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THE INFLATION IN THE EARLY MEIJI ERA

— History of Inflation in Japan —

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Forewod

FOREWORD

The subject of the present treatise is the inflation during the 1878–1881 period. The treatise has been undertaken with the desire that a fruitless theoretical study on the part of the present writer be forestalled by endeavoring to examine its history (a history of a reality controlled by various conditions peculiar to each of these years under review). In this essay, the writer, focussing his effort on the reality, (1) examining in the light of the reality the essential form of the inflation which he has grasped and (2) proving the decisive importance of clearly grasping the essential form of the inflation, has tried to examine the various phenomena consequent upon the inflation and the counter measures taken by the government then in power to meet its effect. The present writer is confident that the present treatise has also made a passing allusion to the position the inflation occupied with regard to the government policy.

Chapter 1. Condition of the Circulation of Paper Money before 1877

Following the collapse of the Tokugawa feudalism, the new Meiji government, as an absolutist regime, while firmly establishing itself, started its advance conscious of the historical mission to forcibly realise an essen-

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tial accumulation of capital (die ursprüngliche Akkumnlation des Kapitals). Such historical mission invariably conditioned the monetary system in force in the early Meiji era. In other words, while the execution of such mission required a large amount of financial fund, its preparation had to be made mainly issuing inconvertible notes, and this invariably entailed a successive issuance of four categories of notes, including the Dajokan notes, which, incidentally, ushered in the disorder seen in the monetary system in the early Meiji era. These notes issued by the still embryonic regime, ever threatened by a major opposing force, inevitably lacked a compulsory power to make them circulate. Among these, the Dajokan notes, in spite of various steps taken by the government intended for their forcible circulation, even showed a decline in value of more than 60% against the specie. This situation, however, was soon ameliorated as the government dispensed with the absolute compulsory measures and shifted to such[1] which followed the unbiased economic rules (1872). This was given a further impetus by the drastic reform to replace the feudalistic regional clans with modern prefectures (1871), for, the government, now finding itself in a position to assert an undisputed nationwide supremacy, hastened to issue a new unified currency *Shinshihei* (1872), in which the aforementioned four different currencies were gradually absorbed. This opened the way for a readjustment of the monetary system; up to 1877 after this, the paper money issued by the central government were able to enjoy a stability, as witness the decline to 1 yen (in June) in 1876 from 1.051 yen (in February) in 1875, at maximum, of the difference with the silver money, as seen in terms of the price of silver when quoted on the market.

Besides such paper money, there also were the banknotes convertible into the specie, which were issued by the government on the basis of the Act of National Bank (promulgated in 1872) designed to effect a readjustment of government notes and an essential accumulation of capital. However, this specific category of notes could not be issued indefinitely under the pressure of the successive unfavorable balance of foreign trade and of

1) By the ordinance of May 1869, the government promised to exchange this note with specie during five years and to pay 6 percent interest a year to those which will have not been exchanged in the above years. Incidentally, the time for it expired at 1872, the government could not practice the promise. By the ordinance of 1872 and 1873, Dajokan notes was determined to exchange with a loan (*Kinsatsuhikikae-Kōsai-Shōsho*) and in practice it was mainly exchanged with new paper money (*Shinshihei*). cf. *Shiheiseiri-Shimatsu-hōkoku.*—— A Report by Count M. Matsukata on the monetary system in the early Meiji era. (in: 'Meiji Zenki Zaisei- Keizai Shiryo Shusei.——Collected Materials on public Finance and Econmy in the Early Meiji era, Vol. 11), p. 193

the flow abroad of gold and silver caused by the sharp fluctuation in the comparative price of gold and silver, and, thus, the amount of these notes actually in circulation was simply negligible up till 1876.

Chapter 2. Causes of the Inflation and Various Phenomena consequent upon It

Now, it is noted that the new paper money steadily tended to be issued in an increased amount as they were generally expended to cover the extemporaneous national revenue deficit as well as to meet the expenses by the Board for the Development of the Hokkaido, in addition to the role it served as a fund disposable by the exchange bank, which, incidentally, offered an impetus to a subsequent inflation. On the other hand, recalcitrant elements among the fallen Samurai classes resorted to a succession of open revolt against the central government in 1876 and 1877. The Kumamoto district saw the rebellion started by a local ultra-feudalistic organisation known as the Keishinto, while similar revolts successively occurred in Yamaguchi and Chiba. These eventually culminated in the major rebellion by the followers of Takamori Saigō in January, 1877. The inflation registered after 1878 evidently was caused by such factors as mentioned earlier, while it should be noted that the need faced by the central government to prepare war funds to cover the expedition to Kyūshū to place the rebellious situation there under control gave further and more direct impetus to the intensification of the inflationary trends. Endeavour will be made in the following lines to clarify the reasons why this particular necessity faced by the Tokyo government asserted itself as the immediate factor responsible for the upsurge of the subsequent inflation.

