

VOLUME XXIV

NUMBER 1

Kyoto University Economic Review

MEMOIRS of The FACULTY of ECONOMICS
in
KYOTO UNIVERSITY

Independence of Local Finance *Masao Kambe* (1)

Japan's Balance of International Payments
in the Early Meiji Period *Yasuzō Horie* (16)

A Tentative Non-linear Theory of Economic Fluctuations
in the Purely Competitive Economic System II
. *Shin-ichi Ichimura* (35)

APRIL 1954

PUBLISHED BY
THE FACULTY OF ECONOMICS
KYOTO UNIVERSITY
KYOTO, JAPAN

JAPAN'S BALANCE OF INTERNATIONAL PAYMENTS IN THE EARLY MEIJI PERIOD

By Yasuzō Horie*

I. Introduction.

The first studies of yearly balance of payments in our country were made beginning in about 1902, and statistics have been published since 1904. Therefore, it is almost impossible to know accurately the conditions of the balance of international payments before that time. It is for this reason that although one can find yearly statistics for exports and imports in foreign trade as well as the inflow and outflow of gold and silver, it is possible to find only fragmentary statistics in regard to the invisible items outside of the trade itself. In spite of this, we can say that when one considers the early Meiji period—from the first year (1868) until the Sino-Japanese War (1894)—as a single period, Japan was able to maintain a balance of international payments by herself. This means that in order to adjust the unbalance in foreign trade as well as invisible items, she was able to get along without borrowing from foreign countries. The basis for this conclusion is simply that at the time of the Sino-Japanese war, Japan was neither a debtor nation nor a creditor nation, to any appreciable extent.¹⁾

In this article, we would like to examine the conditions of international payments as well as the policies adopted to maintain the balance of payments, considering the period up to 1893 as a unit. However, first we shall outline briefly the international indebtedness of the period.

The new Meiji government assumed the burden of debt of 500,000 Mexican dollars borrowed from the Société Générale of France by the *Bakufu* for the purpose of constructing the Yokosuka Iron Foundry (later Yokosuka Naval Dockyard). This debt was repaid with funds borrowed from the Oriental Bank Corporation, but still remained to be paid to the bank. In addition, in order to obtain funds to defray the expenses of the Minting Bureau, the government contracted a new debt of 400,000 Mexican dollars from foreign trading companies and traders. However, these debts were completely repaid as early as 1870. Also, the government assumed the

* The author is professor of Economic History at Kyoto University.

1) Moulton, H. G.; *Japan, an Economic and Financial Appraisal*, 1931, p. 274.

debts to foreign trading companies and traders contracted by the former feudal lords, a total of about \$4,000,000, but this amount also was completely repaid by June of 1875. Besides this, there were some indemnity obligations following the incidents in which foreigners were murdered and wounded in the agitated period of the Restoration, but these also were paid as promised.

Further, the government floated two types of modern foreign loans in London at the time when it was establishing itself. These were the 9 % Sterling Loan of 1,000,000 pounds (4,880,000 *Yen*,) in 1869, for the purpose of building railroads, and the 7 % Sterling Loan of 2,400,000 pounds (11,712,000 *Yen*), in 1872, for the purpose of raising funds to give employment to *samurai*. However, these were both redeemed, principal and interest, the first being completed in the fiscal year 1881 and the second in 1899.

When one moves over and looks at the field of direct investments, there were in the foreign settlements of the open ports various foreign commercial companies, banks, shipping companies and shipbuilding yards, as well as other manufacturing establishments. It is not clear, of course, just what the operating capital amounted to, and the amount of profits taken abroad. However, it goes without saying that they were an item in the foreign debts and in the balance of international payments. But some of these enterprises were soon bought out by either Japanese individuals or by the government. For example, the Mitsubishi Shipping Company bought the wharves, warehouses and other facilities in Yokohama, Kōbe and Nagasaki, owned by the Pacific Mail Steamship Company, an American firm, and two or three shipyards in Kōbe were bought by the government. Also, a shipyard in Ōsaka owned by an Englishman became Japanese through his adoption of Japanese nationality. Thus, the major ones remaining were branches of foreign trading companies, banks, shipping and insurance companies. There was no great expansion of investment; rather, it can be said that there was a tendency towards a contraction. This is because the tendency of value of silver to decline in the early Meiji period discouraged direct investment in Japan from gold standard countries.²⁾ On the contrary, Japan itself was making direct investments abroad in the form of trading companies, banks and other enterprises. Examples of these are the Mitsui Bussan, Ōkuragumi, Mitsubishi Shōji, Yokohama Specie Bank, Nippon Yūsen Kaisha (N.Y.K. Line), Ōsaka Shōsen Kaisha (O.S.K. Line) and other

2) *Kahei Seido Chōsakai Hōkoku*.—A Report of the Monetary System Investigation Board, 1895. (in: *Meiji Zenki Zaisei-Keizai Shiryo Shūsei*.—Collected Materials on Public Finance and Economy in the Early Meiji Period, Vol. 12), p. 388.

company branches in foreign countries. It is difficult to compare in amount the direct investments of foreigners in Japan and those of Japanese abroad. Even if the former were greater than the latter, the difference was probably not of great significance.

