
Kyoto University
Economic Review

MEMOIRS OF
THE DEPARTMENT OF ECONOMICS
IN
THE IMPERIAL UNIVERSITY OF KYOTO

VOLUME X
1935

PUBLISHED BY THE DEPARTMENT
OF ECONOMICS IN
THE IMPERIAL UNIVERSITY OF KYOTO

AN EARLY HISTORY OF THE GOLD EXCHANGE STANDARD IN JAPAN

INTRODUCTION

World economy at present tends to have the colour of bloc economy. This latter, however, having a natural inclination towards independence and self-preservation, is bound to transform national economy into a particular exchange economy through the application of the liberty and laissez-faire doctrines which are the inherent principles of capitalism. Hitherto, world economy was regarded as the sum total of national economies having the principles of liberty, equality and laissez-faire, or as consisting primarily of these national economies; but now it is considered to consist of several bloc economies each of which is formed around some powerful national economy.

Viewed historically, world economy has had two opposite tendencies. First, it tended to recognise liberty, equality and laissez-faire as matters of principle among national economies which constituted it. Secondly, it tended to reject the same principles. The European War may be viewed as an outcome of the laissez-faire policy of the nineteenth century and after, but the principles of restriction and inequality shown by the War for European hegemony have had a reaction on national economies which now lay stress on liberty and laissez-faire. All are aware that the operation of national economies has met with serious difficulties, which fact is the outstanding characteristic of world economy at present.

These two opposite tendencies or circumstances of world economy involve a problem of paramount importance when considered from the principle of capitalism. Although the

principles of liberty, equality and laissez-faire are given formal recognition by nations which are engaged in the struggle to capture markets for their respective products, their full and free application in actual practice is not permitted. Nor is this unnatural in view of the differences in the real circumstances of the economic development of nations. One may say in this connection that the League of Nations committed a great error when, after the European War, it ignored the inevitable law of the development of capitalism, by attempting to apply the principles of liberty, equality and laissez-faire to economic systems, particularly monetary systems, just as it did in handling the political problems of nations. It was quite natural for the League to decide to revive the gold standard in its attempt at the continuation or resuscitation of the capitalist economy after the War; but there is no denying that in carrying out that decision, it made a mistake by unconditionally encouraging the gold exchange standard, which is a form of the gold standard. For the gold exchange standard will give impetus to monopolistic loans when, in the course of the development of the capitalist economy, financial capital has become predominant. Its characteristics do not correspond with the principles of liberty, equality and laissez-faire which characterised the period of the predominance of industrial capital. Such, indeed, is the serious error which is bound up with the essence of the gold exchange standard as upheld by the League of Nations after the War.

If there were a monetary system capable of allowing national economies which constitute world economy to practise the principles of liberty, equality and laissez-faire, thereby upholding these principles, the final outcome of the above question will not be difficult of anticipation. But so long as gold is admitted as the only standard of valuation, in the working of the capitalist economy, these principles represent only one phase of present-day economic phenomena — they only show something which is formal rather than substantial. It is thus necessary to re-examine the gold

exchange standard which is so liable to cause a blunder, in order to study its real validity. I am inclined to believe that it is a one-dimensional and mechanical view to regard world economy as a sum total of equal national economies because of the development of the organization in the capitalist economy; I am impressed with the importance of treating world economy as a many-dimensional and organic phenomenon. I shall adopt this basic viewpoint in examining the advisability of adopting the gold exchange standard. I am convinced that this interpretation of world economy is forcing changes in the traditional views and ideas of national economy and of the gold exchange standard itself.

Viewed thus, the outstanding fact of the existing gold exchange standard is that the leading country to adopt a bloc economy is controlling its member countries as markets for its own products.

It is imperative for Japan to study this problem in order to solve various problems of importance which are at her very threshold—I mean the Japan-Manchoukuo economic bloc, in connection with the gold exchange standard. Japan has operated the gold exchange standard between the close of the nineteenth century and the early part of the twentieth. There are many questions that may be asked in connection with this matter. We may ask the following: What are the relations between the traits of Japanese economy and this gold exchange standard? What is its content as enforced in Chosen? What effects has the enforcement of the system in Chosen and Manchoukuo had on Japan's productivity? How did the system extend its influence to Manchoukuo after the latter's establishment? What relations will the system bear to Manchoukuo, China and Siberia in the future? To these questions answers must be given by those who are interested in the Japan-Manchoukuo economic bloc. However, I cannot take up all of these questions in this paper. I shall only deal here with the circumstances which attended Japan's adoption of the gold exchange system and leave the discussion of other matters to some future

occasion.