Towards the end of the year 1876, the national bonds issued amounted to Yen 53,000,000 in total, while, for the following year, 1877, additional issue of national bonds amounting to Yen 170,000,000 was under schedule. Under the circumstance, it was simply evident that the preparation of the necessary war funds by asking the nation to absorb such high amount of national bonds was out of question because they could not simply afford it. In view of this, the government had no other alternative than resorting to the following procedures to attain the purposes so urgent at the moment:

(a) Loan from the 15th Bank. To clarify the circumstances in this connection, it would be necessary to refer to the revision effected in 1876 of the Act of National Bank. It has already been mentioned that the issue of National Bank notes had to face an enormous difficulty, and that their circulation was possible only on an extremely limited scale. If this situation was to be interpreted as the economic factors necessitating such revision of the Act of National Bank, equivalent political factors should also be found in the measures taken by the government to compensate for the financial losses suffered by the erstwhile all-powerful Samurai and other privileged classes as a sequel to the collapse of the Shōgunate feudalism. The compensation was to be effected in the form of loan (*Kinroku-Kōsai*) delivered to these elements in exchange of what they had been deprived of. Apprehensive of the unavoidable unrest duly expectable on the heels of the decline of such government-issued expedient loan, the government had to resort to such revision with a view to mobilizing them for the ranks of the newly-rising capitalistic production machinery.[1] According to the revised provisions, the bonds would be eligible to be mortgaged for banknotes, the reserves for which were to be found in government-issued paper notes instead of the gold specie as heretofore. With the revision as a turning point, Tomomi Iwakura, one of the two deputy premiers at the time, and his follower-peers ventured to take steps for the inauguration of the 15th Bank (Jugo Ginko). The time coincided with the outbreak of the Southwestern Rebellion (i. e. rebellion by Takamori Saigō and his followers in Kyūshū) and the government faced an acute need of financing the government expeditionary forces sent to Kyūshū to subjugate the revolt. The government, under the pressure of the circumstance, hastened to issue the provisional certificates in place of the full-fledged compensation bonds, to pave the way for the projected inauguration of the bank in question, from which a sum of Yen 15,000,000 out of the total amount of paper notes issued was loaned at a low interest rate (5% per annum), and in return for which the peerage became the recipients of various special privileges.

(b) Financial contributions by Sakai Prefecture (now defunct). These amounted to Yen 100,000.

(c) Increased issue of government paper notes. An amount of Yen 27,000,000 was issued out of the new paper notes prepared to be exchanged for the deformed notes.

By these means, the government managed to have available a sum of

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1) S. Ōkuma, the Minister of Finance, said, "The Government determined to issue shortly the Kinroku-Kosai-Shōsho……If we now revise the Act of National Bank, and give permission to establish banks on the basis of this Shōsho, its price will not fall as it can use to good advantage. Consequently, the Samurai and other priviledged classes can save from the distress……" cf. *Kasei-Kōyō*.——Materials on the Money and Monetary Policy in the early Meiji era. (in: Meiji zenki Zaisei-Keizai shiryo shūsei Vol. 13) p. 465

Yen 42,000,000 for war expenditures, in addition to which a little over Yen 8,000,000 was also available in the form of the appropriated notes issued between January and February, 1878. This made the total Yen 50,000,000. Thus, the war funds to finance the Kyūshū expedition were prepared entirely on the basis of inconvertible paper money, which were never backed by any tangible value and which were nothing more than a " pure demand for social products ". The situation prevailing then relative to the circulation of paper money is indicated in Table 1.

Table 1 (Unit Yen 1,000)

Items / Years	New Money	Category 1 government paper notes	Appropriated paper notes	Bank notes	Total
1873	53, 878	97, 614		912	152, 345
1874	52, 566	96, 556		822	149, 926
1875	45, 848	101, 554		327	147, 637
1876	47, 700	105, 880		1, 684	155, 233
1877	——	93, 835	11, 961	13, 164	119, 149
1878	——	119, 800	19, 618	25, 139	165, 697
1879	——	114, 190	16, 118	33, 752	164, 354
1880	——	108, 412	16, 528	34, 398	159, 366
1881	——	105, 905	13, 000	34, 375	153, 302

Notes: (1) The figures in the Table are as on the last day of December, except the Bank notes, of which a monthly average for December is given.

(2) The totals shown for the years after 1877 include government paper notes and bank notes only.

Now, it is obvious that in any study of inflation, an investigation of the relationship existing between the actual amount of the circulation of paper money and the necessary amount of money should serve as the starting point. Thus, the question presents itself of what relationship these inconvertible notes generally issued under government authority had with the necessary amount of the circulation of money. To quote Count Masayoshi Matsukata, who then occupied the portfolio of Finance Minister, the " adequate amount of paper notes to be circulated in Japan was to be found in the figure actually registered in 1877, i. e. approximately Yen 100,000,000, and it should be known that at the addition of every Yen 10,000,000 above this, there would inevitably be registered a difference of 10 Sen." Whether Count Matsukata was really right when he declared that the adequate amount of paper money in circulation in the years immediately prior to the advent of the inflationary trends should, evidently, be open to question, and attempt will be made in the following lines to clarify this particular point, at the same that an analytical examination be made to see what such adequate amount of circulation really was. A hint, in this connection, will be found in the existence, if ever, of a difference between the value of the standard money and the paper notes and in the commodity price level then prevailing. According to Table 1, as shown above, the total amount of money in circulation in the 1873–1876 period was approximately Yen 150,000,000, of which about Yen 100,000,000 was occupied by paper note. The difference between the value of the silver and paper notes (substantially Japan, then, was on the silver standard) was, as has already been mentioned earlier, below 5 Sen in the 1876–1876 period, and, in June, 1976, any such difference ceased to show. The price index, placing that of 1873 at 100, stood at 102, in 1874, 105 in 1875 and 101 in 1876, showing fractional fluctuations. From this it may be concluded with a certain certainty that the level of Yen 150,000,000 was the amount of ciruclation adequately meeting the necessary amount of the circulation of money at that time, which proves that the afore-said statement of Count Matsukata about the Yen 100,000,000 level indicated the adequate amount of circulation of paper money at that time.

