy-making. Inevitably 'increasing exports and restraining imports' became urgent policy objectives. Since 1870, the Department of Industry had been responsible for the promotion of industry. Through this department, a substantial amount of money was sunk in large-scale projects. About a half of the department's total investments went to the construction of railways and a third to mining. The former was in line with Ōkubo's emphasis on transport infrastructure while the latter, especially investments in coal mines, were not inconsistent with the government's concern with the balance of payments because coal was an export good of the day.

However, Ōkubo did not want to take such a narrowly based approach to development. Thus, the Department of Industry's expenditure on railway construction was drastically cut back from 1875 onwards. The newly established Home Ministry, of which Ōkubo himself held the portfolio, was given charge of broader areas in development policy, ranging from the merchant marine to agriculture and handicrafts. A look at the May 1875 ordinance establishing the ministry makes it clear that Ōkubo's hopes rested heavily on the development of local industries as export producers as well as on that of big businesses in shipping (*Ōkubo monjo* 1927-9: IV, 363-6). The Home Ministry too possessed state-run enterprises, but they were model factories and smaller in scale. Of these, sugar refineries, spinning mills, and cotton and woollen fabric manufactories were set up in the hope that domestic products would eventually replace imports, but such projects turned out to be unsuccessful (and with Department of Industry enterprises were later sold to private interests in 1880). More important was the policy of fostering the merchant marine as an infant industry. In his memorandum on the shipping trade, Ōkubo laid down three options that the government could take: first, to leave the industry in private hands, second, to protect and foster private enterprises, and third, to

place the trade under complete government management. However, he proposed to choose the second, implying in this case government aid to a single private firm, Mitsubishi (*Ōkubo monjo* 1927-29: VI, 352-60).⁴ A similar but less monopolistic approach was adopted in other areas. No ‘hands-on’ measures were taken. Instead subsidies were given to one-off projects on an *ad hoc* basis, most of which went to those proposed by prefectural governors. A well-known example of such a governor is Mishima Michitsune of both Fukushima and Yamagata, who displayed a controversial ability for pushing through road-construction projects. About a third of the total capital sunk in all road and bridge projects in Yamagata came from central government sources (Umemura and Yamamoto 1989: 32-7). Another case in point is Fujimura Shiro of Yamanashi, a proto-industrial prefecture. Like Mishima, he was nicknamed a road-building governor, but during his long period of governorship beginning in 1873, he also showed an unusually keen interest in the promotion of local industry. By 1880 he had successfully channelled funds from the central government to a silk filature and a winery, and to two privately operated firms. In the case of the prefectural projects, well over 50 per cent of the costs were covered by money from the Home Ministry and other government sources (Saito 1983: 272-9). However, the vast majority of local producers in the country were unable to receive such *ad hoc* governmental subsidies. It was, therefore, Ōkuma’s monetary policy that proved effective in helping such local entrepreneurs. Given the fact that Japan’s virtually all export goods were products of the countryside, it was the promotion of exports, rather than import-substitution, that made sense in the early Meiji/early Meiji situation.

The Meiji government was born in an age when a strong state initiative was expected if a country was to compete with the Western superpowers. However, what the early Meiji government actually did suggests that it was not plan rational. Under the clauses of the ‘unequal treaties’, Japan was in no position to adopt protective trade policies. Given persistent trade deficits and the government’s difficulties to broaden its tax base, a hasty transplanting of any industrial package from the West was unrealistic. Without any modern notion of macro-economics such as national accounting and input-output analysis, no proper ‘planning’ was possible. The Meiji leaders never dropped the idea that the nation ought to be guided by the state to achieve the proclaimed objectives of ‘rich nation, strong army’. After the brief period of experiments with

⁴ This does not imply that Mitsubishi’s monopoly was unchallenged. On the contrary, fierce competition broke out in the early 1880s, which led to further government intervention. Throughout the period until World War I, competition and, to a lesser extent, government subsidies played significant roles in the development of Japan’s merchant marine and in reducing freight rates in ocean transport. See Wray (1986) for a brief history of shipping in the early Meiji period, and Yasuba (1978) for estimates of productivity growth in the shipping trade.

hands-on policies, however, the government realised that both hands-on development policy and ‘strong army’ objectives ought to be shelved—for the time being, at least. As a consequence, more emphasis had to be placed on the development of traditional sectors of the economy during the Ōkubo-Ōkuma period, for which no Governmental guidance was possible. The provision of paper money was virtually the only policy measure the government could take in order to stimulate the economy. In this respect, the development policy of early Meiji Japan was still conceived within the Tokugawa conceptual framework.

