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(1868-1890)

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IN

Historical and Political Science

(Edited 1882-1901 by H. B. Adams)

J. M. VINCENT

J. H. HOLLANDER W. W. WILLOUGHBY

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THE HISTORY OF JAPANESE PAPER

CURRENCY.'

Introduction

According to historical records, the first paper money of

Japan was issued as early as 1335 (Kembun Period) ; but

particulars of the issue and characteristics of the notes are

entirely unknown to us. It is generally believed, however,

that this paper was not used in any considerable amounts.'

Even the Tokugawa government, during its long regime,

never put into circulation a government issue. Only at the

close of its power, in 1867, did it sanction a paper money for

the newly opened port of Hyogo; but this was withdrawn

as soon as authorized. Hence, the paper currency issued by

the government for the purpose of universal circulation

throughout the Empire, began with the restoration in 1868.'

Governmental currency being thus a new institution and

its establishment occurring in the midst of internal political

confusion, there were indescribable difficulties in the way of

carrying through this financial measure. But notwithstand-

ing these difficulties, the financiers and statesmen of the time

^ It has not been possible for Mr. Takaki to revise his manuscript

or to correct the proof of his study. The monograph is accordingly

printed in the form in which it was presented to, and accepted by

the Board of University Studies of the Johns Hopkins University

for the degree of Doctor of Philosophy, in June, 1895. — Editors.

•Transactions of the Asiatic Society of Japan, vol. xx, supple-

ment, part I, p. 168.

•Issues of paper money by private persons were, of course, made

in the shape of bank notes, but they had a circulation mainly in the

large centres of trade. Since the period of Kwambun (1661-1673),

there existed another paper money issued by the Daimyos, but it

circulated only within the feudal territorial limits. See Count Mat-

sukata's Report of 1890.

8 Introduction. [216

by their integrity and honesty were able to establish a solid

basis for the currency system and to complete the liquidation

of all the inconvertible paper notes before two decades had

elapsed. To-day Japan, so far as her financial system is con-

cerned, stands among the most advanced nations of the

world/ It is the purpose of this monograph to trace the

genesis, development and management of the Japanese paper

currency, from the restoration of the imperial power in 1868

down to the establishment of constitutional government in

1890.

\*See the address of Mr. K. Watanabe, the Japanese Minister of

State for Finance, at the second session oi the Imperial Diet.

CHAPTER I

Genesis of Japanese Paper Currency

Before tracing the development of the paper currency

system of Japan, in order that one may thoroughly under-

stand the forces which compelled the government to issue

the paper money, it is necessary to consider briefly, the con-

dition of the country at the time when the Imperial power

was restored and the present government was organized.

In the I2th month of Kieo (1868) the Imperial proclama-

tion was made that His Majesty, the Japanese Emperor, dis-

missed Yoshinobu Tokugawa, at the request of the latter,

from the office of Shogun." Thus, the Shogun ostensibly

returned the ruling power which had been exercised by his

family for more than two hundred and fifty years, to the

hands of the Emperor who now became the sole ruler of the

country. But this surrender of the Shogun was merely

nominal, for although the sovereign power was formally

transferred, the actual power over dominion and subjects

remained in the hands of the feudal nobles who still con-

tinued to exercise governmental powers within their own

territorial limits. A^s it was impossible, however, for the

Emperor to "fulfil his high office" unless he possessed

dominion and subjects, he sent an envoy to the Ex-Shogun

and asked him to return such part of his revenue as had been

allotted to him only as Shogun.\* This proposition was re-

fused by Yoshinobu who, however, signified his readiness

to hand over to the Emperor a yearly income of a thousand

kokus ' and to continue the former allowance of one hundred

— \

\* Translation of the proclamation is given in American Executive

Document, Diplomatic Correspondence, 1868- 1869, p. 623.

• Mei-Ji-Shi-Yo, vol. i., p. 15.

' One koku was about $5.00 in value.