Thus, it will be seen easily that all additional issuance amount to Yen 50,000,000 in inconvertible notes with no tangible value backing, at a time when the necessary amount of the circulation of money was on such a level as mentioned above, was obviously in excess of that level.

The popular theory has it that, when the actual circulating amount of inconvertible notes is in excess of the necesarry amount of the circnlation of money, entailing a "decline" in the value of the notes, an inflation does set in. This, however, should not be considered correct. If this interpretation is upheld, as Professor T. Okahashi (Kyūsyū University) once clearly pointed out, the tendency for such "decline" to be fixed under inflation would not be explained out because the "decline" in value of the paper notes merely as a measns of circulation should naturally be void of a tendency to be fixed as is the "decline" of the money (gold) formally stipulated as a means of circulation. On the other hand, there is no doubt that the tendency of the fixation of "decline" in value as reflected in the continuation for a reasonable period of time of a general rise of commodity prices offers an unmistakable sign of an inflation. In the second place, such a theory would amount to a virtual denial of the nominal character of the rise of commodity prices under inflation. Such upward trend of prices caused by the loss of balance between supply and demand as the actual amount of paper note circulation exceeds the necessary amount of the circulation of money, in the long run, will become a substantial rise influenced by the variation of value. Lastly, such theory will unavoidably work to deny the very " decline " in value, and, in its train, the very inflation, for such will bring about an unbalance between supply and demand, an increase in the value of commodities, the disappearance of the difference between the value of a commodity and its market price, an equalization between 1 yen of money (gold) and 1 yen of paper notes, and, hence, the ceasing of such " decline " in value. The error of such popularly-accepted theory should be found in its failure to take due cognizance of the problem of the price standard. The essential feature of an inflation should be sought in the effect of the circulation of inconvertible notes in excess of the necessary amount of the circulation of money *leading to a cutting down of the price standard.* In other words, an increased issuance of paper notes in excess of the necessary amount of the circulation of money will inevitably lead to a decrease of gold amount represented by it and the virtual (or economic) cutting down of the price standard, which results in the fixation of the " decline " in value and the nominal rise of commodity prices. For instance, when the price standard is cut down substantially (or economically) to half of what it previously was, the commodity, which stood at par, say, with 1 yen in gold coin, will become to be exchanged for 2 yen in paper note, and, therefore, unless an additional issuance of paper notes is seen, there will be found no factors leading to further fluctuation in the commodity price, and, thus, the commodity price will inevitably be stabilized and fixed on this level. Further, in this case, as there has occurred no change in the commodity value and the money value, such rise in commodity price should be seen as merely nominal. The inflation, therefore, must be understand the problem of the function of the money of account. Thus, an examination of the virtual, and, hence, economic decline of the price standard at that time poses a problem to be examined. As Japan then was on a silver standard as a matter of fact, the currency to function as a price standard was, naturally, silver. In 1877, a silver coin of 1 yen denomination contained 6.520500 *momme* of silver. As, against ¥150,000,000 —the necessary amount of the circulation of money— an additional ¥50,000,000 was placed in circulation without being backed by any value relationship, the amount of silver represented in a paper note of 1 yen denomination was reduced to 4.890375 *momme*, which is to say that the price standard, substantially, was cut down by 25%.[1]

The foregoing lines, thus, have amply made it clear that the method

1) This is calculated as follows. 6.520500 × 150000000 = 978075000 *momme* 978075000 ÷ 200000000 = 4.890375 *momme* 6.520500 − 4.890375 = 1.630125 *momme* 1.630125 ÷ 6.520500 = 25(%)

adopted by the government in raising the funds needed for financing the 1877 rebellion in Kyūshū was the immediate cause for the inflation witnessed in the years after 1878. In the lines to follow, various phenomena asserting themselves under this inflation will be brought up for examination.

Among a number of commodity prices, the price of rice and that of silver registered a most marked rise. (Refer Table II). The factors causing such rise of rice price would be found not only in the effect of the inflation then prevailing but also in the fluctuation of its market price through the unbalance brought in the supply and demand due to the fact that the rice crops, except in the years 1877–1881 were below the average annual level, and, to the same extent, in the prevalence of speculation at the rice exchange. The rise of rice price at this period was interpreted by a certain authority in the following vein: "As in 1877 indications were evident in the quarters concerned that the land taxes would be lowered, the economic situation of the farming household was much improved. In the years following 1787, the rice price continued tó rise; the farmer had only to put on sale half of his crops to garner more than what he would have earned ordinarily, which, naturally, resulted in a full-ranged improvement of the economic life of the farmer, and the additional financial profits

Table II.