7. 1885: looking ahead

As shown in Figure 3, the nation’s economy expanded while prices recorded a substantial increase during the Ōkubo-Ōkuma period. In real terms, the economy managed to grow by 8 per cent from 1875 to 1880. In October 1881, Ōkuma was sacked and Matsukata took over the government’s financial portfolio. Both gross national product at market prices and the wholesale price index peaked in 1881, which has been taken to imply that Matsukata’s austerity policy led the economy into recession. A careful analysis by Juro Teranishi of the macro-economic indicators of this period shows that both personal consumption and inventory capital had started to contract during the year 1880, indicating that the economy had already entered a downswing phase of the trade cycle before Ōkuma was replaced by Matsukata. He goes on to argue that Matsukata’s deflationary policy simply aggravated the recession (Teranishi 1983). Whichever the diagnosis, however, it is widely agreed that the Matsukata deflation period was a turning point in the economic history of Meiji Japan. The age of ‘paper money for industry promotion’ was over. The decentralised national banking system was taken over by a new financial regime with a central bank. With the Bank of Japan established in 1882 and the government-issued paper money and national bank notes brought to par, all note issue was centralised. Thus, in 1886 the country saw its economy entering a new phase. From that year on a number of new firms were set up in spinning and railways, most of which took the form of western-style joint-stock companies. However, such growth of the modern sector was not at the expense of traditional industries. The traditional sector also grew. Export-oriented silk reeling continued to grow while cotton weaving and other rural industries found an expanding domestic market during the rest of the Meiji period. It was, therefore, a parallel growth of the modern and traditional sectors. Much of Meiji economic growth was still achieved within a pre-modern, rural setting (Nakamura 1983; Hashino and Saito 2004; Abe and Nishikawa in this volume).

After the Matsukata recession the economy returned back on the growth track, which had differential effects on the two major constraints that the new Meiji government

had faced. While it failed to exert much influence on the balance of payments before World War I, the government's tax revenue increased a great deal. Since the Restoration of 1868, the Meiji government tried to broaden its tax base. Following a period of trials and errors in the areas of miscellaneous indirect taxes and excises, the government succeeded in sorting out the mess with respect to the direct and indirect demarcations, as well as to the central and local governmental division of labour, by the turn of the century. As the land tax decreased its share gradually, indirect duties such as the tax on alcoholic beverages emerged as one of the major sources of public revenue together with the newly introduced income and corporate taxes (the former was introduced in 1887 and the latter in 1900), through which the state could now benefit from the nation's economic growth. Also noteworthy is a structural change in politics brought about the promulgation of the Meiji Constitution in 1889, under which a parliamentary cabinet system was introduced. This made the formation and re-formation of political alliances, which had already been common in the Restoration period, more open, paving the way to tax rate increases, which the government had long craved for, in exchange for public expenditure growth, which could now be spent on local projects to win the vote for the parties' favour (Banno and Ohno 2010; Nakabayashi forthcoming).

With the government's capacity to increase tax revenue enhanced, the once pigeonholed national objectives of 'rich nation' and 'strong army' returned as policy agendas. In 1885, as expected from the accounts in the previous sections, the share of the government in national income was low: the proportion of the government's total expenditure to gross national expenditure (GNE) stood as low as 11 per cent, a level comparable to most of the Western countries in the pre-World War I period. The share increased to 15 per cent in 1913, then to 21 per cent in 1935.⁵ This upward trend in the early twentieth century is found in most industrialised countries; however, it should be noted that while in Britain and other Western countries the growth in the rate of government expenditure was accounted for by the expansion of welfare expenditures, the Japanese pattern does not fit this explanation. Japan was one of the few nations who 'resisted' the long rise of social spending (Lindert 2004: 15).⁶ A close look at the

⁵ All the percentages are three-year averages centred on the year indicated, calculated from Ohkawa and Shinohara (1979): 251-3, 370-1.