To summarize, our country, which had been one-sidedly a debtor nation in the first years of the Meiji era, afterwards divested herself of this situation step by step, and by the time of the Sino-Japanese war, came to hold a position where she was neither a debtor nation, nor, and at the same time was she a creditor nation, to any appreciable extent.

II. Payments in Foreign Trade.

According to the statistics of exports and imports of goods, the most important item in the balance of international payments, there was a continuous excess of imports, leaving out the years 1868 and 1876, up to 1881, the year in which Finance Minister Matsukata launched the policy of paper currency regulation. This import excess reached a total of 77,643,000 Yen up to this time. However, in 1882 foreign trade moved over to an excess of exports, and until 1893 exports exceeded imports every year except 1890, when an import excess was caused primarily by the slowdown in raw silk exports accompanying the world-wide crisis of that year. The total export excess was 69,812,000 Yen. Thus, when we consider the period up to 1893 as a unit, there was an import excess and therefore an excess in outward payments, as shown in Table 1.

Table 1. Balance of Commodity Exports and Imports, 1868-1893. (In Yen)

	1868-1881 (14 years)	1882-1893 (12 years)
Exports	302,242,813	699,004,545
Imports	379,885,980	629,191,837
Balance	(-) 77,643,167	(+) 69,812,708
Balance for 26 years (1868-1893)		(-) 7,830,459

The major cause for the continuous import excess during the first fourteen years was not only that the demand for western type commodities had become very great, but that production of these goods in Japan was still on a low level. However, the factor which greatly stimulated imports was the increase in commodity prices caused by the inflated paper currency. This point is made clear in a contemporary article in the *Tōkyō Economic Journal* (*Tōkyō Keizai Zasshi*), as follows: "The author has explained previously, in the third issue of the *Tōkyō Economic Journal*, that

the increase in Japan's currency has been almost 130,000,000 Yen. In what way can this be desirable, when it has resulted in a decline in its value, increases in commodity prices, the stimulation of imports of foreign goods, and the outflow of silver and gold?³⁾

Thus, the changeover in 1882 to an excess of exports came because of the onset of the depression and the fall in commodity prices accompanying the paper currency consolidation. This explanation probably holds true for the years up to 1885 or 1886. However, after this time there was a recovery in economic conditions, and also great numbers of modern enterprises were being established and there was a year by year increase in machine importations. The fact that despite this, the export excess continued means that, as might be expected, there was another reason. This was, in brief, the fact that the trade of Japan, at that time on the silver standard, developed in a remarkably advantageous manner with gold standard countries due to the world-wide downward trend in the value of silver. Table 2 shows this statistically.⁴⁾ It is regrettable that statistics are not available for the years before 1878. However, the conditions can probably be surmised from this table.

Table 2. Balance of Commodity Trade with Gold Standard Countries and Silver Standard Countries Separately Calculated, 1878-1893 (In yen)

With Gold Standard Countries		
	1878-1881 (4 years)	1882-1893 (12 years)
Exports	82,710,361	499,523,484
Imports	104,977,626	387,533,034
Balance	(-) 22,267,265	(+) 111,990,450
With Silver Standard Countries		
	1878-1881 (4 years)	1882-1893 (12 years)
Exports	28,640,848	173,770,896
Imports	28,523,660	229,494,750
Balance	(+) 117,188	(-) 55,723,854

(NOTE)

Gold standard countries: England, Germany, France, Italy, Belgium, Switzerland, Holland, Spain, Portugal, Sweden, Norway, Denmark, Turkey, United States, Canada, Hawaii, Australia.

Silver standard countries: China, Hongkong, East Indies, Korea, Siam, Philippines, Austria, Russia, Peru.

3) *Yushutsu-nyu Chōka no Genyu*.—Causes of Excess Exports and Imports. (in: Tokyo Keizai Zasshi—Tokyo Economic Journal, No. 10, 1879)

4) Calculated from the Table on pp. 110-112 of the *Kahei Seido Chōsakai Hōkoku*, op. cit.

As can be seen in this table, trade with silver standard countries, which showed an excess of exports, although small, before 1881, changed to an excess of imports from 1882 onward. It so happened that trade with gold standard countries showed just the reverse, showing what a strong effect was produced by the relative decline of silver value. Since the percentage of trade with gold standard countries was from 70% to 80% of the total foreign trade, this excess of exports to gold standard countries showed as an export excess in the total foreign trade figures.