It should be noted in this connection that historical factors have a very important bearing on monetary systems, and especially on the gold standard. Without a serious investigation of historical factors, no thorough-going examination of the gold exchange standard will be possible. There is no doubt that its historical colour corresponds with the content of the national economy of a nation.

2. JAPAN'S HISTORY PRIOR TO THE ADOPTION OF THE GOLD EXCHANGE STANDARD

The monetary system of Modern Japan originated in the adoption of the silver standard in 1869. The gold standard was adopted in 1871. But a double standard of gold and silver may be said to have originated in 1878, when the one-yen silver coin hitherto circulated only in foreign trade ports was put into circulation in all parts of the land. In actual practice, however, we had only the silver standard inasmuch as silver coins only were in circulation.

The depreciation of silver at that time was world-wide. It was encouraged by factors such as the sale of silver in Germany due to her adoption of the gold standard, the limitation and suspension of the free coining of silver by the members of the Latin Monetary Union, and above all by the steady increase in silver production on the American Continent. In 1893 British India, the greatest silver country in the Orient, completed its monetary reform and adopted the gold exchange standard, thereby stimulating the depreciation of silver. All these events had their considerable effect on Japan. The value of the yen went down and the nation's foreign trade was placed in an absolute bog, as there was no reliable and fixed standard of value. Japanese industrialists and merchants had nothing to guide them in their production or their commercial transactions. All these circumstances convinced our statesmen and other leaders that the only solution of the national difficulties lay in the

adoption of the gold standard which had gradually replaced other systems in Europe.

Japan, which had been enforcing a system of silver conversion, established on September 11, 1893, the Monetary System Investigation Commission. The reason for its establishment as well as its function were explained by the Minister of Finance substantially as follows:

"Some of the silver countries of the world are now making investigations into the merits and demerits of the different monetary systems in order to preserve their own economic interests; while others are already carrying out their monetary reforms following such investigations. . . . I am in favour of creating a Monetary System Investigation Commission which shall be composed of men of wide experience and profound learning, in order to study the cause and effect of the fluctuation of gold and silver and its influence on our own economy in the past as well as its probable influence in the future; also to decide whether it is necessary to revise the monetary system now in force; and further to study the best means for the adoption of the gold standard and its enforcement, as well as other matters relating to it, should it be found advisable to adopt such a monetary system."

It is thus clear that the main object of the Monetary System Investigation Commission was to find whether it was advisable to adopt the gold standard and, if so, to decide upon the kind of system and the best means for its adoption.

The Monetary System Investigation Commission was composed of 22 members including a chairman and a vice-chairman. It appointed a sub-committee at its first meeting on January 25, 1893. This sub-committee first met on November 14 the same year and held altogether 37 meetings during the 16 months up to March 27, 1895. It reported its decision to the Commission on March 27 the same year. The Commission met five times, the last session being held on July 3, at which session the final decision was reached.

The majority of its members favoured the adoption of the gold standard, while a minority dissented. The Government concurred with the views of the majority; they recognized the urgency of reforming the monetary system of the nation. But there remained the difficult problem of deciding on the means for the carrying out of such a basic monetary reform, since a large reserve fund was needed for the adoption and the successful operation of the gold standard. It was a problem of stupendous difficulty for Japan of that period, since her economy was still in its infancy.

Fortunately, the Sino-Japanese War of 1894-5 came to a successful close, and Japan obtained a war indemnity of 360 million yen. The Government decided to use this sum as reserves for the gold standard. At first the payment of the indemnity was to be made in the Chinese silver money (Kupei silver), but Japan succeeded in obtaining payment in London in pounds sterling. This was an advantage, because the value of silver was greatly depreciated and was subject to frequent fluctuations, and Japan knew that her adoption of the gold standard was a question of time only. Thus, the war indemnity was paid by China in the currency of Great Britain which was on the gold standard. Japan's preparations for the adoption of the gold standard were now rushed on. There was much criticism regarding the work of preparation, and this spurred on the Government to carry out its decision. A monetary reform bill and other related bills were laid before the Cabinet Council on February 25, 1897. The bills were passed by the Imperial Diet in March of the same year and were given Imperial sanction, taking effect from October 1. Thus, Japan came to have a single gold standard.