⁶ For a brief comparative account of public sector growth in the period in question, see also Middleton (2004): 467-8. His table for OECD countries (taken from Tanzi and Schuknecht 2000: 6-7, 52-3) shows different percentages for Japan. Tanzi and Schuknecht's 1913 estimate is substantially smaller than my calculation derived from Ohkawa and Shinohara (1979), while their 1937 estimate is slightly larger than mine. The slight difference for 1935/37 can be accounted for by the fact that my calculation took three-year averages centred on 1935 while theirs is likely to have been for the single year of 1937. For 1913, on the other hand, the difference is so large that their definition and coverage must have differed as to government expenditure. Whatever the differences,

macro-economic statistics of this period reveals,⁷ first, that tax revenue increased by 70 per cent from 1880 to 1913 and nearly doubled from 1913 to 1935—in 1880 the per capita tax burden was 7 yen in 1934-6 prices; it increased to 21 yen in 1913, then to 40 yen in 1935. Second, spending on social services barely kept pace with revenue growth before World War I (if social security expenditure is singled out, its growth rate was negative), while after the War its rate of increase exceeded that of revenue growth. Third, on the other hand, both military and capital expenditure areas (the latter excluding military investments) expanded at a speed far greater than the other areas throughout the entire period in question. Overall expenditure in the former two areas increased more than five times: in 1880 per-capita military expenditure was 0.9 yen and per-capita capital expenditure 0.8 yen; the figure increased to 7.6 yen and 6.7 yen respectively in 1913, then to 16 yen and 13 yen in 1935 (all in 1934-35 prices). It seems therefore that most of the finance ministers from 1885 on gave in to the demands from both the military and industrialisation camps.

A few comments are due on these statistical facts. First, actual military expenditure grew more rapidly over the 50-year period than the above figures implied since the calculations were all for peace-time budgets. During the Sino- and Russo-Japanese Wars, World War I and the Manchurian Incident, the proportion of military spending to GNE jumped from the normal level of 2-3 per cent: in 1904-6, especially, it exceeded well over the 10 per cent mark (Ohkawa and Shinohara 1979: 373-5). Such war-time budgets were supported largely by public debts. In 1897 Japan moved from the silver to the gold standard. This made the issuing of government bonds in London and other international capital markets easier, thus boosting the state's ability to raise spending levels. With this, one may argue, the Japanese fiscal state came into being (Nakabayashi forthcoming).

On the industrial side, second, much of the government's spending went to infrastructure building. In Tokugawa times, the transport infrastructure was disgracefully poor. The new Meiji government announced that the state would take primary responsibility for 'public utilities', and its investments in the rail and road networks followed. It is interesting to note that a similar view was expressed by Fukuzawa, one of the few who genuinely believed in the *laissez-faire* doctrine (*Minkan keizairoku*, in *Fukuzawa zenshū* 1958-71: IV, 373-8). For him, as we have seen, the building of a railway

however, the both estimates exhibit an unmistakably upward trend over the period from the pre-World War I to the 1930s.

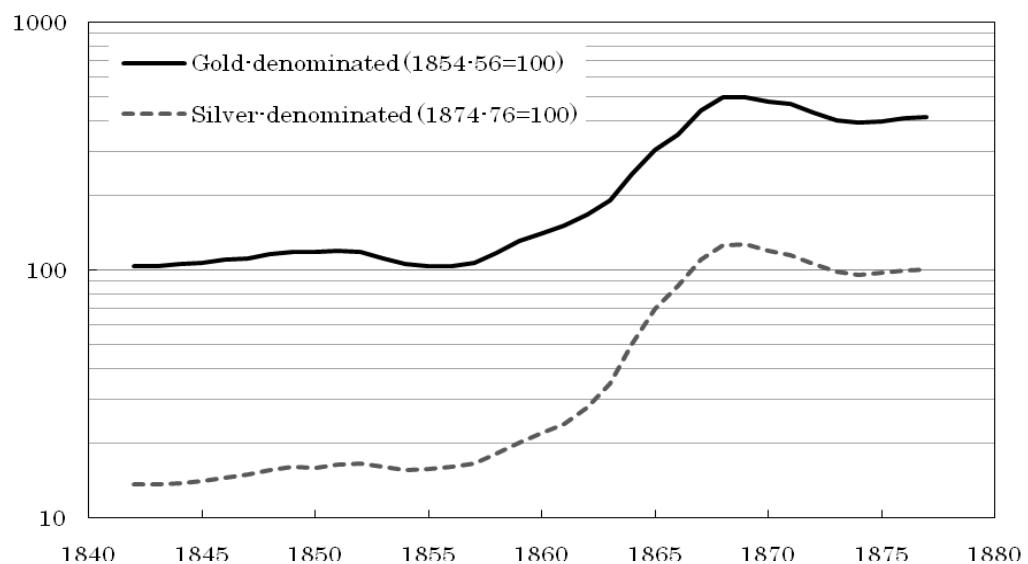
⁷ The following account is derived from statistics in Ohkawa and Shinohara (1979): 370-8, 387-8, 392-3, and in Emi and Shionoya (1966): 202-5. The GNE deflator is extrapolated to 1880 by using a composite index of consumers' and investment goods price series. The calculations are based on three-year averages centred on the year indicated.