Despite this fact, when the 26 years are totaled, there was an excess of imports of some 7,830,000 Yen, as shown in Table 1. This cannot quite be called a large amount, but here there is an important factor which makes necessary a correction in this amount. This is the so-called "mixed gold and silver calculation"⁵⁾ in use in foreign trade statistics through 1887. This means that the prices of imports from gold standard countries were converted into Japanese gold yen and recorded as such, and in order to know the actual conditions of the balance of payments in this trade, they should have been converted into silver yen in accordance with the exchange rate. Finance Minister Matsukata, in his memorial on the budget for the 21st year of Meiji, explained this as follows.⁶⁾ "According to our custom of calculation of foreign trade, prices of exports are figured in silver, and the prices of imports from gold standard countries are figured in gold. For this reason, for the total value of all imports, an adjustment for the difference between gold and silver must be made in this nominal price. At present, imports from gold standard countries account for about 2/3rds of total imports. [The actual figures for 1886 were 64.6%.] Moreover, for this year [1887] from January through July, the average real value of gold was 129 Yen, 49 Sen, 7 Rin. By multiplying 2/3rds of the total imports by this difference, one produces the figure 8,437,611 Yen, which must be added to the import total. When this is done, one can see that the real value of imports was 51,345,083 Yen [By means of foreign trade statistics, 42,907,473 Yen], and therefore, that the excess of exports is actually less, amounting to no more than 1,842,722 Yen [By means of foreign trade statistics 10,280,332 Yen], all figures dropping amounts less than 1 Yen."

From 1888 onward, one can use foreign trade statistics as they are, but for the earlier years one must make the adjustment just explained. In this case, however, as the procedure is detailed and time-consuming, we

5) *Shihei Seiri Shimatsu*.—An Account of the Paper Currency Stabilization, 1889. (in: Meiji Zenki Zaisei....., op. cit., Vol. 11), p. 292.

6) *Matsukata-Haku Zaisei Ronsakushu*.—Collected Papers of Count Matsukata on Public Finance, 1892. (in: Meiji Zenki Zaisei....., op. cit., Vol. 1), p. 547.

will omit it here, not without some regret. What we can say is that the total sum of imports was 20% to 30% greater than the foreign trade statistics would indicate, and that the actual figure for the total import excess over the 26 years was probably more than ten million Yen.

III. Payments outside of Foreign Trade. (i.e., invisible items).

Finance Minister Matsukata wrote as follows in regard to the payments outside of foreign trade for the year 1887, directly following the explanation already cited: "In principle, it might be favourable that Japan's economy be now placed in such a position that payments which should be made to foreign countries be restricted to payments for imports only, and that from now on exports could be greatly increased and imports decreased, but in actual fact, this is not at all the case. To speak first of export and import commodities, their prices are calculated simply from cost prices in the exporting port. Japanese must, therefore, pay freight, insurance and other costs to foreign countries. These costs amounted to 6,572,172 Yen. In addition, payments of foreign loans amounted to 1,400,000 Yen. Payments for warships were 2,000,000 Yen. The total of these three items is 9,972,171 Yen. However, on the other hand, since commodities are priced in accordance with the market prices of the importing or exporting port, the taxes levied against goods exported are collected by Japan from foreign countries. This item amounted to slightly more than 1,612,844 Yen. The amount obtained from the excess of exports was slightly over 1,842,722 Yen. The total of these two items is somewhat more than 3,455,566 Yen. Now, if we subtract this total amount of receipts from the total amount of payments given above, 9,972,171 Yen, the resulting figure is slightly over 6,516,605 Yen. This shows the general balance sheet on the major items. Although we do not go into the details of these items, the reader must be astonished at the size of the debit side."

In those days there arose a mania for new enterprises, and one company after another was formed. The price increases which accompanied this was encouraging imports, and at the same time the very prosperity of industrial concerns was a reason for increased imports. In the continuation of Finance Minister Matsukata's explanation cited above, he says, "Among these various industrial concerns, there are a great many, such as horse-drawn railroad companies, silk-reeling, cotton-spinning, steamship, manufacturing, and gas companies which require imports of machinery and implements. Also, the government has required about four million Yen for the Bureau of Railroads, and more than 5,300,000 Yen for special Naval ex-

penses. There remains more than half of this to be paid to foreign countries." He continues, "In addition, the number of persons who have recently gone abroad has increased greatly. In 1886, 667 went abroad, and 3,005 were resident abroad (all in Europe and America, not counting those in Asia). Among those going abroad, 50 were officials, making 296 officials resident abroad; government students going abroad were 12, with 129 resident abroad. Others were students and businessmen on private funds. The number for this year is not definitely known yet, but the Foreign Ministry has already granted passports to 340, and reports that the tendency is towards a great increase. For us to increase greatly our intercourse with foreign countries, and for our countrymen to expand their knowledge by observations and experiences abroad could never be considered wrong. However, it is inescapable that one of the useless reasons for the outflow of money can be seen in such things as trips abroad taken selfishly by sons of wealthy families in order to avoid military service." After this discussion of foreign travel by Japanese as an item in outward payments, Matsukata continues, "The expenses of Japanese diplomatic establishments abroad are continually increasing, this year, for example, reaching a total of 650,000 Yen. Also, when there are some hundred projects being carried on continuously which affect the opportunity to continue our national progress, the large cost entailed is no doubt unavoidable. It is possible for such funds spent for travel abroad and for diplomatic purposes to be kept in balance by similar foreign payments in Japan. However, when there is a certain economic and social instability, they cannot be overlooked from the standpoint of financial regulation." Matsukata then refers to the 186 foreigners employed on 46 individually-owned Japanese ships which would be taken over by the government in case of war.

With this, one can see the major items which should be brought out in any consideration of the situation of the balance of invisible trade. Now, we would like to outline separately the items of payments and receipts.