The Government was entitled to use part of the war indemnity for effecting the monetary reform, namely, the adoption of a single gold standard. But the Government had promised the Imperial Diet not to withdraw the money in haste, as it was feared that the sudden transference of so large a sum would cause a disturbance in the London

market. This special circumstance under which our gold standard was adopted requires a more careful study than would have been necessary had it been adopted under more ordinary circumstances.

Japan received the war indemnity in pounds sterling and used part of it in replacing her silver coins by gold coins. Now there are several points which should be studied from the standpoint of the gold exchange standard. The Indemnity Special Account is one of such points. The reciprocal deposit between the Government and the Bank of Japan is a second; and the Government's depositing part of the indemnity with the Bank of Japan for interest is a third. I shall take up each of these points in order to clarify the circumstances which form the background of the early part of the history of the gold standard in this country.

3. THE INDEMNITY SPECIAL ACCOUNT

The Indemnity Special Account was the pivotal point of the financial problems which centered around the decision to adopt the gold standard after the termination of the Sino-Japanese War. "There is no other factor which exercised a greater influence on the history of the financial development of this country."

All those who have some knowledge of the financial and banking affairs of Japan at that time will admit that the Indemnity Special Account had an inseparable relationship with the adoption of the gold standard. Moreover, the business of the Bank of Japan in connection with the preparation of the needed reserves—whether the mutual deposits of the Bank and the National Treasury, or the Government's interest-bearing deposits with the Bank—was carried on through this special account. Thus, it is necessary to examine this account which is by far the most important basic fact relating to the adoption of the gold standard by Japan.

As all know, Japan was originally to receive from China

a war indemnity of 200 million taels and interest thereon as well as the sum of 1,500,000 taels to be spread out over three years. But later Japan was entitled to receive a further sum of 30 million taels as compensation for the return of Liaotung Peninsula, which had been ceded by China through the Treaty of Shimonoseki. As has been already mentioned, all this was to be paid in the Kupei silver tael, which, however, was only an appellation denoting weight and measure, and there was no actual coin corresponding to the term. The quality of the silver contained in the Kupei tael was not fixed and was not the same for all countries. Nor was there any regulation as to the grade of silver. It was clear that Japan could not afford to receive such a big sum of money as 230 million taels in such a dubious medium of exchange. The sum certainly was not a negligible amount considering the economic condition of Japan at that time. It was clear that to evaluate this sum by a standard having neither fixed quality nor grade was highly impracticable. Furthermore, it was said that China would float a loan in Europe in order to pay the indemnity. This would force China to buy silver and thereby affect the silver market of the world as well as the trade of the world including that of China and Japan. Consideration of all these factors led Japan to hesitate to receive the indemnity in Chinese currency. Japan at that time was passing through a period of industrial development and armament expansion, and her imports from European countries were bound to assume stupendous proportions in the near future. Moreover, as has already been observed, the value of gold was tending to rise while that of silver was taking a downward course throughout the whole world. All this made Japan exercise an extreme caution and arrange to receive the money in pounds sterling.

On the other hand, there were some divergent views regarding this question. Some anticipated the development of Japan's industry under the silver standard and pointed to the futility of immediately adopting the gold standard. Others contented that the ideal system was the gold-silver

double standard.

But we know today that Japan was given a most excellent opportunity for adopting the gold standard. We all know how European nations struggled in order to obtain gold and to abandon silver. We also know what measures were resorted to by such colonial possessions as British India, the Philippines, the Straits Settlements, Indo-China, etc., in preparation for the adoption of their respective gold standards. Again, we know what bitter experiences such countries as China and Siam have had in their attempt to cope with the same monetary problem. All these certainly go to show the great opportunity which was afforded Japan for the carrying out of her monetary reform.

Japan was thus to receive an indemnity from China. But it was not to be paid at once, nor was the disbursement of the money to be made in a single fiscal year. Moreover, there was much difficulty in bringing the money from London. It was to be paid in pounds in London, so that it had to be converted into either bills of exchange or gold bullion for shipment to Japan. Now in transmitting such bills of exchange or gold bullion, consideration had to be given to the condition of the financial markets of the various Western countries and their movement was also dependent on the degree of Japan's demand for the money on each occasion. All this naturally gave rise to financial relations between the Government and the Bank of Japan. The above three circumstances are responsible for the establishment of the Indemnity Special Account by which the gold exchange standard was adopted by Japan. The third circumstance is explained in the following words: "In importing the indemnity either in the form of a bill of exchange or gold bullion, the Government had to study the condition of the financial markets of European countries, so that no speedy shipment could be expected. On the other hand, there were frequent occasions when there was a pressing need for payment out of the revenue from the indemnity. On such occasions temporary accommodation

will be found imperative for the National Treasury. The following will be most convenient method under the circumstance: The Government should deposit the indemnity either in pounds or in bullion with the Bank of Japan, the latter issuing paper money with the deposit as reserves for use by the Government." The above quotation throws a flood of light on the circumstances under which Japan adopted the gold standard. I shall go deeper into this matter.