10 The History of Japanese Paper Currency. [218

and fifty thousand kokus to the Imperial Court. " He fur-

ther declared that he himself was ready to submit to the

orders of the Emperor, but the Daimyos, Aidz and Kuwana,

resisted his wishes ; lest there should be some violence com-

mitted by them, he would go to Osaka, dismiss them into

their respective provinces and then return to Kyoto to await

there the direction of the Imperial Court."' But a few

days after this, when the envoy was sent to invite him to

return to Kyoto as promised, the surprising intelligence came

that Aidz and Kuwana, forming the van guard of Yoshino-

bu\*s army, had marched towards Kyoto, and that this ad-

vance section had attacked the Imperial guard at Toba and

Fushimi. The rebels were repulsed and retreated to Osaka

and thence to the northeastern provinces by sea. This

treacherous conduct of the Ex-Shogun caused the Emperor

to declare war against Tokugawa and his adherents, arid

to appoint Prince Arisugawa as the commander-in-chief

of the suppressing forces. Thus, the civil war which revo-

lutionized Japan was begun.

In this din of war and political confusion, the new gov-

ernment began its administration. It was a critical period

for the nation. Old institutions were up-rooted; but new

institutions were not yet fully established to take the place

of the old. The Imperial forces had gained a victory in

the single battle of Toba and Fushimi, yet almost all the

Daimyos stationed east of the Hakone Mountains supported

the Ex-Shogun, and resisted the Imperial army. The atti-

tude of the Daimyos, who were in a state of alienation and

insubordination, was yet a matter of uncertainty. Men's

minds were unsettled and public business was in a state of

confusion. " The great work of restoring the ancient con-

stitution," says Mr. Okubo in his famous memorial, " is only

half accomplished-; nay it may be said that it has only com-

menced."\* And although every step of the reform under-

• American Executive Diplomatic Correspondence, 1868-1869, p.

662. • Mr. Okubo's Memorial, dated Jan. 25, 1868.

219] Genesis of Japanese Paper Currency, 11

taken and every measure adopted demanded constant outlay

by the government, yet no means were available whereby

this enormous expenditure might be met. How far the

financial embarrassment of the government extended can be

seen from the letter of the Treasury Bureau to the com-

mander-in-chief of the Imperial army, who asked for a

further, supply of provisions. It says: "Although we

acknowledge that the military funds are, at this crisis of

the nation, of the most pressing need, yet, as has been said

before, the Treasury Bureau is at present an empty bureau ;

... we have not means sufficient to meet even the ordinary

expenses of the Bureau . . ." ^\* Mr. Mioka (now Viscount

Yuri) describing the financial condition of the government

at that time says : " A large army was in the field engaged

in suppressing the rebellion but the government had no sup-

plies to send them ; every road brought in wounded officers

and dying soldiers, but no means to take care of them ex-

isted; messenger after messenger from the military head-

quarters came with urgent pleas for re-enforcements, but

the government had to send them back discouraged. The

embarrassment of the government was beyond description." "

Examining the statistics of government expenditure, we

find that the extraordinary disbursement for that year alone

reached the enormous figure of 25,000,000 yen, while the

whole of the government revenue from ordinary sources

amounted to no more than 3,600,000 yen.^

The question which demanded inlmediate solution was

" How should the government meet this enormous expendi-

ture with an empty Treasury?" Many plans were sug-

gested, but most of them were theoretical and not applicable

to the situation. As the first step towards the solution of

the problem, the government issued an Imperial decree three

days after the declaration of the war, that "all the Toku-

" Mei-Ji-Sei-Shi, vol. i, p. lOp.

"Quoted in Mei-Ji-Sei-Shi, vol. L, p. 114.

" General Review of Financial Policy during Thirteen Years, p. 9.

12 The History of Japanese Paper Currency. [220

gawa domains should hereafter be under the direct control

of the Imperial power."" This was theoretically a great

advance towards acquiring the sovereign power of govern-

ment, but it did not afford any pecuniary aid towards the

formation of a new government, since it was practically im-

possible for the administration to confiscate all the domains

without putting itself in danger of creating riots at a time

when the empire was in an unsettled condition. Even had

it been possible to collect all arrears, the whole would not

have sufficed to meet even ordinary expenses. As has been

said before, the territorial nobility still continued to exercise

the power of government, making it impossible for the

government to obtain from them more than an annual con-

tribution of about 700,000 yen for military purposes. The

government was obliged therefore to take another step,

namely to contract a domestic loan. On May 5, 1868, the

Emperor issued a decree stating : " The government has to

spend much and receives little for its Treasury ... At a

time of national crisis, it is the duty of the subjects of the

Emperor to serve the country according to their ability and

occupation ; those who have boldness and courage, by join-

ing the Imperial army ; those who have means, by contrib-

uting to the military fund. Thus each and every one can

have opportunity of fulfilling the duty which has been

assigned to him." " Again in the official letter of the Treas-

ury Bureau to Mr. Matsukata (now Count), the Governor

of Hida Prefecture, it is stated that "the government has

been suffering from financial difficulties and can not meet

the pressing need of the Imperial army in the field. We

sincerely wish, therefore, that your good office, bearing this

embarrassment in mind, would exercise its best effort in

raising a loan immediately in your Prefecture." "