1. Freight and Insurance Charges.

After the Meiji Restoration, the numbers of Japanese vessels calling at ports in nearby countries such as Korea and China made steady increases, but their first appearance on distant sea routes was in 1900, when ships of the Nippon Yusen Kaisha (N.Y.K. Line) put to sea on the Bombay run. During the period under discussion, up to the Sino-Japanese war, most commodities exported and imported were carried in foreign ships. This situation is shown in Table 3, derived from the Chronological Tables of Japanese Foreign Trade (*Dai Nippon Gaikoku Bōeki Nempyō*).⁷⁾

7) Quoted in: Tominaga, Yuji; *Kōtsū ni okeru Shihonshugi no Hatten*.—Development of Capitalism in Transportation, 1953, p. 92,

Table 3. Value of Imports and Exports on Board Japanese and Foreign Vessels.
(In thousands of Yen)

Period	Imports		Exports		Total	
	Home Vessels	Foreign Vessels	Home Vessels	Foreign Vessels	Home Vessels	Foreign Vessels
1883-1887	17,407	142,923	22,820	178,693	40,227	321,616
1888-1892	34,511	308,809	29,974	324,236	64,485	633,045
1893-1897	87,583	615,250	53,983	552,929	141,566	1,168,179

According to this table, approximately 88% of imports and 90% of exports were carried in foreign ships. When you consider that for exported commodities, the foreign consumer bears the cost of freight and insurance and for imports, the Japanese consumer bears this cost, the freight and insurance costs of about 88% of the total amount of imports become outward payments, and the remaining approximately 12% become receipts. Also, freight and insurance costs on about 10% of the amount of exports become receipts. If we accept Matsukata Masayoshi's assumption that,⁸⁾ "Freight, insurance and other costs equal about 20% of the cost price," outward payments for freight and insurance were about 177,597,000 Yen, and receipts about 44,242,000 Yen, as total imports for the 26 years from 1868 through 1893 were 1,009,077,817 Yen, and exports 1,001,247,358 Yen. The difference is an excess of payments of about 133,355,000 Yen over receipts. We acknowledge that, in principle, such a simple method of calculation is inadmissible. However, the amounts of exports and imports cited were F.O.B. prices, and taken as such, there is some justification for this type of calculation. In addition, there were other payments outside of foreign trade, such as the payment of more than 346,900 Yen for the marine insurance expenses and expenses for the delivery of the warships Fusō, Kongō and Hiei which the Navy Department had built in England.⁹⁾ As a whole, the item of outward payments due to freight and insurance was one worthy of serious consideration.

2. Repayment and Interest Payment of National Indebtedness.

On the first page, we mentioned that the government made short-term loans from the Oriental Bank Corporation and others in the first years of the Meiji period, and that the repayment of these loans was completed during 1870. In this regard, A Financial History of Meiji and Taisho

8) *Meiji Zenki Zaisei*....., op. cit., Vol. 1, p. 545.

9) *Sainyu-shutsu Kessan Hokokusho*.—Annual Account of Revenue and Expenditure, Tenth Year of Meiji. (in: *Meiji Zenki Zaisei*....., op. cit., Vol. 4), p. 313.

(*Meiji-Taishō Zaisei Shi*) states, "The total amount of loans was 994,875 Yen, and the total amount paid off was 1,583,686.57 Yen, the difference [588,111 Yen] being the amount of debts taken over from the old *Bakufu*. The amount repaid as given above was all in principal, and it is needless to say that interest was paid in addition to this, but it is now impossible to make any clear statement of the items of the account."¹⁰ This debt carried over from the *Bakufu* was not connected with the construction of the Yokosuka Iron Foundry, so it should come under the heading of net outward payments, and the interest, details of which were not known (the loan from the Oriental Bank Corporation paid an interest of 15% per annum), would also come under this heading. Similarly, the loans from foreign traders and trading companies made by the former feudal lords and assumed by the new government eventually comprised a payment of more than 3,600,000 Yen, principal and interest. In addition, there were indemnity obligations of more than 1,728,788 Yen contracted by the old *Bakufu* and the feudal lords, also a net outward payment. To add up the above, the total is roughly 5,900,000 Yen. Therefore, the account is an excess of payments, to which interest should be added.

We have already mentioned that the Meiji government floated two types of modern foreign loans, namely, 9% Sterling Loan and 7% Sterling Loan. These were both paid off, principal and interest, the first being completed during the fiscal year 1881, the other during 1899. These amounts were as shown in Table 4.¹¹

Table 4. Payment of Principal and Interest on the 9% and the 7% Sterling Loans. (In Yen)

	9% Loan	7% Loan
Principal to be Repaid	£ 1,000,000	£ 2,400,00
Yen Equivalent	4,880,000	11,712,000
Actually Paid	5,399,774	16,711,204
Amount paid over Principal (A)	519,774	4,999,204
Interest, Commission and Miscellaneous Expenses (B)	3,469,739	15,570,944
(A)+(B)	3,989,513	20,570,148
Aggregate of (A)+(B)		24,559,661

(NOTE): Of the amount paid in principal and interest on the 7% Sterling Loan, more than 6,490,000 Yen were paid after 1894.