As every one is aware, the difficulty of shifting from the silver standard or the gold-silver double standard to the single gold standard consists in the securing of gold reserves and in the disposition of silver currency. Inasmuch as the adoption of the gold standard drives out silver from the position of the standard currency, the amount of the fund for replacing the silver money by the gold or other moneys, together with the operation of the fund, has an important bearing on the adoption of the new monetary standard. It was in 1888 that Japan established her conversion system under which only silver was converted, and she had to secure gold reserves in order to adopt the gold standard. It was clear that had she failed to absorb a sufficient amount of gold reserves, the mere adoption of the gold standard would have caused much difficulty in the actual operation of the new system.

This very difficulty was experienced by Japan at that time. Although she was in a position to receive in London pounds sterling equivalent to 372 million yen, she could not get as much as she needed for the enforcing of the gold standard, either because of conditions imposed by Great Britain or the circumstances of financial exchange. Under such adverse circumstances did Japan adopt the gold standard. The returning of the troops was delayed because of the diplomatic interference of Russia, France and Germany in the terms of the Shimonoseki Peace Treaty, and the Government needed a campaign fund for the Diet election of 1895, in which year it was expected that the indemnity would be received. In order to supply the Government with the

needed funds, the Bank of Japan issued convertible bank notes beyond the legal limit in anticipation of the receipt of the indemnity after June, 1895. The following table shows convertible bank notes issued by the Bank of Japan beyond the legal limit :

Table I
(in 1,000 yen)

Months	Bank Notes	Specie Reserves	Security Reserves	△ Surplus Issue Power
Jan.	142,756	80,924	61,831	2,547
Feb.	137,185	76,462	60,722	3,656
March	135,224	72,367	62,856	1,522
April	132,838	68,532	64,307	7
May	132,573	66,199	66,374	△ 1,993
June	143,083	64,885	78,198	△ 13,811
July	142,669	64,719	77,950	△ 13,070
Aug.	152,904	67,681	85,223	△ 20,343
Sept.	156,897	68,250	85,647	△ 20,767
Oct.	158,692	66,197	92,494	△ 33,071
Nov.	161,858	63,903	97,954	△ 55,083
Dec.	180,336	60,376	119,966	△ 50,937

Two methods were used for holding specie abroad by which the gold standard was operated: first, reciprocal depositing between the Government and the Bank of Japan and the depositing of funds bearing interest with the Bank of Japan. These methods are two forms of utilization of the Government's specie abroad in preparation for the new conversion system, and represent the holding by the Bank of Japan of the gold exchange reserves which are the basis for the operation of the gold exchange standard. Of these two, reciprocal depositing between the Government and the Bank of Japan is more important than the other when viewed from the standpoint of the gold standard. I shall therefore explain how this reciprocal depositing is connected with the standard.

4. RECIPROCAL DEPOSITING BETWEEN THE GOVERNMENT AND THE BANK OF JAPAN

Reciprocal depositing between the Government and the Bank of Japan was made either in pounds sterling or gold bullion. True, each of these had no direct connection with the functioning of the gold standard. According to the original plan, the pounds possessed by the Government in England (a small portion being held in Berlin) were to be deposited with the Bank of Japan to be used as reserves for issuing the Bank of Japan notes which were to be loaned to the Government. This plan was laid before the Cabinet which discussed the question of the monetary reform in 1895. In this case the London branch of the Yokohama Specie Bank was to act as the agent of the Bank of Japan in holding the Government's indemnity fund in England. In November, 1895, the Government made the following decision, thereby showing reciprocal depositing between the Government and the Bank of Japan:

"As far as possible, we intend to hold abroad (in pounds) the indemnity paid by China so that we may be in a position to purchase foreign goods for the expansion of the military and naval armaments and to buy railway and other materials" "We shall proceed to deposit the above-mentioned indemnity (in pounds) with the Bank of Japan to be used as reserves for issuing bank notes which are to be loaned to the National Treasury for making various domestic payments. The rate of interest on our deposits with the Bank shall be two per cent. per annum while that on our loans from the Bank shall be three per cent. per annum.