network was one of the driving forces of history. It should not be left undone, he argued. On the face of it, the railway ‘does not directly relate to public affairs’; but at the same time, since it would be difficult for early-Meiji private companies to run Western-style railways without loss, the state should take the lead in such an area. With this kind of broad consensus for the government’s role in railway- and road-building, the post-1885 period saw other areas—such as harbours, waterworks and schools—also attracting the attention of both government and party politicians. In provincial districts in particular, the provision of public works increased with the rise of political parties, especially the Seiyūkai and its ‘pork barrel’ politics.

Third, with protectionist measures inadaptable, the early Meiji government opted for loans and subsidies to industries. This situation did not change until 1911 when the revision of the treaties entered into full effect. Even after tariff autonomy was achieved, however, customs and import quotas were not major policy tools. It is true that tariffs were eventually raised in order to protect some industries with strong import-substitution potentials. But the government’s industrial policy during the late Meiji period remained concentrated on the granting of subsidies to industries, as in the case of shipping and shipbuilding under the Navigation Subsidy Act and the Shipbuilding Encouragement Act (both of 1896) and of agriculture in the inter-war period. Another policy measure was the allocation of funds to promote specific aims through ‘special’ banks such as the Yokohama Specie Bank and the Industrial Bank of Japan, as well as through various trade associations in local industrial districts. Both involved a relatively small amount of government money. Indeed, the successive governments after 1885 were not particularly generous fiscally, so that the proportion of industrial subsidies to the total government expenditures remained generally low in the period before 1940, compared with levels in the post-war period (Ohkawa and Shinohara 1979: 370-2).

All this may be interpreted as supporting evidence for the view that much of the pre-war economic regime is characterised by market rationality, rather than plan rationality, and the post-World War II MITI and its plan-rational industrial policy are ‘genuine children of the Showa era [i.e. the period after the late 1930s]’ (Johnson 1982: 33). It is certainly true that Meiji Japan was never a developmental, plan-rational state. However, it should be remembered that while a market-rational school gradually gained a political importance, industry promotion remained as one of the competing agendas; thus, even in the period after 1885, the battle line was still between the warfare (*kyōhei*) and industry promotion (*fukoku*) groups, not between the pro-market and industry promotion camps. What the foregoing statistics suggest, therefore, is simply that the treasury of the post-1885 period was generally more responsive to the demands of warfare than those of industry promotion, allowing the pro-market camp to enjoy a prolonged spell of relative ascendancy, but leaving no room for welfare spending growth.