10) *Meiji-Taishō Zaisei Shi*.—A Financial History of Meiji and Taisho, ed. by the Ministry of Finance, 1937, Vol. 12, p. 4.

11) *Meiji Zaisei Shi*.—A Financial History of Meiji, ed. by the Ministry of Finance, 1904, Vol. 9, pp. 227 ff.

The increases in the amounts paid out in redeeming the principal as shown in this table arose from the exchange rates, based on the decline in the value of silver. This decline in silver operated advantageously in foreign trade with gold standard countries, but disadvantageously in the case of debts to gold standard countries. At any rate, the increased amount of these payments, added to the payment of interest, handling charges and miscellaneous expenses, all became an excess of payments from the standpoint of the balance of international payments.

3. Other Items in Outward Payments.

Table 5 lists the items and the amounts which can be seen as outward payments, excepting those cited in part 2, above. Figures are from the statistics of annual payments for the eight periods from January, 1868 through June, 1875.¹²⁾

Table 5. Payments Abroad, Excluding Repayments of Government Indebtedness, Jan., 1868—June, 1875. (In Yen)

Value of Arms Purchased by the Army Dpt.	3,443,965
Value of Warships Purchased	1,700,108
Value of Arms Purchased by the Navy Dpt.	1,074,279
Expenditures by Government Offices Abroad	1,183,401
Expenses of the Iwakura Mission Overseas	1,076,068
Expenditures by Government Students Abroad	697,617
Salaries of Foreigners employed in Government Offices.....	627,867
Expenses of Participation in Foreign Exhibitions.....	831,220
Payments for Purchase and Repair of Merchant Ships.....	347,269
Total.....	10,981,794

We do not mean that the amounts of the various items shown in this table all actually went out of the country. For example, perhaps the larger part of the salaries received by foreigners in Japanese employ were used in Japan for living expenses. Also, there were items of such a nature as to cancel receipt items of the same type. Diplomatic expenses abroad are of such a nature. However, with these exceptions, they may be looked at as net outgoing payments without too much damage to fact. It is difficult to give such clear figures for the situation after 1875. It is not clear how many military weapons and warships were bought from foreign countries, and the salaries paid foreign employees are included in the general salary expenses of each government service. However, there is no doubt that the purchase of weapons and warships from foreign countries continued, as well as the employment of foreigners. This is also true for participation in foreign exhibitions, such as the International Hygienic Exposition in Lon-

12) Meiji Zenki Zaisei....., op. cit., Vol. 4, pp. 20-22.

don in 1885, the cost of participation reaching a total of about 44,480 Yen.¹³⁾ The tendency for yearly increase in the expenses of sending diplomatic officials abroad and student expenditures abroad was as indicated by Matsukata Masayoshi's remarks cited above. As a test, if one looks at the account books for the fiscal year 1885,¹⁴⁾ the cost of dispatching officials abroad was about 132,500 Yen, and expenses of students abroad was roughly 47,000 Yen. It goes without saying that besides this, there were individual disbursements by Japanese which would come under this heading.

In regard to these various items, it is quite impossible to be certain just how large an excess of payments there was for the period under discussion, but although it is not correct, it is not very far wrong, perhaps, to assume about three times the total amount given in the table, namely, about thirty million Yen.

4. Net Receipt Items.

We have already touched on the subject of receipt items in the balance of payments outside of foreign trade, such as freight and insurance collections by Japanese shipping and insurance companies, and expenditures by foreign diplomatic missions and foreigners in Japan. Here we will add a word about some other items in this category.

According to the quotation from Matsukata Masayoshi cited at the beginning of part III above, "the export taxes are to be collected by Japan from foreign countries." This is because taxes on exported goods, whether handled by Japanese or foreign traders, are paid at the destination by the people to whom the goods are destined, and become a collection for the Japanese government. Totalling the export taxes for the first 26 years of Meiji, they reached 29,517,421 Yen, according to the Chronological Tables of Japanese Foreign Trade (*Dai Nippon Gaikoku Bōeki Nempyō*).

Taxes on open foreign trade markets and ports are an additional item under this heading. These are made up of rents levied against foreigners in foreign settlements, and various types of fees such as licenses for foreigners in these settlements like that required for temporary Chinese residents.¹⁵⁾ Collections for the first eight fiscal years reached 786,757.¹⁶⁾ After this, this item was for a time included in the general rental fees of government property. Then, from the fiscal year 1800 onwards, it appears in the statistical reports as a separate item. The total receipts for the six fiscal years 1880

13) *Ibid.*, Vol. 6, pp. 401 ff. This work contains a detailed table of public expenditures from which this figure is derived.

14) *Ibid.*, Vol. 4, p. 51.

15) *Ibid.*, p. 7.

16) *Ibid.*, Vols. 5 and 6,

through 1885 were 491,833 Yen. This would make an average annual collection of roughly 85,000 Yen which, if projected for the entire period of 26 years, would total more than 2,200,000 Yen.

An additional item of a similar type was the anchorage fee put into effect from January, 1873. The total collected for the three years through 1875 amounted to 212,680 Yen, but was then discontinued. Of course, since this fee was not collected only from foreign vessels, it would be necessary to deduct that portion paid by Japanese ships.