But this measure was intended to afford only temporary

relief, in meeting an urgent emergency. Owing to the lack

" Mei-Ji-Sei-Shi, vol. i, p. 109. " Mei-Ji-Sei-Shi, vol. i, p. 119.

" Mei-Ji-Sei-Shi, vol. i, p. 109.

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of confidence in the new government, together with the fact

that the Tokugawa government had employed a similar

measure before, the people were indifferent towards the

loan. In the unsettled condition of affairs, many rich mer-

chants hid their wealth and tried to escape from the sub-

scription. Although this action seems to have been un-

patriotic and even disloyal to the country, yet considering

the condition of the time, it was not at all surprising. Count

Okuma, in his " Reminiscence," gives an instance illustrat-

ing how hard it was for the officials to raise money for

government use. He says, " When the government wanted

to pay for an American vessel, the \* Stonewall,' which had

been purchased by the Old Regime, I was appointed as the

government commissioner for the settlement of the matter.

But as there was no money in the treasury for this pur-

pose, I went to Osaka and even with the aid of violent

threats on the part of the local authority, I could raise only

250,000 yen,".^\* This was the effect of the measure in the

wealthy city of Osaka. We can judge of the difficulty of

raising the remainder of the desired loan in other cities and

provinces. There was an instance in which the government

was forced to borrow 100,000 yen for ten days at one and

half per cent interest. Thus the amount raised in every

possible way was insufficient to meet the constantly increas-

ing outlay. "The loans obtained," says Count Okuma,

"together with the money handed over by the Shogunate

and the fines or gifts of the Daimyos amounted barely to

5,380,000 yen, or a total, from ordinary and extraordinary

sources, of about 9,040,000 yen'' " Since the expenditures

reached 25,000,000 yen, there was left a deficit of 15,900,000

yen. The financial difficulty of the government had reached

its climax, and the government proceeded to adopt more

permanent measures for the salvation of the country from

financial peril, namely to resort to the issue of a paper

currency.

" Count Okuma's " Reminiscence," No. 123 (as published in the

Ho-Chi- Shim-Bun. )

" Count Okuma's " Review/' p. 9.

14 The History of Japanese Paper Currency. [222

As has been stated in the foregoing pages, the financial

condition of the government had become so critical that the

effect of further delay would have been serious. At this

time the plan of issuing paper money was proposed as a

means of saving the government from its financial peril.

The originator of the scheme was Mr. Hachiro Mioka,"

a retainer of Yechizen and a councillor of state. He was

known as an able financier and had won the confidence of

such older statesmen as Messrs. Kido and Okubo. The

plan was similar to the " Land Bank " system of England

and the " Paper Bank \*' system of Rhode Island. It was in

brief to issue paper notes, 48,973,000 yen upon the cultivated

land of the Empire for security, to be circulated for thirteen

years.

In regard to the issue, Mr. Mioka said, " For some time

I had had a strong conviction that if we would issue a paper

money to be circulated throughout the Empire, thus expand-

ing the medium of exchange, we could lay a sure basis for

the commercial and industrial prosperity of the country. . . .

For, although prior to the issue of paper money in my

province (Yechizen), we suffered from poverty and hard

times, yet from the time the new medium of exchange (paper

notes) was put into circulation, industry and trade had

sprung up and the provinces which hitherto had no coin,

had now become a wealthy country with 350,000 rio in coin.

Having this in view, I sought to bring my belief into reali-

zation and explained my plan to all the statesmen of the

time. But owing partly to the seemingly radical character

of the scheme, and partly to the ignorance of most public

men in respect to the matter, there was much opposition to

the plan which I thought to be the only means of saving the

country. As it was impossible to settle the question at once,

the government called an assembly of councillors of state to

consider the question. Thus all, together with the members

of the Imperial Household, came before the thome on

" Now Viscount Yuri, a member of the House of Peers.