Item \ Year	1877	1878	1879	1880	1881
Price of rice	yen 5.16	6.04	8.06	10.47	10.49
Index, price of rice	100	117	156	203	203
Index, of Tokyo major commodities	100	103	114	130	136
Excess imports	¥1,000 4,072	6,886	4,777	8,231	133
Excess imports from gold-standard countries	——	¥1,000 10,980	3,877	7,795	Excess exports 38,3
Flow of gold specie	¥1,000 7,267	6,139	9,644	9,584	5,634
Price of paper note per 1 yen silver coin	yen 1.033	1.099	1.212	1.477	1.696
Demand rate of exchange at London	Per 1-yen silver 3.11.8 shilling pence	3.9.5	3.8.1	3.8.9	3.8.5
World ratio of gold and silver price	against gold 1 17.22	17.94	18.40	18.05	18.16

Table III.

	A Cases of inspection relative to land tax reform	B Ratio by average price of rice of 1874-75-76	C Ratio by reduced tax in 1877 & price of rice in 1878	D Ratio by average price of rice of 1878-1887
State	34 %	13	12	11.5
Landowner	34 %	55	56	56.5
Tenant farmer	32 %	32	32	32
Totol	100 %	100	100	100

thus gained by him were presumably turned to the purchase of imported foreign goods." Superficially, it would seem that the rise of rice price benefited the entire farming populace; but, such view is completely erroneous. According to Table III, which shows the ratio of shares to the tenant farmer of the entire range of agricultural labor products, it is evident that more than a half of them was for the acquisition of landlords, which registered a steady increase. As D shows the ratio by average price of rice of 1878–1887, when the drastic rise of rice price after 1878 and its sudden fall after 1882[1] is taken into consideration, it would be presumed that what was acquired by the landlords under inflation was much more than what is indicated above. On the contrary, the farmer had to turn to consumption of his family a major part of what he could acquire, while what he had to purchase registered a continued rise in price. If this is taken into consideration, it would even be said that the economic condition of the farmer deteriorated rather than was improved. Such advantage which was being enjoyed by the landlord is eloquently indicated, further, in the increase from 31.10 % in 1873 to 36.75 % in 1883 of the percentage of the tenant farm area compared to the total tilled land. Accordingly, the landlords exclusively gained by the rise of rice price, and they purchased the imported foreign goods by their surplus purchasing power.

Again, with regard to the rise of the silver price, Count Mastukata further said that " in the years 1880 and 1881, when the value of paper note was at its lowest ebb, the amount of circulation stood at between ¥170,000,000 and ¥180,000,000, the market price of which was between ¥1.70 and ¥1.80. Viewed in this way, the paper money amounted to ¥70,000,000—¥80,000,000 excess over ¥100,000,000, which was the ade-

1) Yen 8.76 in 1882, Yen 6.08 in 1883, Yen 5.37 in 1884, Yen 6.90 in 1885. cf. Shiheiseiri-shimatsu-hōkoku, p. 246-7

quate amount of circulation, was allowably to be called a shadow of the currency actually in circulation……." This view would be held as correct if the necessary amount of the circulation of money in 1877 actually coincided with Matsukata as the adequate amount of the circulation of paper money. However, the fact stands that both fail to coincide, the former as has already been made clear, standing at ¥150,000,000, and, thefefore, the mathematical explanation offered here by Count Matsukata does not hold good. It has earlier been pointed out that the virtual cutting down of the price standard caused by the increased issuance of inconvertible paper notes amounted to 25 %, and, thus, the ratio of rise registered in the price of silver may be computed as follows. Now, if the amount of silver contained in a ¥1 silver coin is put at a *momme*, the amount of silver equivalent to ¥ 1 after a virtual cutting down of the price standard should be shown by $\frac{100-25}{100}$a. As this amount of silver becomes to be indicated as ¥ 1, assuming the role of a virtual price standard, the following equation should show to how much yen the a *momme* amount of silver corresponds:

$$a : \frac{100-25}{100} a = X : 1 \qquad 1 = \frac{75}{100} X$$
$$Y = 1.33 \text{ (yen)}$$

Thus, it is known that the old ¥ 1 silver coin, due to a virtual cutting down of the price standard, now actually amounts to ¥ 1.33. According to Table II, the price of paper note as against a ¥ 1 silver coin registered ¥ 1.477 in 1881 and ¥ 1.696 in 1882 (the highest level was reached in April the same year with ¥ 1,795). Although this shows a slight divergence from what the afore-mentioned equation would produce, this should be construed as the result brought about, due to the continued adverse trade balance under inflation as alluded to hereafter, by an increased demand for silver constituting the standard money as well as by the intense speculation centered on silver. Shigenobu Ōkuma, the then Finance Minister, in his report to the Premier urging the need of inaugurating a central exchange for the transaction of foreign silver, (or Mexicandollars), pointed out that "thorough investigations conducted by the government authorities concerned……have established that the current situation has for the most part been brought about by bogus transactions. Of late not only those firms which have hitherto had transaction in foreign silver do business in this but also those who, like mere errand boys, have not even one *sen* at immediate disposal, do eagerly compete in transacting in this, so much so that the amount of bogus transactions thus conducted by day stands well above one million dollars on an average." Now, it would be worth special attention that the fundamental causes responsible for the rise of the prices of rice and silver should be found in the cutting down of the price standard effected through an increased issuance of inconvertible paper notes. The failure to take this duly in sight was, as is explained later, responsible for the blunders witnessed in the government counter-measures resorted to in order to overcome the contemporary inflation.