The foregoing decision was reached by the Government in connection with the adjustment of the Special War Expenditure and Military and Naval Expansion Expenditure Account.

We have the following written account showing how the indemnity deposited by the Government with the agent of the Bank of Japan in London was protected:

When the indemnity in pounds sterling was deposited with the agent according to Article 9 of the Trust Savings Procedure Act, the agent handed the receipt subscribing the pounds, the Japanese currency, the reserve amount, and the interest rate, etc., to the treasurer of the National Treasury, and was ordered to entrust the money to the Bank of England. When the receipt of the money and of the order was notified to the Government financial commissioner in London, he took out the money to be used as conversion reserves from the Bank of Japan agent to the Bank of England for ordinary deposit. Besides this ordinary method of depositing, there was a special method of depositing. According to some officials of the Bank of England, the special depositing consisted of depositing the pounds in a metal chest which was closed and sealed. The Bank of England was not concerned with the contents of the chest, and it only guaranteed the safekeeping of the chest as sealed. Thus, except in the case of bankruptcy, there was no concrete difference between the two methods, as far as the certainty of the security was concerned. The metal chest in which the money was placed had to be made up by the depositors, and the method of depositing and withdrawing was highly complicated. For these reasons, the Bank of Japan seemed to prefer the ordinary method of depositing.

We shall next take up the second method of reciprocal depositing, namely, depositing of gold bullion which was brought to Japan from London. This was natural in view of the fact that the Government's order given to the Bank of Japan regarding reciprocal depositing specified both the pound and gold bullion as objects of deposit. This method was used by the Government probably because of its desire to immediately issue convertible notes by bringing to Japan specie held abroad. In other words, the Government most probably was dazzled by the name of the gold standard and feared that if gold bullion was re-coined into Japanese money, the Government might experience inconvenience in issuing currency during the period of coinage. It is needless to state that this of reciprocal depositing is a method that detaches itself from the principle of the gold standard.

The maximum amount of deposits that the Government might make either in pounds or bullion with the Bank of Japan was fixed at 80 million yen. Deposits that could be made by the Government on May 20, 1896, amounted to 50 million yen. In March, 1896, the Law No. 10 was promulgated whereby the Special War Expenditure Account

was terminated in the same month, and a sum of 78,950,000 yen out of the indemnity fund was to be used for the special war expenditure through the 1895 additional budget. But the amount of the indemnity fund in Japan at that time was only 9,020,000 yen. Thus, there was a deficit of 69,030,000 yen even if the entire sum was to be used for the special war expenditure. Moreover, there was no prospect of bringing such a vast sum of money from England within that fiscal year. Thus, the Government resorted to the method of reciprocal depositing and borrowed a sum of 50 million yen to be used for the special war expenditure. As Table II indicates, the issuing of the Bank of Japan notes beyond the legal limit continued from June, 1895, to May, 1896. In June, 1896, the notes were converted into specie abroad and the amount of specie reserves rose rapidly, reaching 77 million yen in March and December, 1896.

Table II

The Amount of the Bank of Japan Notes Issued Beyond the Legal Limit Since 1895-6 at Month-End (in yen):

Months	Amount	Months	Amount
1895: May	1,993,433	July	10,325,195
June	13,811,495	Aug.	14,197,333
July	13,070,623	Sept.	22,771,032
Aug.	20,343,260	Oct.	29,199,623
Sept.	20,767,605	Nov.	32,142,248
Oct.	72,512,650	Dec.	47,312,657
Nov.	33,071,300	1898: Jan.	39,529,488
Dec.	55,083,147	Feb.	30,626,515
1896: Jan.	50,937,635	March	39,658,322
Feb.	44,434,258	April	37,690,179
March	36,409,047	May	28,690,601
April	33,786,955	June	33,446,481
May	26,987,694	July	19,874,548
.....	Aug.	14,681,165
1897: July 24	455,306	Sept.	1,111,069

Table III
 Showing the Increase of the Convertible Notes Issued
 from March, 1895, to June, 1897 (in yen).