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January 29, 1868. The method of proceedings (this being

before the western parliamentary rules were known to us)

was very strange; each member present was to speak on

the question in turn. When my turn came, I proposed and

discussed at some length the necessity and benefit of the

issue of a paper money. My statements created great ex-

citement among those assembled, and an excited discussion

of the problem, pro and con, ensued. The final result of

the debate was the order that my proposition be accepted,

and I was authorized to make preparation for the issue of

paper money at once."" Thus, in the intercarlary month

(from the twenty-second of May to the nineteenth of June),

the Dai-JO'Kwan (Central Government) issued the follow-

ing proclamation :

" To create a sure basis for the prosperity of the realm

on the occasion of the reformation of the Imperial govern-

ment, after mature consideration, the issue of paper money

has been decreed; and according to His Majesty's orders

this paper money shall pass current in the whole empire

from the present year Tatz to the next year Tatz, i. e. for

thirteen years, that by it the poverty which reigns every-

where in the country may be alleviated. The rules to be

observed are mentioned below :

" The day from which it shall be put into circulation shall

be published by the proper authorities to all people, even

down to the lowest class.

"As the introduction of paper money has been decreed,

all Daimyos shall be able to obtain loans according to their

incomes, so that for every ten thousand kokus they may get

ten thousand rios. They must submit their wishes with

regard to this to the proper authorities.

"With regard to the re-payment they will be obliged to

pay every year, for thirteen years, a tenth of the sum lent;

payment to be made in notes, so that at the end of the next

Tatz, the re-pa)rments will have been effected.

" Mr. Mioka's address on the " Issue of the paper money," quoted

in Mei-Ji-Sei-Shi, vol i, pp. 112-118.

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"The princes shall bear in mind that according to the

intentions of the Emperor, through the paper money lent

to them, a sure basis will be created for the prosperity of

the country. They shall use it, therefore, to assist industry

as much as possible, and to benefit their provinces. The

government of the princes cannot be allowed to use their

notes for unlawful purposes.

" To the merchants of Kyoto and of Setz (Osaka) and

of the neighboring rural districts, who desire to contract

such loans, notes shall be given in accordance with the

amount of business they transact, after they have expressed

their wishes to the officers issuing the notes.

"To the inhabitants of the towns and villages of the

Saibansho districts \*\* in the whole country, and in the terri-

tories of the province at their demand, after their fortune

has been assessed, loans shall be given for the carrying on

of their business. With regard to the repayment, they shall

pay every year a convenient part of the sum with the interest.

" Everywhere, in the whole country, the same principles

shall be observed as with the merchants at Kyoto and Osaka.

" Such notes as are annually repaid shall be destroyed in

the Kaikeikyoku.^

" From the money lent this year between the first and

seventh month exclusive, ten per cent shall be returned at

the end of this year; from the money lent between the

seventh and twelfth month, only five per cent.

" In this manner, according to the will and decision of

the Emperor, a substitute shall be created for the waiting

coins. Nobody, therefore, ought to censure this measure.

As, however, the loans are contracted in notes and are to be

repaid in notes, no exchange (against coin) shall take

place." "

According to the above text, the sole object of issuing

"Judicial District.

\*^ Bureau for Finance.

"Translation is given in American Executive Documents. Diplo-

matic Correspondence, vol. i, 1868- 1869, pp. 795-6.

225] Genesis of Japanese Paper Currency. 17

the paper money appears to have been to create "a sure

basis for the prosperity of the country." But if this were

the only object, it is difficult to understand why the measure

was adopted just at that time, for the government knew that

the over-issue of the clan notes had already caused their

value to fall to the lowest limit, that the people would refuse

the circulation of paper note of any kind, and that, conse-

quently, it was impossible for the government to lay a sure

basis for the prosperity of the country by introducing a

medium of exchange which the people would dislike and

refuse to circulate. Hence there must have been some other

impulse in consequence of which the government was driven

to adopt the measure at this unfavorable time ; namely, the

insufficiency of existing revenues to meet the expenditure

of the government. This is clear from the facts mentioned |

in the foregoing pages.