Now, according to the general commodity price index in Tokyo, the actual rate of the rise of the commodity prices was roughly on the same level with the rate of commodity price rise theoretically computed from the virtual (or economic) rate of cutting down of the price standard (this rate may be computed by the same equation as in the case of the new price of a *momme* of silver resulting from the cutting down of the price standard, as mentioned earlier. The rate of rise was 33%), and this fact deserves due attention. (Refer Table II),

Meanwhile, Japan's foreign trade was showing a chronic unfavorable balance (Refer Table II). This phenomenon could be traced to the high level of commodity prices prevailing in the country due to the prevalence of inflation and also to the tendency that the increased purchasing power af land-owners and others benefiting from the inflation was utilized for the importation of foreign goods.

The rate of exchange likewise was registering a steady fall every year. (Refer Table II). Fundamentally, the exchange transactions are none other than capital loaning operations, which, as a matter of fact, accompany payment of interest. Further, if a bank takes part in the transactions, a market interest will be added to it. Therefore, the actual demand rate of exchange will be determined by three factors of capital loaned and exchange interest plus market interest against the term involved. A study of the continued fall of the rate of exchange, with the above circumstance duly taken into consideration, will easily point to two causes working for such decline. Firstly, the virtual (or economic) cutting down of the price standard led to a nominal rise of commodity prices, which, in turn, resulted in an unfavorable balance in the payment of the differences, for the settlement of which demand for foreign exchange registered a sharp increase, which, again, saw a sharp rise in the negative interest paid. The second cause would be found in the fluctuation in the comparative price of gold and silver. Now, it is noted that, on the world market, the price of silver began to show a decline from about 1875 following the adoption by Germany (in 1873) of the gold standard. This was simply a phenomenon arising out of the increased production of silver accompanied by a reduction of cost as the successive adoption by various countries of the gold standard and the ban on the silver coining, which naturally brought a big change in the relation of supply and demand. The continued fall of the price of silver due to these factors works in the same way as when a silver-standard country devaluates its currency continuously against a gold-standard country. The original capital, constituting one of the essential components of the rate of exchange, meantime, is duly affected by such devaluation, which, in turn, will unavoidably cause a decline of the rate of exchange.

Next, a survey will be made of the enterprise activity in this period. The total amount of the incorporated capital in 1877 was ¥ 460,000, which recorded a steady rise as ¥ 890,000 in 1878, ¥ 1,100,000 in 1879–1880 and ¥ 28,000,000 in 1881. However, the enterprises actually in oporation then were without exception on a small scale and were more or less commercial capital in nature. It is presumed that most of them engaged in speculative transactions; this could be seen from the fact that the increase of the number of companies was at its highest in the period of 1880–1881, when the inflation was at its worst. It is a common phenomenon under inflation that, as it is fairly far advanced, capital will be allured more to such channels where invested capital circulates more quickly for profit than ordinary processes of production. This may be shown in the following formula:

(1) G—W……P……W′—G′ (acquisition of profit through processes of production. This is the formnla of industrial capital.)
(2) G—W—G′ (inflationary channels for quick acquisition of profit. The processes of production is lacking in this formula.)

The latter formula, actually, shows the movement of commercial capital, and, if this comes to an extreme, trends will come up to the fore that profits are pursued through speculative dealings.

Now, let us take up the marketable securities and the rate of interest. According to Table IV, the rate of interest registered a rise, while the prices of the marketable securities declined. With the Kyūshū rebellion as a turning point, the issue of the inconvertible notes rose, which resulted in the virtual cutting down of the price standard, the rise of commodity priecs, an increase of the amount of nominal capital needed to maintain commercial and industrial activities on the same scale as before, an increase of the demand for the capital loaned to the banks and the rise of the rate of interest. As the speculative dealings inensified, as mentioned previously, demand for capital for such purposes naturally mounted, which, again, brought about a rise in the rate of interest, which was a phenomenon to be casily expected. Further, it is well-known that the rate of interest and the price of marketable securities usually fluctuate in a precisely opposite direction, and, it will be unnecesssry to dwell longer on this particular aspect.

Table IV.

Item \ Year	1877	1878	1879	1880	1881
Interest rate	% 10.5	12.0	13.0	14.0	10.1
Old bonds	—	yen 21.92	21.14	18.63	16.00
New bonds	—	65.93	65.04	53.00	54.97
Compensationary bonds (*Chitsuroku-Kōsai*)	—	101.58	97.82	92.00	85.00
7% compensationary bonds (*Kinroku-Kōsai*)	—	83.50	81.31	71.85	69.50
Enterprise bonds	—	79.71	78.19	73.50	60.00
Tokyo stock exchange stocks	—	—	205.95	144.75	210.00
Daiichi Bank stock	yen 107.45	118.81	199.16	159.02	157.06
Tokyo rice exchange stock	—	—	331.86	217.95	121.72

Table V.

Year \ Item	Textile worker	Paper manufacturing female worker
1877	yen 0.105	yen 0.062
1878	0.156	0.060
1879	0.163	0.067
1880	0.178	0.067
1881	0.197	0.088

Lastly, a survey will be made about the movement shown in wages. Table V, which shows an example of laborers in Tokyo, when compared with the movement shown in the rise of the price of rice (refer Table II), will amply show that the rise of wages was greatly out of proportion with a strikingly low rate of rise. This is to say that the decline of substantial wages was drastic and precipitous.