Year and Month	Specie Reserves	Security Reserves	Bank Notes
1895: March	72,367,888	62,856,766	135,344,654
June	64,885,149	78,198,514	143,083,663
Sept.	68,250,119	85,647,664	153,987,783
Dec.	60,370,797	119,966,018	180,336,815
1896: March	55,347,000	101,794,817	157,141,819
June	107,181,079	64,513,800	171,694,879
Sept.	110,376,054	66,229,305	176,605,359
Dec.	132,730,192	65,583,704	198,313,896
1897: March	109,488,027	71,624,253	181,112,280
June	119,437,064	75,865,605	195,302,669

As to the interest rate on reciprocal deposits, that of the Government's deposit was one per cent. per annum and that of its loans two per cent., so that the National Treasury shouldered the burden of one per cent. per annum for the entire transaction. Thus, the sooner the system ended the better it was for the National Treasury. After the arrival of gold bullion from London towards the close of 1896, the reciprocal depositing of the indemnity fund in pounds sterling was replaced by that of gold bullion without any interest thereon. Now, the difference of one per cent. in the interest rates of reciprocal depositing was intended to enable the Bank of Japan to meet the cost of printing and issuing notes. After it was discovered that the difference of the rates in amount since May, 1896, had far surpassed all the cost of printing and issuing the Bank of Japan notes for that particular purpose, interest was abandoned in reciprocal depositing after January 1, 1897.

The system of reciprocal depositing in pounds primarily originated in the realization that the bringing of the indemnity fund to Japan within a short period of time would be very difficult. This point was greatly stressed by the

Government delegates at the Imperial Diet. Mr. Matsuo, one of the delegates, told the Diet that the indemnity fund would be brought to the country both in silver coins and in bills of exchange and that it was impossible to bring the fund into Japan by means of bills of exchange alone in amounts of more than 10 million yen a year. Mr. Tajiri, another government delegate, explained the system of reciprocal depositing substantially as follows :

“The plan is somewhat complicated. It is impossible to transfer the entire sum of 80 million yen in gold coins. But if the fund is converted into silver, the price of silver will immediately rise. The Government will also suffer an economic detriment if the money is brought here in pounds, because the amount of pounds will be very large. Supposing we bring the fund here in silver, we must proceed very gradually so as not to effect the exchange quotations. If a bank should buy, say, 100,000 pounds' worth of silver in London, the price of silver will soar. If 50,000 dollars' worth of silver is purchased, say, in San Francisco, the silver market there will receive a staggering blow. The New York market will be similarly affected if 100,000 dollars' worth of silver is bought there. If a big amount of gold is shipped in silver bills of exchange, it will be very expensive and will be more costly than to pay interest thereon. The proposed Indemnity Special Account Act provides for reciprocal depositing between the Government and the Bank of Japan, in which a difference of one per cent. in rate will be allowed the Bank. The Bank of Japan will be required to pay two per cent. interest on the Government's deposits with it, while the Government will pay interest on the convertible notes borrowed from the Bank. The Government will deposit the gold it secures in the vaults of the Bank of Japan to be used as reserves for newly issued convertible notes. This rather complicated system was contrived because of the fear that, if we were to bring in 80 million yen within one year, the price of silver would go up, resulting in a loss to the Government. The Bank of Japan pays two per

cent. interest to the Government, which, in turn, gives a fee of one per cent. to the Bank. This scheme, we hope, will enable us to use the indemnity fund without causing a rise in the exchange quotations and without affecting the economic circles of our country".

There were some adverse views regarding the Government's plan, especially in connection with its treating the indemnity fund in London as part of the specie reserves for the currency. There were the following three main types of argument against the plan of the Government. First, since it will take several months for specie abroad to arrive in the country, the issuing of convertible notes as described above is a form of security reserve rather than specie reserve. Secondly, the specie to be used as reserves by the Central Bank should be that located within the country, and although there is no legal provision regarding the location of specie reserves, reason dictates that they should be at hand within the country instead of being located in a distant land. Thirdly, it is not a violation of the convertible bank note regulations to issue bank notes beyond the legal limit by using specie abroad as security reserves, in order to bring specie abroad gradually into the country; but to treat specie abroad as conversion reserves would be a violation of the convertible bank note regulations. Viewed from the standpoint of domestic currency such views as these may not be able to find an absolute certainty in the Government's conversion measure; viewed from the standpoint of international credit currency, the measure in question may be regarded as a progressive method.

Other critics of the Government's policy pointed to the fact that specie abroad was deposited without any interest, and stated that it would be more profitable if the money was brought here for business investment. It should be noted, however, that the entire amount of specie abroad was not deposited without any interest, but some part of it yielded interest so that the criticism was not well founded.