We must not, however, consider that the object stated in

the text was a mere pretense of the government. It was

true that as the capital of the country was not sufficient for

the growing industry, it seemed desirable in some way to

increase the usefulness of that capital in order to extend

national industry. Moreover, the familiar maxim that

'when a people becomes rich, the King thereof will also

become rich,' still remained in the minds of the officials of

the Empire. Under these influences, the government sought

to assist the people who were not able to extend their busi-

ness on account of scarcity of capital. Quoting the words

of Mr. Mioka, the originator of the scheme, " During the

Keio period, the Tokugawa government following the West-

em system, had issued paper notes." I thought then that

such notes would never benefit the country but rather hurt

its industries; the more paper notes issued, the poorer

country Japan would become, for the object of the Tokugawa

government in this respect was the profit of the treasury

only, not the benefit of the people. This is contrary to the

"Cf., p. I, above.

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18 The History of Japane^ Paper Currency, [226

true end of sound currency and the principles of political

economy. But our object was different from this; it was

to aid the people who had no means of carrying on indus-

try.""

Soon after the proclamation was promulgated, the govern-

ment established the Bureau of Trade and Industry and

took measures for promoting industry and commerce." It

is also true that in accordance with the clause in the text,

the government loaned the notes to merchants and farmers,

although there is no method of knowing how much these

classes received. In the statistics of the " Government Rev-

enue " for the second fiscal term (Jan. 1869-Sept. 1869)

we find an item, " Repayment of Industrial Loan " which

amounted (for that year) to 4,496,009,000 yen. Thus, it is

evident that the object of the government was twofold : To

defray the expenses of the government and to increase the

national capital. "There was moreover," says Count

j Okuma in his "Review," "a deficiency of capital in the

country, and as only a very short time had elapsed since the

Restoration, it would have been impossible for the govern-

ment, during the first five or six years of its existence, to

raise sufficient funds by way of internal loans to meet its

expenditures. Under these circumstances, a resort to the

issue of a paper currency became absolutely unavoidable." \*\*

'\*Mr. Mioka's address quoted in Mei-Ji-Sei-Shi, vol. i, p. 113.

^ Mei-Ji-Sei-Shi, vol. i, p. 121.

'•Okuma's "Review," p. 8. Afterwards five other kinds of notes

were issued and circulated, the genesis and characteristics of which

will be considered in Chapter III.

CHAPTER II

Circulation of the Paper Currency

The proclamation was issued in the expectation that the

notes might be circulated as soon as prepared. Mr. Mioka

and his subordinates were busily engaged in the preparation

of the issue. In summing up the work and the difficulties,

these officials encountered, Mr. Mioka says : " Since the day

of my appointment to this important office, I pledged myself

to labor for this great project of the government as hard as

my strength would allow. Yet an unexpected difficulty was

the increase both in the number and influence of the oppo-

nents of the measure. They employed many assassins and

tried to take my life, hoping thus to check the completion

of the issue. I did not care so much for my life as for the

plans of the government, for if I fell under the dagger of

an assassin, the work we had undertaken might never be

accomplished. On the other hand, the messengers from the

battle field came as often as three times a day, and brought

urgent pleas for reinforcements. In this dangerous situa-

tion we were placed and we worked day and night, until

most of the required amount was prepared." ^

On May 9, 1869, the notification of the central govern- 1

ment was issued stating, " The paper currency which has !

been decreed, will be circulated from May 15, 1868."'

When the time fixed for the issue of the paper money ap-

proached its opponents increased their efforts, and finally

compelled the government to postpone the issue. These

opponents were not among the traders and the merchant

class, but were found among the Daimyos and Samvrai

classes. The chief cause of this opposition appears to have

\* Mei-Ji-Sei-Shi, vol. i, p. 116. \* Kempo-Rui-Hen, vol. ix, p. 26.

20 The History of Japane^ Paper Currency, [228

been the interest of these classes who were benefited by the

circulation of the " clan-notes " and whose interests might

be affected by the circulation of the new paper money. To

understand the situation, we again refer to the words of Mr.

Mioka himself. He says : " In order to begin to circulate

the paper money from the date fixed by the decree, we had

made all arrangements for this purpose. It was not an easy

task to make such preparation at the time when we had no

telegraph system and no such rapid distribution of mail as

we have now. When all the preparations were made and

it was our intention to issue the notes on the next day, to

our great surprise and disappointment, an order of postpone-

ment reached us. Indeed, this was a very vexing question,

for there was no way to stop the circulation because we had

already sent the notes out to the principal cities and towns

ordering the local authorities to distribute them. Even if

we sent out messengers to these places, they could not reach

the destination before the time assigned for the issue. I

explained this difficulty to the authorities and they did not

know what could be done. The question was how to stop

the circulation. I told them there was no way to stop the

circulation of the notes which were sent out. But I had one

plan to stop the circulation of those in our hands without

altering the decree and without weakening public confidence

in the government. That was to set the Ni-Jo-Jo (a build-

ing where the paper notes were stored) on fire and destroy

the notes ; and then I would kill myself. Thus the govern-

ment could announce my conduct and could postpone the

circulation without injuring the dignity of the administra-

tion."'