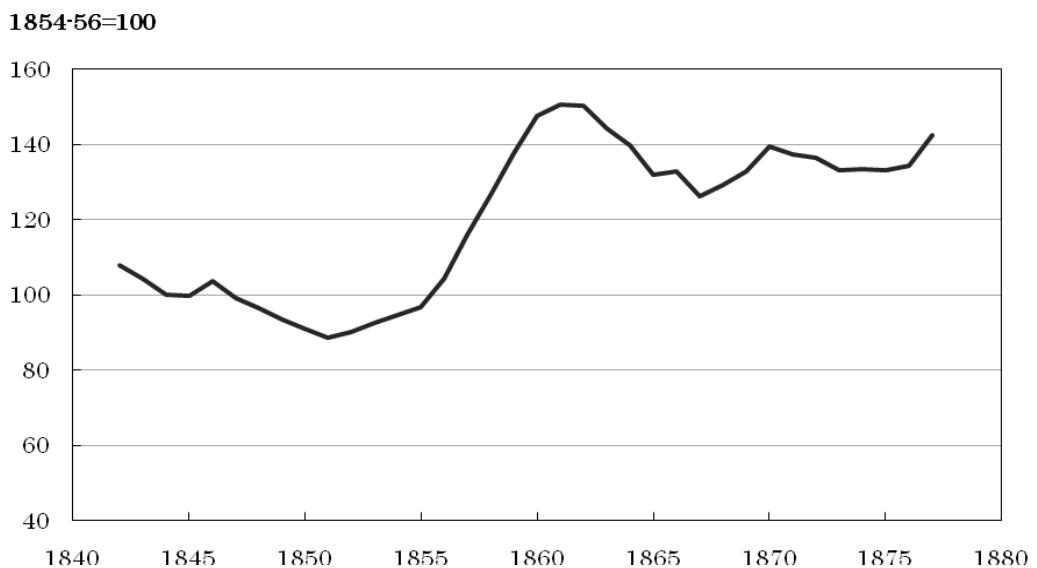
Figure 1. Price indices, 1842-77



Sources: Shimbo (1978); 282; and Saito (1975): 772.

Notes: 1) In the upper series, Meiji prices are linked with Tokugawa prices in gold currency units (with 1854-56 = 100), while the lower series is silver-denominated (with 1874-76 = 100). Both are for Osaka.
2) Both series are five-year moving averages.

Figure 2. Index of the relative price of export-related goods, 1842-77

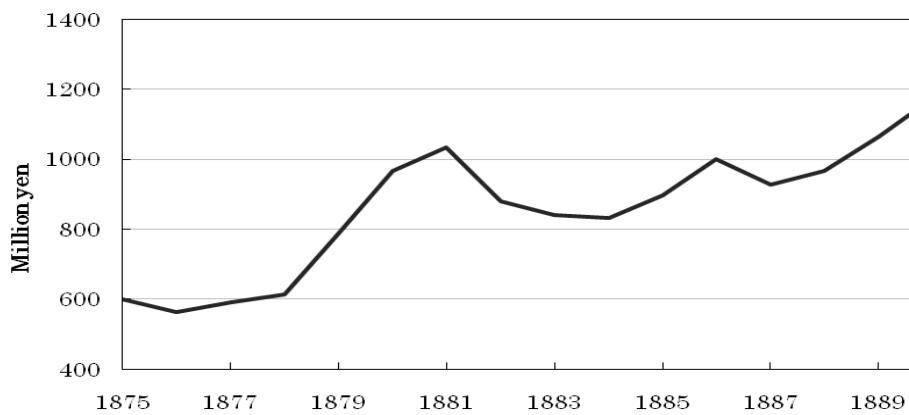


Sources: Shimbo (1978): 290.

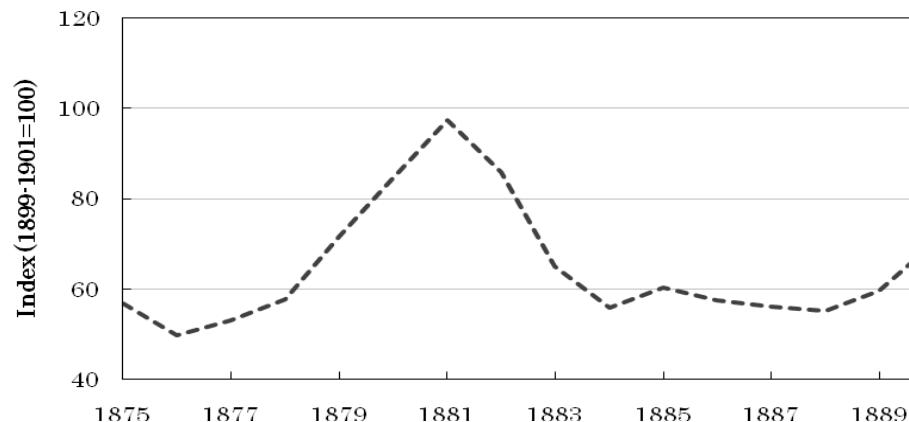
Note: The index is the domestic price series for export-related goods relative to that for import-related goods (five-year moving averages with 1854-56 = 100).

Figure 3. Yearly changes in GNP and the Tokyo price index, 1875-90

A. GNP in current prices



B. Tokyo wholesale price index



Sources: GNP from Teranishi (1983): 181; and the price index from Arita and Nakamura (1992): 62-5.