But the gold exchange standard at that time was not

positively utilized, and it was merely regarded as something indispensable for the time being and many believed that it would not be a good economic policy to retain it for a long period of time. But as has been already noted, the policy of issuing currency notes against specie held abroad was substituted for the policy of issuing currency notes beyond the legal limit, and the latter policy is an indication of abnormal conditions in the financial world or of an excessive demand for capital. Naturally, it was thought that, if gold exchange reserves are provided for the issuance of convertible notes beyond the legal limit, there will be no way of knowing the degree of monetary demand. Thus, the Bank of Japan gradually began to return the Government's deposits, beginning from the spring of 1897, in exchange for the convertible notes issued as security reserves. By May 10, 1897, the Bank of Japan turned one half of the Government's reciprocal deposits in pounds into a reciprocal deposit of gold bullion and settled the entire amount by returning it in silver bullion and bills of exchange. Thus, the account of reciprocal deposits in pounds was settled. This reflects the low credit power possessed by Japan at that time among the nations of the world.

5. THE GOVERNMENT'S INTEREST-BEARING DEPOSITS WITH THE BANK OF JAPAN

Besides the reciprocal deposit system above noted, the Government also resorted to another method by way of operating the gold exchange standard by means of specie held abroad. Whenever the supply of capital was insufficient to meet the demand, the Government made interest-bearing deposits with the Bank of Japan out of the specie held abroad, the Bank issuing convertible notes on the specie thus deposited. On the other hand, it should be noted a considerable proportion of such deposits was concerned with exchange capital rather than with market capital only.

The Government's policy of making deposits with the

Bank of Japan for financial reasons originated towards the close of 1896, when the Bank asked for a loan of 10 million yen redeemable by January 10, 1897, because of the stringency in the monetary market. But the National Treasury was not in a position to make such advances and the Government relieved the financial distress by making a deposit bearing three per cent. interest for the fixed period between December 28, 1896, and January 10, 1897. In other words, the Government made this deposit out of the specie holdings in pounds sterling to be used as reserves against the issuance of notes, which were then loaned out as market capital. This transaction was also a form of gold exchange standard operation. This particular deposit with the Bank of Japan was settled at the specified time, namely, January 10, 1897. The chief difference between this deposit and the previous ones lies in the fact that the former was loaned to civilians and the latter to the Government.

Again, the Government used its specie abroad for relieving the economic panic of 1898 by depositing it at interest with the Bank of Japan. At that time the financial circles were faced by an extreme monetary stringency, and it was impossible to sell the pre-arranged government bonds in the usual markets, because of the dissolution of the House of Representatives and other circumstances. The Government accordingly secured the consent of the Diet to make a temporary use of part of the indemnity fund for meeting the expenditure in connection with government loans and to carry out the general financial plans. The amount disbursed for this purpose up to December, 1899, was estimated at 42 million yen. This sum was later redeemed in both local currency and pounds out of the government loans in pounds at four per cent. interest. Out of £ 2,500,000, £ 2,100,000 was deposited with the Bank of Japan by notification, while the remainder was entrusted to the Bank of England.

Thus, the Bank of Japan received a sum of £ 2,100,000 out of the Government's deposits and entrusted it to the

Bank of England in a separate account to be used as reserves against the issuance of convertible notes. Thus, the money was earmarked as conversion reserves. This money was the same in nature as the reciprocal deposits we have already noted, in so far as it functioned as a condition for the operation of the gold exchange standard.

This system of deposits bearing interest was utilized for securing exchange capital or funds through the Bank of Japan in addition to maintaining the gold exchange standard, but I shall not enter into detail regarding this point. All these deposits were used for supplying capital to private individuals and corporations. These deposits did not result directly in the issuance of convertible notes to be sure; but the transfer of the indemnity fund by means of these deposits played an important rôle in the issuance of convertible notes. What an important part the Bank of Japan played in accommodating the Government with loans at that time is difficult to realize at present, inasmuch as the Bank has ceased to be important as a central bank and has become the leading private bank. But in the middle of the Meiji Era, the Bank of Japan functioned more as a government bank than as a private financial institution, and it was but natural that its advances to the Government should have played a stupendous part in the issuing of convertible notes for the operation of the gold exchange standard.

6. CONCLUSION

I have shown how Japan adopted the gold exchange standard, which is a form of the gold standard, by utilizing the indemnity fund secured from China at the close of the war with that country. I have explained the manner in which fund was used. By far the most important factor in the origin of the gold exchange standard, as adopted by this country, is the circumstance that the reserves against the issuance of notes were provided by the indemnity fund in pounds during the process of change from the silver standard

to the gold standard.