Thus the problem of the paper currency returned to its

original status, by the opposition of the nobility and the

soldier class. But the condition of affairs was so critical

that Prince Iwakura said: "If no notes are issued, the

soldiers on the battle field will starve." The opposition of the

• Mei-Ji-Sei-Shi, vol. i, p. 117.

229] Circulation of the Paper Currency. 21

anti-paper currency party was in the end unsuccessful and

the government ordered Mr. Mioka to go on with his work

and proceeded to enforce the law. Yet its opponents offered

such stubborn resistance that in one instance General Saigo

was obliged to go to Shimonoseki with an army in order

to enforce the measure,\* Only through difficulties and hind-

rances was the first paper money issued on May 25, 1868.

Now that we have considered how the first paper money

was issued and what difficulties the government had faced,

let us turn to the results of the issue and thereafter to the

measures which the government adopted for the circula-

tion of the notes. It is a difficult task to introduce a new

institution but it is equally difficult, if not more so, to put

the scheme into actual operation. When the plan of issuing

paper currency was projected, the administration met with

manifold difficulties owing partly to the ignorance and pre-

judices of some officers against the plan, and partly to the

indefiniteness of the government's design. But when it be-

came necessary to circulate the money among the people,

the difficulties became more serious. Every merchant and

tradesman refused to receive it. In fact, the money almost

ceased to circulate at all. The causes which led to this

general refusal were as follows :

First. As has been stated before, this being the first

paper money ever issued by the central government, espe-

cially a newly organized government, the people regarded

the measure with little confidence and with suspicion as to

its credibility. This distrust of the government on the part

of the people was the principal cause of the failure in

circulation.

Second. At that time, the monetary system of the clan

governments was grossly corrupt, and the central authority

being busied with the improvement of its own administra-

tive organs and with the efforts to suppress the rebellion in

the North, was not able to effect reform. These clan-gov-

\* Mei-Ji-Sei-Shi, vol. 1, p. 117.

22 The History of Japanese Paper Currency, [230

ernments changed their paper currencies frequently, destroy-

ing old and issuing new notes, whenever the change was

beneficial to the treasury, without regard to the suffering

and loss of the "people. Through this arbitrary financial

management, whenever such alteration took place, the people

suflFered great loss. Naturally they looked upon the central

government's notes in the same light as the clan-notes, and

had no confidence in the newly introduced medium of ex-

change.

Third. In addition to these general causes, there was a

more specific and immediate cause, namely the indefiniteness

of the redemption clause of the act of 1868. The act made

no definite statement as to the limit of the issue and the

method of redemption, other than the following : " such notes

as are yearly repaid shall be destroyed in the Kai-Kei-Kyoku

(Bureau of Treasury)." " Now, although it was stated that

the object of issuing the paper money was to lay the founda-

tion of national prosperity, yet the people knew that the

real object was to make up the deficit of the public expendi-

ture. It was clear that the money lent to the people might

be redeemed at the end of thirteen years. But the people

questioned how the government would manage the paper

money issued for its own use.

These causes, together with other minor matters, brought

the value of the paper money down to a minimum. ,The

depreciation began literally with its issue. Merchants in

cities refused to receive it at its face value, and the people

in rural districts refused to take it at all. In consequence

even in the three business centres of the country, Tokyo,

Osaka and Kyoto, it was used only at sixty per cent dis-

count.\* In the provincial districts it did not circulate at all.

How the government faced such difficulties and overcame

them is our next consideration. One of two measures the

government was obliged to adopt ; either to abandon the plan

altogether or to enforce the act with power. No middle

' Cf., p. 15, above. • Mei-Ji-Sei-Shi, vol. i, p. 203.