- Notes
1. GNP figures in the upper panel do not cover investment in non-primary industrial construction and inventory, for which data are unavailable for earlier years. Estimates are in current prices.
 2. The price index series in the lower panel is for wholesale prices in Tokyo, with 1899-1901 = 100. No attempt has been made to estimate a GNP deflator series for the period before 1885.

References

- Arita Fumiko and Takafusa Nakamura (1992). ‘Tokyo ni okeru oroshiuri bukka shisu no ichi suikei: 1830-1936 nen’, *Toyo Eiwa Jogakuin Daigaku jinbun shakai kagaku ronshū*, no.5, 39-66.
- Banno Junji (1989). ‘Meiji kokka no seiritsu’, in Umemura and Yamamoto (1989a), 55-109.
- Banno, J. and K. Ohno (2010). ‘The flexible structure of politics in Meiji Japan’, *Developmental Leaders, Elites and Coalition Programme Research Papers*, no.1, University of York.
- Beasley, W.G. (1989). ‘The foreign threat and the opening of the ports’, in Jansen (1989), 259-307.
- Crawcour, E.S., and K. Yamamura (1970). ‘The Tokugawa monetary system: 1787-1868’, *Economic Development and Cultural Change*, vol.18, no.4, part 1, 489-518.
- Crawcour, E.S. (1989). ‘Economic change in the nineteenth century’, in Jansen (1989), 569-617.
- Cullen, L.M. (2003). *A History of Japan, 1582-1941: Internal and External Worlds*, Cambridge: Cambridge University Press.
- Emi, K. and Y. Shionoya (1966). *Government Expenditure*. Volume 7 of *Estimates of Long-term Economic Statistics of Japan*, Tokyo: Toyo Keizai Shimpasha.
- Fukuzawa Yukichi zenshū (1958-71). 21 vols., Tokyo: Iwanami Shoten.
- Furuta, K. (2005). ‘Kobe seen as part of the Shanghai trading network: the role of Chinese merchants in the re-export of cotton manufactures to Japan’, in K. Sugihara, ed., *Japan, China, and the Growth of the Asian International Economy, 1850-1949*, Oxford: Oxford University Press, 23-48.
- Gerschenkron, A. (1962). *Economic Backwardness in Historical Perspective*, Cambridge, Mass.: Harvard University Press.
- Hashino, T. and O. Saito (2004). ‘Tradition and interaction: research trends in modern Japanese industrial history’, *Australian Economic History Review*, vol.44, no.3, 241-58.
- Hayami, A., O. Saito and R.P. Toby, eds (2004). *Emergence of Economic Society in Japan, 1600-1859*. Volume 1 of *The Economic History of Japan: 1600-1990*, Oxford: Oxford University Press.
- Huber, J.R. (1971). ‘Effects on prices of Japan’s entry into world commerce after 1858’, *Journal of Political Economy*, vol.79, no.3, 614-28.
- Jansen, M.B., ed. (1989). *The Cambridge History of Japan*, vol.5: *The Nineteenth Century*, Cambridge: Cambridge University Press.
- Johnson, C., (1982). *MITI and the Japanese Miracle: The Growth of Industrial Policy*,