Besides these, there were other items which should be added to the receipts outside of foreign trade, such as various disbursements from foreign ships in open ports, and money sent from Japanese settlers in Hawaii and California.

Putting together the balances in payments and receipts outside of foreign trade discussed above, the following table emerges :

Table 6. Total Balance of Invisible Payments and Receipts, 1868-1893.
(In thousands of Yen)

Payments	
Excess of Insurance Premiums and Freight Payments over Receipts.....	133,355
Repayment of Short Term Government Indebtedness.....	6,000*
Payment of Principal and Interest on the 9% and 7% Sterling Loans	24,559
Others	30,000*
Total	193,914*
Receipts	
Export Taxes.....	29,517
Rentals of Government Land in Open Ports.....	2,200*
Others	1,000*
Total	32,717*
Excess of Payments over Receipts	161,197*

* Approximate

In the payments column, the amount of the first item may be over-estimated, and the amount of the fourth item underestimated. Also, in the receipts column, there may well be other items which should be added. In addition, actually, there is the necessity to subtract from the amount paid back on the 7% Sterling Loan the amount of principal and interest paid after 1893, namely, 6,490,000 Yen. Considering all sides, it does not

seem too unreasonable to conclude that the total excess of payments outside of foreign trade itself reached roughly ¥150 million. Adding to this the excess of payments in foreign trade of about ¥10 million, the total excess of payments becomes ¥160 million. How this unbalance was compensated for is the next problem.

IV. The Adjustment of the Unbalance.

Almost all the foreign trade of the first years of the Meiji period was in cash transactions. Transactions outside of foreign trade also were mainly in cash, so the first thing to discuss now is the outflow of gold and silver. Next, the problem of the manner in which the net proceeds of the loans floated abroad were used will be taken up; that is, the problem of specie holdings abroad. Connected with this, we must also look at the government policy of absorbing specie holdings abroad and its results. We will see, briefly, how effective these factors were in adjusting the unbalance in international payments for the early Meiji period.

1. Outflow and Inflow of Gold and Silver.

Table 7. Outflow and Inflow of Gold and Silver Coins and Gold and Silver Bullion,* 1872-1893. (In Yen)

	1872-1881 (10 years)	1882-1893 (12 years)
Outflow	100,201,025	87,782,626
Inflow	29,400,527	114,879,080
Balance	(+) 70,800,498	(-) 27,096,454
Total Balance	(+) 43,704,044	

*These figures are from Asahi Shimbun Sha; *Nippon Keizai Tōkei Sōkan*.

—General Statistics of Japanese Economy, 1930, p. 324.

When one adds to the figures in this table the estimated total excess of outflow from 1868 through 1871, 23,676,500 Yen,¹⁷⁾ the balance in the upper column becomes (+) 94,476,998 Yen, and the total balance for the 26-year period becomes (+) 67,380,544 Yen. Now, to compare these figures with those of Table 1, it can be seen that during the period of the excess of imports over exports in foreign trade for the first 14 years of the Meiji period, there was an excess of gold and silver outflow which exceeded the excess of imports in foreign trade. After this came a period of an excess of exports in foreign trade during which there was an excess of inflow of gold and silver. However, it did not equal the excess of exports. Further,

17)18) Tokyo Keizai Zasshi, op. cit., No. 7, 1879, pp. 234-5.

when you carry the statistics throughout the 26-year period, the excess outflow of gold and silver was far greater than the excess of imports in foreign trade. From this it can be concluded that: (1) There was a very close connection between the excess of imports in foreign trade and the excess of gold and silver outflow, and vice versa, the excess of exports in foreign trade and the excess of gold and silver inflow. (2) Both before and after 1881, large amounts of gold and silver were exported to pay for the items outside of foreign trade (i.e., invisible items). But, of course, gold and silver did not move in this connection only. Up through about 1880 and 1881, the gold coins which had become comparatively cheap in Japan were taken abroad at a rapid rate, in exchange for silver coins (mainly Mexican dollars). In the opposite direction, there were cases where net proceeds of loans floated abroad came back to Japan in the form of gold coins and bullion (to be discussed later). However, even when these conditions are taken into consideration, we do not believe that those two points are in error.

If one knows that a large amount of gold and silver were exported to balance international payments, it does not very well justify the type of optimism expressed in the statement that "When one looks at the large excess of imports, even though our money is going abroad, one can see that it is not going in vain, because it simply achieves a mutual advantage through exchange for foreign goods."¹⁹ This phenomenon could very well have made the stabilization of the currency difficult, and could have caused inflation of the paper currency.

2. The Proceeds of Loans Floated Abroad.

From the standpoint of usage, the proceeds of the 9% Sterling Loan, in the final accounting, were all actually applied to railroad construction, a total of 4,780,000 Yen. From the standpoint of utilization of the proceeds, however, 1,464,000 Yen went into railroad facilities, 535,592 Yen to make paper currency, and 1,982,095 Yen to purchase silver bullion and *ichibu-gin* (a silver coin equal to about 1/3 of a Yen), making a total of 3,981,687 Yen.¹⁹ Not only was it necessary to buy all the materials for railroad facilities from England, but the government depended upon foreign countries to print its paper currency at that time, and the purchase of a considerable amount of silver ingots must have been made abroad. This indicates that a portion of the proceeds was utilized in overseas payments. Even so, as the entire amount of the proceeds were applied to railroad facilities, it must be concluded that domestically the amount of paper currency issued was augmented by just the amount of these foreign payments.