The foregoing lines have, it is hoped, served to show in outlines the causes for the inflation and various phenomena seen under that inflation. In the lines that follow, various measures taken by the Government to counter such situation will be taken up for examination.

Chapter 3. Measures Taken by the Government to Counter the Inflation.

In a broad analysis, the Government resorted to five counter-measures, most of which, however, resulted in failure becuase the Government started from a mistaken interpretation of the inflation.

(1) Placing silver on sale.

The rise of commodity prices always lagged behind the fluctuation seen in the market quotations of foreign silver. Opinion, thus, prevailed both in government, and private circles concerned that "in the years 1878 and 1879 there was no fall in the price of paper notes nor was their amount issued excessively big. That there was an unbalance as against the price of silver was simply due to a rise in the latter." Under such interpretation, the Government authorities determined to take measures designed to curb the further rise of silver price, and, from about April and May in 1879, had the Second National and the Mitsui Banks place on market the silver currency amounting to more than ¥2,400,000 in value from the National Treasury. This made the silver price fall to Yen 1.102 (June) from ¥1.247 (April). But, as the selling slightly slackened in July, it again beganto go up and was quoted at ¥1.435 in March, 1880. The Government, then, in April and May, 1880, sold out more than ¥6,000,000 -worth silver currency through the First National, the Second National and the Mitsui Banks, which made the price go down to ¥1.367 (June) from ¥1.549 (April). An unfavorable balance in foreign trade worked to pull it up again, it being quoted at ¥1.489 in September. It should be noted that this measure failed to take due cognizance of the essential character of an inflation —an increased issuance of inconvertible paper notes led to the virtual cuting down of the price standard, which resulted in the rise of commodity prices and silver price—, and, by simply taking into consideration the two consequences of cutting down of the price standard, i. e. the rise of the silver price and that of commodity prices, committed the mistake of taking one for a cause of the other, and, through a readjustment of these two, tried to curb the tendetcy of further rise in commodity prices. Thus, this particular measure, substantially, had nothing to do with the essential character of an inflation, and, consequently, had practically no chance of ever succeeding. The Government, eventually, abandoned it.

(2) Establishment of a Foreign Silver Exchange—the Yokohama Specie Bank.

The report to the then Premier drafted by Finance Minister Shigenobu Ōkuma, as quoted earlier, proposing the inauguration of a foreign silver exchange, sought the causes for continued speculative dealings in foreign silver in the absence of such exchange, and, proposed that "a foreign silver exchange be inaugurated in Yokohama without delay," and predicted that, "once such be authorized officially by the Government, no further bogus transactions, as alluded to previously, shall be allowed, the price being gradually restored to its natural level." The Government, with an aim to curbing the rise of silver price, eventually took steps to inaugurate a foreign silver exchange in Yokohama in February, 1879. The Yokohama Specie Bank, as one means taken by the Government for the pruposes of preventing rise of silver price, opened its doors to business in February, 1880. That the Government took such a step was because it was under the belief that the shortage of foreign silver caused its price to go up, which, in turn, caused a difference with the price of silver notes. In other words, the founding of the foreign silver exchange or the Yokohama Specie Bank was a result of a mistake committed by the Government in grasping the essential identity of an inflation, as such was the case, also, in regard to the Government measures for placing silver on sale. It was only natural, then, that neither of these measures proved successful for the attainment of the original purposes. In addition to this, these policies could not be pursued steadfastly, examples of which could be found in various Government measures taken relative to the exchange.

(3) Restrictions imposed on dealings at the silver currency exchange or the stock exchange.

In September, 1879, the Government authorized dealings in gold and silver at the stock exchanges in Tokyo and Osaka and, at the same time, ordered the Yokohama foreign silver exchange (Yokohama Yōgin Torihikisyo) to be re-named as the Yokohama exchange (Yokohama Torihikisyo), where dealings not only in foreign silver but also in gold and silver currency were permitted. This was precisely in accordance with the original aims of establishing the exchange as a means of preventing the silver price from going up. In spite of this, the price of silver registered a further rise, reaching the level of ¥1.579 in April, 1880. Judging that the rise of the price was being caused by the speculative activity in the exchange, the Government, then, banned dealings in gold and silver currency. This was followed by a revision of the Act of Stock Exchanges, permitting transactions in gold and silver currency again in May, periodical marketing of which was again prohibited during the same month. Towards the end of this year, the price of silver saw a further rise; opinion was raised within the Government circles that transactions in gold and silver currency should be absolutely banned, which, however, was not put into practice. The Government policy regarding the operation of the exchanges, thus, wavered greatly and never was fixed, and this, as has repeatedly been already pointed out, was due to the fact that the Government failed to see into the essential identity of the inflation.