231] Circulation of the Paper Currency. 23

course was left. It was impossible to adopt the first course,

on account of the critical condition of public finance^ as has

been repeatedly intimated. Hence resort was had to the

second course. In order to remove the existing difficulties

and prejudices, the government took various measures, now

appealing to the patriotic sentiment of the people, again

seeking to secure co-operation by words of threat and per-

suasion. But these failed in creating sufficient confidence

in the minds of the people to cause them to accept the paper

money as the government desired, and the value of the

money continued to fall. The depreciation occasioned the

formation of an " exchange-commission House," where the

paper currency was exchanged for specie at a certain dis-

count. This institution intensified popular dislike of the

paper notes.

The government then resorted to more vigorous action,

prohibiting " any person or persons from fixing any ratio

of exchange of paper for specie " and ordering that " the

violation of the law should be liable to punishment." ^ This

measure, however, did not prevent the depreciation of the

paper notes, but rather increased the people's distrust of

the action of the government. The next step to open a

way for the distrusted currency, was to create a demand

for the paper money. This was done in the form of a

proclamation that "all taxes shall be payable in the paper

money concurrently with coin, in so far as is practicable." '

A certain demand for the notes was created and their value

rose somewhat, yet they circulated at twenty per cent dis-

count. The second compulsory act was then adopted, pro-

viding that "any one who should refuse to circulate the

paper money should be regarded as one who resists and

denies the Imperial Order." But notwithstanding the en-

actment of this measure, the people refused to receive the

paper money, and there were many who were charged with

violation of the law and imprisoned.

^ Kempo-Rui-Hen, vol. ix, p. 26.

• Kempo-Rui-Hen, vol. ix, p. 26.

24 The History of Japane^ Paper Currency. [232

Thus, although the government exercised its power in

various ways to secure the circulation of the government

notes, the natural course of events could not ht prevented,

and the people's dislike for the paper notes became greater

and the fall in value of paper money continued. This com-

pelled the government to adopt an altogether different policy

from what it had taken before. The former decree which

had prohibited the fixing of a ratio between specie and paper

was repealed and a new decree which permitted the use of

the paper money according to its market value was now

promulgated. With the announcement of this law, those

who were imprisoned as the violators of the former decree

were released. But this new act permitted different values

in different parts of the country and there was no way to

estimate accurately the income of the government. There-

fore, the government issued a further decree which pro-

vided that "all the taxes and dues should be paid in the

paper money as well as specie in the ratio of one hundred

and tweny rio and one hundred rio; that the government

would pay its outlay with the paper currency estimated at

the average value of ten days in a month."\* As soon as

this decree was issued, the value of the paper money began

to fluctuate so greatly that the government, before the meas-

ure was put into operation, was forced to amend the decree

and to change the last clause, so as to read that " all govern-

ment outlay and salaries would be paid in paper money in

the ratio to specie stated, namely, one hundred and twenty

of paper to one hundred of coin," " The people still, how-

ever, continued refusing to receive the money; all kinds of

business fell into a state of stagnation; some of the

wealthiest merchants closed their doors and many smaller

houses were dragged down by their fall; the distrust took

hold of the public mind and commercial credit was greatly

injured.

In 1869, the government determined to bring the paper

currency up to par, and in April of that year rescinded the

• Mci-Ji-Sei-Shi, vol. i, pp. 205-206. " Mei-Ji-Sei-Shi, vol. i, p. 206.

233] Circulation of the Paper Currency. 25

last decree and enacted that no difference between coin and

paper money should be established, announcing furthermore

that not only the violators of this law should be punished

but also the head of the province of which the transgressor

was a resident. The government also prohibited any ex-

change of paper money for coin except in cases where the

exchange was an absolute necessity.

But the natural course of events could not be stopped and

the tendency of the public will could not be checked merely

by laws and edicts, if not rightly applied. Thus, when the

government tried to raise the value of the paper money by

prohibiting the establishment of any market discount, the

value thereof fell; when it was ordered that the notes be

circulated throughout the empire, they returned to the cities ;

again, when the paper money was ordered for use in daily

transaction, it lost the quality which would make it the

standard of value and consequently of adjustment of prices.

Hence, in June, 1869, the government was forced to issue

the decree making the paper currency redeemable in thirteen

years, announcing that either it would be redeemed in coin

by the end of 1882, or if that were not done, interest at the

rate of six per cent would be allowed upon the whole amount

in circulation." It also announced its intention of abandon-

ing the issue of large quantities of paper money which had

been contemplated and of destroying the machinery that

had been erected for that purpose, and further that any one

found offering a discount upon paper money would be fined.