19) *Meiji Zaisei Shi*, op. cit., Vol. 8, pp. 872-4.

Next, in regard to the 7 % Sterling Loan, of the actual receipts of 2,220,000 pounds (10,833,900 Yen in Japanese gold currency), 1,652,924 pounds came to Japan in the form of British coins, gold and silver bullion and Mexican silver dollars. The remaining 567,076 pounds as well as 149,748 pounds of that portion sent to Japan, or a total of 716,824 pounds (3,498,101 Yen in Japanese gold currency) were used to pay abroad. This amount covered several expense items, including the Iwakura Mission Overseas, additional printing of paper currency, payments of interest and principal on the 9% Sterling Loan, and deposits in foreign banks.²⁰⁾ The amount thus used, finally, was converted back and applied to the original destination, but the portion which did not come into Japan may be considered as an outgoing payment, with a corresponding amount of paper money being issued.

3. The Accumulation of Specie—Considering Especially the Foreign Documentary Bill

It was the foreign documentary bill that Matsukata Masayoshi adopted as the principal means both to expend paper money and to accumulate specie, when he undertook the regulation of the paper currency. In a paragraph of his "An Account of the Paper Currency Stabilization" (*Shi-hei Seiri Shimatsu*) presented to Prime Minister Yamagata Aritomo in 1890, he says, "By means of the foreign documentary bill, our paper money will be utilized in exchange transactions for commodities exported directly abroad, and thus, foreign specie will be absorbed. I firmly believe there is no other means to achieve this. To put it into operation, we must first establish consulates in all the major markets where our products are exported, such as London, New York and Paris, and supervise the documentary bill project through them."²¹⁾ The so-called foreign documentary bill was a technique whereby the government made an advance payment in paper money from the Reserve Fund (*Jumbi-kin*, a type of special account) to direct exporters and then collected in foreign specie at destination. This method had already been in use in Japan during the Tokugawa period as, for example, when the Himeji clan used it in selling cotton in Edo, and in the Meiji period, it was put into effect in 1877, the year before Matsukata launched his paper currency regulation.

As soon as the Yokohama Specie Bank (established in the year 1879) began operations in 1880, the government, in response to the bank's request, began in October gradually to deposit paper currency to reach eventually

20) *Ibid.*, pp. 874-6.

21) *Meiji Zenki Zaisei*....., op. cit., Vol. 11, p. 217.

a maximum of three million yen, for use in foreign documentary bills. Thus, the bank was entrusted with the administration of these bills, and was called the "government-authorized (*goyō*) foreign documentary bill system."²²⁾ The significance of this as seen from the standpoint of the Specie Bank was that it was being used by the government as an organ to accumulate foreign specie, and at the same time it was a most profitable business which required no responsibility on the part of the bank either for the exchange rate or for agreement on terms. If one looks at the amount of foreign exchange handled among domestic and foreign offices of the bank, for example, during 1886, one can see that the principal business of the bank during its first years was in government-authorized foreign documentary bills, when it negotiated ¥17,890,000 in such bills, as compared to a total of ¥7,220,000 of all types of foreign exchange bought and sold for that year.²³⁾

During this period, various improvements were made in the government-authorized foreign documentary bill system with the purpose of encouraging exports to gain specie. The government, for example, raised the limit on the deposit to seven million yen, extended loans of the exchange funds to foreign traders as well, and gave advance loans from the same funds at full market quotations for the export of raw silk. This method was abandoned after the last of March, 1889, and from then on the Bank of Japan, on behalf of the government, began the system of crediting the Specie Bank by means of rediscounting, at a low rate of interest, foreign exchange bills.

At this point it would be well to take up the problem of the specie obtained in foreign countries by the government through foreign documentary bills. From 1877 on, this specie, titled "Foreign Deposits," was handled separately, together with other collections from abroad. By "other collections" is meant such items as receipts from government-handled export of rice and tangle (a type of seaweed) and receipts from backward exchange bills. The direct exports of rice and tangle by the government was, as might be expected, one of the means to gain specie.²⁴⁾ The money from backward exchange bill was for the purpose of bringing money to Japan from diplomatic establishments and persons abroad who received money from the government, put it into the Reserve Fund, and, while abroad,

22) *Yokohama Shōkin Ginkō-Shi*.—A History of the Yokohama Specie Bank, 1920, pp. 26 ff. See also: *Jumbikin Shimatsu*, *Matsukata-Haku Zaisei Ronsakushū*, *Meiji-Taishō Zaisei-Shi*, and others.

23) *Ibid.*, p. 91.