(4) Encouragement of Industries:

While all of these measures, as mentioned in the foregoing lines, aimed at curbing the inflation through suppressing the price of silver, the Government further resorted to another policy, —which was through the promotion of industrial production—for the same purpose. It may be pointed out here that such a policy was based upon a theory as is related below. The rise of commodity prices was brought about by the rise of the price of foreign silver, which, in turn, was due to a shortage of the specie. The shortage of the specie, again, was the result of the imports exceding the exports, while such unfavorable balance of foreign trade could be traced to an unsatisfactory industrial production at home. Hence, the need was apparent that domestic industires be encouraged for increased production. With this in view, the government took steps to loan to private industrialists the loans appropriated from its reserves, or, with the use of such funds, financed establishment of government-operated enterprises. A sum of ¥ 23,000,000 out of a total of ¥52,000,000 in reserve was defrayed for such purposes. Most of private industries thus subsidized by the government, however, had the misfortune of ending in a failure, with the result that most of the government loans advanced could not be re-collected. The standpoint to curb an inflation through an increased production, true, carries an important phase directly in contact with its essential character. It is needless to say that an inflation should be interpreted in its relation to the re-productive structure of society, and, as far as it holds, it in not simply a problem of the process of circulation. However, overdue emphasis placed on this particular point will be liable to lead to an error. It is already well known that the necessary amount of the circulation of money, provided that the velocity of circulation of money is constant, depends on the total amount[1] of the prices of commodities produced by a particular society. The question of production herewith will be summed up in the question of the value of commodities, which lies at the back of the volvme and price of such commodities. Therefore, in the opinion of the present writer, the question of production, as far as the theory of inflation is concerned, should be interpreted as a question related to the necessary amount of the circulation of money. It was precisely in this sense that mention was made in the foregoing lines that such standpoint " carries an important phase." An inflation, however, does not simply a question of such necessary amount of the circulation of money; it is caused when an increased issuance of paper

1) the total amount of the prices of commodities
$=\Sigma$(price of a commodity $\times$ quantity of the commodity)

money not based on any value relations leads to an actual amount of its circulation in excess of the necessary amount of the circulation of money, entailing a virtual cutting down of the price standard. If this particular point is overlooked, no effort to increase industrial production, so long as the tendency toward increased issuance of paper money is not curbed, will suucceed in overcoming an inflation.

(5) Curtailment of paper money issued.

Before and after the political crisis of 1881, a marked difference is observable in the fundamental standpoint of the cause of inflation and the measures taken to counter it on the part of the government authorities. Prior to the political crisis in 1881, Finance Minister Ōkuma and later, Councillor (*Sangi*) Ōkuma and Finance Minister Sano were directly in charge of the situation, while Matsukata, as Finance Minister, was responsible after the political shift. Unable to understand correctly the factors causing an inflation, Ōkuma and Sano tried to seek its causes in the shortage of the specie due to an unfavorable balance of foreign trade. Thus, the measures taken by them to counter the inflation, though they included a policy of curtailing the paper notes issued, lacked steadfastness, and it appeared as if more emphasis was placed by them on the importation of foreign capital. The first policy taken by the then Finance Minister Ōknma was based on the government decree No. 87 promulgated in connection with the redemption of the supplementary paper notes which were placed in circulation tat the time of the Kyūshū Rebellion in 1877. According to this decree, the redemption of these notes was to be completed by 1895 starting in 1878 and it was hardly thinkable that this particular decree had deliberately been designed to fight the inflation. As the difference of price with the silver notes grew bigger, he took steps to publish in June, 1879 a special Bond Depreciating Program intended to curtail the period to eight years. However, business and industrial circles at this time were suffering from a shortage of money capital, and, seeking to find causes for the want of capital and the drastic rise of interest rate in the shortage of the currency in circulation, were clamoring for an increased issuance of paper notes. In the face of this, Finance Minister Ōkuma rapidly lost confidence in pushing ahead his policy. Then, Ōkuma and Sano tried to raise a foreign loan amounting to ¥50,000,000 in 1880, with which to redeem the paper notes issued; their plan, however, was not approved. The price of silver further continued to rise; the sale of silver was suspended in September, 1880,— incidentally, a series of policies which began from the sale of silver mentioned previously were all caried out by Mr. Ōkuma-and Sano— which was followed by a revision of the Regulations for Sake Brewing Tax and retrenchment of various government department expenditures. These, however, failed to stop the continued rise of the price of silver, which reached a maximum in April, 1881. Count Matsukata, who succeeded him as Finance Minister, under the conviction that the increased issuance of inconvertible notes caused the inflation and that the rise of commodity prices represented but a shadowy level void of substance, did his utmost to redeem the paper notes, which, eventually, successfully brought the rampant inflation under control. How this was achieved has been described elswhere, a repetition of which is dispensed with here. The only point worth attention in this regard, however, is the reason why the policy taken by Count Matsukata was blessed with success. Needless to say, the first reason conceivable was to be found in the correct interpretation by Count Matsukata of the cause of the inflation. There was something more than this. An inflation, originally, represented a policy adopted by the Government. At the time when Count Matsukata took over the portfolio of Finance Minister, various contradictions inherent in such policy had been asserting themselves more or less markedly while objective conditions enabling its eventual control possible were already forming. These sircumstances, combined, prompted the Count to resort to such measure and crowned him with success. An examination of this particular point will be made in the lines which follow.

Chapter 4. Limits of the Inflation and its Control.