- 1925-1975, Stanford: Stanford University Press.
- Kume Kunitake, compiler (2002). *The Iwakura Embassy 1871-73. Volume II: Britain*, trans G. Healey, Richmond, Surrey: Curzon Press.
- Lindert, P.H. (2004). *Growing Public: Social Spending and Economic Growth since the Eighteenth Century*, vol.1, Cambridge: Cambridge University Press.
- Lu, D.J., ed. (1997). *Japan: A Documentary History*, vol. II, New York: M.E. Sharpe.
- Middleton, R. (2004). 'Government and the Economy, 1860-1939', in R. Floud and P. Johnson, eds, *The Cambridge Economic History of Modern Britain*, vol. II, Cambridge: Cambridge University Press, 456-89.
- Mitani, H. (2006). *Escape from Impasse: The Decision to Open Japan*, Tokyo: International House of Japan.
- Mitsuoka Takao (1926). *Yuri Kimimasa den*, Tokyo: Kōyūkan.
- Nakabayashi, M. (forthcoming). 'Rise of the Japanese fiscal state', in Bartolomé Yun and P. O'Brien, eds, *The Rise of the Fiscal State in Eurasia*, Cambridge: Cambridge University Press.
- Nakamura, T. (1983). *Economic Growth in Prewar Japan*, New Haven: Yale University Press.
- Nish, I., ed. (1998). *The Iwakura Mission in America and Europe: A New Assessment*, London: Curzon Press.
- Nishikawa Shunsaku (1982). 'Hansatsu zandaka, satsuka to kusadaka no kankei', in Eguchi Eiichi et al., eds, *Keizai hatten to kinyū: riron, seisaku, rekishi*, Tokyo: Sōbunsha, 309-28.
- Nishikawa, S. (1987). 'The economy of Choshu on the eve of industrialization', *The Economic Studies Quarterly*, vol.38, no.4, 323-37.
- Nishikawa, S. and M. Amano (2004). 'Domains and their economic policies', in Hayami, Saito and Toby (2004), 247-267.
- Nishikawa, S. and O. Saito (1985). 'The economic history of the restoration period', in M. Nagai and M. Urrutia, eds, *Meiji Ishin: Restoration and Revolution*, Tokyo: University of Tokyo Press for the United Nations University, 175-91.
- Ohkura, T. and H. Shimbo (1978). 'The Tokugawa monetary policy in the eighteenth and nineteenth centuries', *Explorations in Economic History*, vol.15, no.1, 101-24.
- Okazaki, T. and M. Okuno-Fujiwara (1999). 'Japan's present-day economic system and its historical origins', Okazaki and Okuno-Fujiwara, eds, *The Japanese Economic System and its Historical Origins*, Oxford: Oxford University Press, 1-37.
- Ōkubo Toshimichi monjo (1927-29). 10 vols., Tokyo: Nihon Shiseki Kyōkai.
- Ōkuma monjo (1958-63). 6 vols., Tokyo: Waseda Daigaku Shakai Kagaku Kenkūjo.
- Saito Osamu (1975). 'Osaka oroshiuri bukka shisū, 1757-1915', *Mita Gakkai Zasshi*, vol.69, no.10, 769-76.

- Saito Osamu (1983). ‘Chihō reberu no shokusan kōgyou seisaku’, in Umemura and Nakamura (1983), 265-94.
- Shimbo Hiroshi (1978). *Kinsei no bukka to keizai hatten: zen-kōgyōka shakai e no sūryoteki sekkin*, Tokyo: Toyo Keizai Shimposha.
- Shimbo, H. and O. Saito (2004). ‘The economy on the eve of industrialization’, in Hayami, Saito and Toby (2004), 337-68.
- Sugiyama, S. (1988). *Japan's Industrialization in the World Economy 1859-99*, London: The Athlone Press.
- Tanzi, V. and L. Schuknecht (2000). *Public Spending in the 20th century: A Global Perspective*, Cambridge: Cambridge University Press.
- Teranishi Juro (1983). ‘Matsukata defure no makuro-keizaigakuteki bunseki’, in Umemura and Nakamura (1983), 157-85.
- Teranishi, J. (2005). *Evolution of the Economic System in Japan*, Cheltenham, Glos.: Edward Elgar.
- Umemura Mataji (1981). ‘Bakumatsu no keizai hatten’, *Kindai Nihon kenkyū*, no.3, 3-30.
- Umemura Mataji and Takafusa Nakamura, eds (1983), *Matsukata zaisei to shokusan kōgyou seisaku*, Tokyo: Tokyo Daigaku Shuppankai.
- Umemura Mataji and Yamamoto Yuzo, eds (1989a). *Nihon keizaishi*, vol. 3: *Kaikō to ishin*, , Tokyo: Iwanami Shoten.
- Umemura Mataji and Yamamoto Yuzo (1989b). ‘Gaisetsu 1860-85’, in Umemura and Yamamoto (1989a), 1-53.
- Wray, W.D. (1986). ‘Shipping: from sail to steam’, in M.B. Jansen and G. Rozman, eds, *Japan in Transition: From Tokugawa to Meiji*, Princeton: Princeton University Press, 248-70.
- Yasuba, Y. (1978). ‘Freight rates and productivity in Ocean transportation for Japan, 1875-1943’, *Explorations in Economic History*, vol.15, no.1, 11-39.