24) *Jumbi-kin Shimatsu*.—An Account of the Reserve Fund, 1890. (in: *Meiji Zenki Zaisei*....., op. cit., Vol. 11), pp. 43-4.

drew bills to remit this money back to Japan.²⁵⁾ The "Foreign Deposits" were used to pay interest and principal of loans, to pay for warship purchases, to cover office expenses, etc. Also, they were used to purchase gold and silver bullion in foreign markets, and also to remit by means of foreign exchange bills to Japan. Table 8 shows the balance of the "Foreign Deposits" from July, 1877 through March 1890, when the Reserve Fund was abolished.²⁶⁾

Table 8. Balance Sheet of the "Foreign Deposits,"
July, 1877—March, 1890. (In Yen)

Received	
Gained through Documentary Bills.....	65, 161, 432
Sales Abroad of Rice and Tangle handled by the Reserve Fund	6, 661, 033
Receipts through Backward Exchange Bills	9, 464, 001
Interest Received	408, 405
Total	81, 694, 871
Sent from Japan	4, 308, 848
Aggregate	86, 003, 719
Paid	
Foreign Loans Paid through Foreign Exchange ...	19, 771, 640
Payments of Warships and Expenses of Government Offices, Paid through Foreign Exchange	28, 218, 339
Value of Gold and Silver Bullion Purchased.....	32, 892, 297
Total	80, 882, 276
Sent Back to Japan	4, 899, 850
Miscellaneous Expenses.....	80, 600
Cancelled and Transferred to Other Accounts	140, 994
Aggregate	86, 003, 719

The method of the foreign documentary bill gave rise to an increased issuance of paper money domestically to the extent that the specie was paid abroad. This was the same for the government-handled exports of rice and tangle. However, as seen in the table, the specie in this case was not applied to the ordinary payment of imported commodities, but was applied to the balancing of accounts in invisible trade. They thus played a major role in obtaining a balance in the international payments of Japan.

25) *Shihei Seiri Shimatsu*, op. cit., p. 241.

26) *Jumbi-kin Shimatsu*, op. cit., pp. 37-41.

To summarize and conclude this section, by adding together the excess outflow of gold and silver, ¥67,380,544, the amount paid abroad from the "Foreign Deposits," ¥80,882,276, a total of ¥148,262,820, and the amount utilized abroad from net receipts of foreign loans, ¥6 or ¥7 million, one obtains a total figure of about ¥155 million. This figure is near the approximately ¥160 million which was cited at the end of the last section as the excess of payments in visible and invisible items together. Both these figures were obtained by separate calculation, and were not consciously contrived to resemble each other. If the amount of the excess of payments in invisible items were adjusted by bringing either the basis of calculation or the method of calculation nearer to reality, it seems likely that both figures would come into agreement at a point roughly about ¥150 or ¥160 million.

V. Conclusion.

For the first fourteen years of the Meiji period, payments far exceeded receipts both in visible and in invisible items. The invisible items included the receipts from loans from foreign traders and foreign loans as well, but due to the purchase of weapons, warships, various machinery, railroad facilities, etc., by the government itself and also the despatch of diplomatic personnel abroad, as well as the employment of many foreigners, the outgoing payments were extremely large, and resulted ultimately in the outflow of large amounts of specie. The significance of this lies in the fact that the balance of international payments was maintained by the exporting of specie. However, at the same time, the specie handed down from the Tokugawa period showed signs of complete exhaustion, and paper money flooded the country.

The regulation of the paper currency succeeded, prices declined, and foreign trade changed over to an export excess from the year 1882. After this, the export excess continued every year through 1893. This was mainly due to the decline in the value of silver and the consequent decline in foreign exchange,²⁷⁾ which made trade with gold standard countries, which comprised about 70% of our total trade, very advantageous. Thus, there was an excess of receipts in foreign trade for the twelve years up through

27) Taking the average yearly foreign exchange rate, for example, *vis-a-vis* Great Britain, up through 1877, it had been fluctuating between 4s 2d and 4s 3d, but it fell suddenly to 3s 10d in the next year, and fell gradually after that time to 2s 9d in 1893. The reason for this lies in the fact that the influence of the decline in the exchange rate had not been felt before the paper currency stabilization policy was inaugurated, perhaps because the importation of goods was not restricted because of the paper money inflation.

1893. However, during this same period, there was an excess of payments in invisible items. When you set these two excesses against each other, it is easy to see that there remained, after all, a bill still unpaid. It was specie absorbed by the foreign documentary bill and other methods which took this item off the books, and it was in this way that Japan was able to maintain by herself a balance in international payments.

It is true that this policy of absorption of specie abroad was accompanied by an increased issuance of paper money domestically to the extent that specie was paid out in the market abroad. However, Japan was able to maintain, since the year 1885, the system of convertible notes by holding a considerable amount of specie in reserve. One can say without any circumlocution that the results of the policy of specie absorption were successful, but more basically, it was foreign trade that resulted in the continued yearly export excesses. These excesses in exports arose from trade with gold standard countries, and did not spring from exploitation of silver standard countries such as China and Korea. The main cause why trade with gold standard countries became advantageous was the decline in silver values. Considering this fact, it must be concluded that the decline in the value of silver in the early Meiji period played an extremely important role in the development of the Japanese economy of that time.