It should be noted that the historical mission of the Meiji absolutist regime existed in the essential accumulation of capital and a forcible execution of the policy for the evolution of the feudalistic relationship of production to a capitalistic one. The nucleus of the essential accumulation of capital lay in the eventual break-up of a society between the owner of productive means and the owner of laboring power as a marketable commodity. However, in the case of a backward country where the accumulation of capital is still on a low level, in spite of the acute necessity felt for a speedy transition to a capitalistic production system, an accumulation of capital in terms of money is predominantly needed in order that such productive means be concentrated in the hands of a particular groups of people. The successive measures taken by the government for the establishment of exchange banks and national banks and the revision of government regulations governing such national banks should, thus, be interpreted from this standpoint. As is well known, the movement of interest-bearing capital may be represented in the formula of G—G′. And, in this, " money, as capital, will become a marketable commodity," and

" without any intermediate process linking these both ends," will come to increase its value, which, in turn, will signify its own increase. In other words, most important points, in this connection, are that, as far as interest-bearing capital is concerned, the money capital becomes a marketable commodity, that what bank capital loans is actually a capital in the form of money, and that interest-bearing capital, too, so long as it is capital, ought to effectuate the increase of its own value. In the initial stages of an inflation, it is noted with special emphasis that profit of an enterprise shows a marked increase, and, demand for capital due to an added activity in production and circulation and also for speculative fund will go up together, and it results in increasing the demand for loaned capital, increasing the interest rate, bringing along with it an added profit on the part of a bank. A comparison of the situation prior to the revision of the Bank Regulation in 1876 and that in 1879 shows that the number of national banks had increased by more than 38 times during this period, while the total amount of their capital had increased by more than 11 times, the reasons for which should be found in the circumstance as mentioned above. As the inflation advances further, however, g in the formula $G'=G+g$, which stands for interest, has its substantial value gradually reduced in spite of the continued rise of the interest rate. Not only this but the bank will come to be ever threatened by a continued devaluation of money capital which it offers as a marketable commodity. In the face of such situation, the bank will have no other recourse in order to safeguard its own interests than to put limit to its loaning through an increased interest rate. This means, in essencce, that the policy to foster industries by accumulating money capital due to a low level of accumulated capital, faces a danger of collapsing. Whatever contradictions that are inherent in an inflation will here present themselves, which, as a natural sequence, stimulates a requirement that the inflation be placed under cintrol. The statement attributed to Count Matsukata, referring to the evils of an inflation to the effect that " an increased issuance of paper notes will inevitably induce an increased demand for currency, while as the interest rate will temporarily be reduced initially for their increased issuance, various industrial enterprises will be given an impetus to grow in scale and scope. When these enterprises are half way in their expansion, they will unavoidably face a drastic rise of commodity prices, which entails an unexpected expansion of their expenditures. Demand for debts will grow up in no time; interest rate will go up; enterprises will face the need of retrenchment and curtailment, which, eventually, results in the reduction of the national power", should be interpreted from this standpoint. Thus, it would be presumed that at the time when Count Matsukata took over his office, the inflation, which had been so rampant, was already running out its race. What, then, was the objective situation, which at this time was shaping itself, that enabled a positive policy for placing the inflation under control?

It has already been mentioned that the reduction of land taxes effected in 1877 and the subsequent inflation which began to show up from 1878 worked for the benefit of land-owner classes. This was responsible for the fact that land-owners, who had previously willingly aligned themselves to the movement for popular democracy under the pressure of heavily-taxed destitute tenant classes, gradually lost their zeal and dropped out of the ranks. This trend eventually led to the disintegration of the Liberal party in 1884. This is to say, in other words, that the Meiji regime had to strengthen more its own class foundation in the turmoil of an inflation. On the other hand, it stands to record that small-scale landed farmers as well as destitute tenant farmers were mercilessly robbed of what they had possessed by the inflation. While those in possession of the compensationary debentures, i. e. erstwhile feudal lords and upper *Samurai* classes, were by degrees incorporated into the capitalistic system of production in the form of inauguration of national bonks, the lower *Samurai* classes, under the pressure of the inflation, had to sell out whatever debentures they happened to possess at a disproportionately low rate and were finding their may down to the proletarian classes. To add up to this, the position of working people and salaried men worsened. Thus, a distinct differentiation of society into two major classes of privileged politician-businessmen, capitalist-bankers and landowners, on the one hand, and proletarians and destitute farmers, on the other was seen. Objectively, the inflation, thus, played the role to promote the essential accumulation of capital. The formation of two major social classes, on the other hand, gave the prospects of subsequent integration of the vast industrial capital. The objective situation which earlier was alluded to as shaping itself, actually referred to such break-up into two distinct social classes. Thus, deadlock encountered by the inflationary policies, on the one hand, and the gradual ripening of an objective situation, on the other, combined to make it imperative that the inflation be overcome, and, they, in unison, rendered it utimately possible.

What has been said about the inflation in the early Meiji era may be summarized as follows. An inflation is predominantly an issue related to the process of circulation (Zirukulationsprozess), which entails issuance of paper notes without being backed by any value relations, their circulation in excess of the necessary amount of the circulation of money decrease of gold amount represented by them, a virdual cutting down of the price standard and the nominal rise of commodity prices, and it should essentially be understood as a question of the function of the money of account. An error committed in this connection, apparently, was fundamentally responsible for having reduced various measures taken by the Meiji regime to counter the inflation to mere caricature. It shonld further be fully comprehended that an inflation does never remain a question of currency but that it is more a question of policy. From this point of view, it may safely be said that the inflation in the early years of the Meiji era, as a policy, sucessfully played its role for stimulating an essential accumulation of capital and paving the way for the subsequent formation and expansion of industrial capital.