Part of the indemnity fund which the Government received from China in London in pounds sterling through the London branch of the Yokohama Specie Bank, which acted as its agent, was utilized either in the form of reciprocal deposits between the Government and the Bank of Japan or as ordinary deposits with the same bank. In the reciprocal deposit system, the Government deposited part of the specie in pounds with the Bank of Japan to be earmarked as reserves against issuance of convertible notes, which, in turn were loaned to the Government by the Bank. On the other hand, in the case of the ordinary deposit system, the Government deposited a definite amount of specie in pounds in London with the Bank of Japan at a definite rate of interest and for a fixed period of time; and the same deposit was turned over to the Bank of England by the Bank of Japan, also to be earmarked as reserves against the issuance of convertible notes in Japan. These notes were also advanced by the Bank of Japan to the Government. All these deposits either in reciprocal or in ordinary form were redeemed on the expiry of their respective periods, and the Bank of Japan used the Government's specie abroad in pounds according to the form of the gold exchange standard and made them note reserves. Thus, we can say that the Chinese indemnity played a conspicuous part in the establishment of the gold standard in this country. Nor can we ignore the fact that besides functioning as a means of establishing the gold exchange standard, the indemnity fund served also as gold reserve for the conversion of one yen silver coins.

The use of specie abroad for the adoption of the gold exchange standard resulted, on the one hand, in the expansion of the currency and incidentally in a post bellum panic. On the other hand, it was instrumental in bringing about the subsidence of the same financial panic. Thus, it created a national problem and then solved it all at once, so that its demerit has been evened up by its merit. The fact remains,

however, that it created an economic issue by placing Japanese economy in an unstable condition for several years prior to and following the adoption of the gold exchange standard.

Lastly, I wish to dwell on a principle which is supposed to condition the adoption and operation of the gold standard. It is asserted that a nation can adopt the gold standard only when its international accounts are in its favour or at least are balanced. This principle, however, was conspicuous by its absence in the case of Japan, whose international accounts were not balanced and whose adoption of the gold standard was due solely to the sagacious use she made of the war indemnity. Japan was also subject to the effects of the depreciation of silver which was a universal phenomenon at that time, and was in pursuit of a better interest rate, so that she was not free from the usual conditions on her adoption of the gold standard. The fact is that being still in the infant stage of industrial development, Japan's overseas trade had remained unfavourable. Her use of the indemnity fund for the adoption of the gold standard was an exceptional event among the nations of the Orient.

In this connection there is a fact worth consideration. Japan at that time came to control the economies of both Chosen and Taiwan. Now, the gold standard was extended to the former in a short space of time, but not to the latter. As soon as the power of Japanese economy penetrated Chosen, the gold standard came to be applied there, but this was not the case with Taiwan. The monetary systems of both Chosen and Taiwan were in a deplorable condition at the time Japanese influence found its way into these regions, but the two countries were different as regards their trade relations with Japan. Japanese banks had been operating in Chosen prior to the adoption of the gold standard, and Japanese currency had been used for the payment of customs duties in the peninsula. Thus, the soil had been well prepared in Chosen for the extension of the gold standard there. On the other hand, there were no such

preparatory circumstances in Taiwan, whose monetary system was the same as that of its original home country.

There are two distinct policies in Japan's overseas economy: the northern policy, which has been found successful and the southern policy which has been rather slow in making any advance. This is a serious problem from the standpoint of our national economy. I am convinced that this difference is due to the fact that whereas the gold standard is operated in Chosen through the Bank of Chosen, it is not operated in Taiwan by the Bank of Taiwan. The Bank of Japan began its activities in the southern territories of the Empire quite a long time ago, but its efforts have not yet been rewarded with success. This fact may be responsible for the failure of the operation of the gold standard in Taiwan.

It was fortunate for Japan that she was able to adopt the gold standard with the aid of a war indemnity and then made a rapid and persistent development in her economic life. As she could use the indemnity, she had no need of importing foreign capital for the purpose of adopting the gold standard, and thus Japanese capitalism happily escaped the financial control of a creditor nation. This fact is by far the most important feature of Japanese economy during the period between the close of the 19th and the early years of the 20th century — a fact no student of Japanese economy can afford to ignore.

Source of Tables:—The History of Japanese Finance during the Meiji Era. Vol. 2.

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