The thirteen years during which the notes were to remain

outstanding were shortened to five years " and the maximum

amount was limited to the existing sum, 32,500,000 rio.

Through these measures fixing the maximum amount and

the term of redemption, a stable ratio of exchange of paper

currency was established; but the dislike to its use still

prevailed among the people of provincial districts. Conse-

quently, all paper money returned to the cities and specie left

" Count Okuma's Review.

"Count Matsukata's Report of 1890, p. 315.

26 The History of Japanese Paper Currency, [234

cities for the rural places, a scarcity of metallic money in

cities resulted, general prices rose and the people in the

cities fell into still greater distress. The government vainly

attempted to level prices in the cities and provincial dis-

tricts by distributing paper money according to the amount

of the products of the farming people, and also by distribut-

ing coins which gathered in the country places among the

city people." These plans being unsuccessful, the govern-

ment was forced to withdraw the paper money thus dis-

tributed.

In June, 1870, when the Rebellion was suppressed and the

people began to know the policy of the government, the

decree was issued that the prefectures should form an alli-

ance to circulate the paper money. This was carried on very

successfully and from this time on the way to the circulation

of the paper money was gradually opened, until within a few

months it circulated at par with specie.

Although these legislative measures may have had some-

thing to do with bringing the value of the currency to that

point, yet there were two important causes by whicK the

success was attained, namely, first, the increased confidence

of the people in the government ; second, the desperate con-

dition of the currency system of the old regime.

1. The depreciation of the paper money was not caused

by over-issue, but by the lack of confidence of the people in

the government. Hence, when the civil war was over, when

the social order was restored, and the people understood

the plan and policy of the government, the confidence was

increased and the notes began to circulate. Notwithstand-

ing the fact that the issue of notes was greatly increased,

yet the value rose not only to par with specie but specie was

exchanged for paper at a discount."

2. At the close of the Tokugawa regime, when the gov-

ernment was in distress for lack of funds, good coins were

melted and recoined into an inferior money with alloys.

" Kem-Po-Rui-Hen, vol. ix, p. 38.

" Count Matsukata\*s Financial Report of 1890, p. 22.

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Thus the amount of currency was increased and its real

value decreased. Moreover, when the central power of the

Tokugawa government became weak, each separate feudal

local government practiced this same process of recoinage.

In this way, when the Restoration was established and the

new government was formed, the currency system was

grievously and excessively corrupted; all good coin was

either stored in the treasuries of wealthy men and withdrawn

from circulation, or exported to foreign countries, while

the coin in circulation was debased money which had lost

the quality permitting it to be a standard of value. The

consequence was that coin of the same denomination came

to have many different values according to the quantity of

gold it contained.

In addition to these debased coins, there were so-called

"clan-notes."" Soon after the Restoration, as well as

before, the clans needed funds to accomplish certain internal

reforms of clan government and over-issued the notes until

they had no value. Although these notes were circulated

only within each clan, yet the issue was universally adopted,

and over-issue affected the trade of the whole country.

Thus, the people suffered from various difficulties; in in-

ternal trade within a clan, they suffered from over-issue of

the paper currency and, in external trade without the clan,

from the circulation of the debased money. Thus the cry

for a uniform correct system of currency came from all parts

of the Empire. Just at that time, the Imperial government

announced that the government notes would be exchanged

for the good coin and a uniform monetary system would

be established within a few years. Moreover, the govern-

ment succeeded in reforming all corruptions and in assur-

ing the public of the fidelity of the administration. With

the confidence in the government, the credit of paper money

was increased. Thus the depreciation of the clan notes and

the debased coins of the old regime were turned to the bene-

fit of the new government notes.

" See Chap. III.

CHAPTER III

Kinds of the Paper Currency

When the Imperial government began its administration,

the prevailing paper money was the so-called Hansatsu (clan

notes), which had been in use since the seventeenth century.

With the new administration, a new currency system was

instituted, under which there was another issue of paper

money. This new paper money was of six kinds, namely :

I. The Dai-Jo-Kwan-Satsu (Government Notes), 2. The

Mim-Bu-Sho-Satsu (Civic Department Notes), 3. O-Kura-

Sho-Dakkwan-Sho-Ken (Treasury Convertible Notes), 4.

The Kai-Taku-Shi-Dakkwan-Sho-Ken (Colonial Depart-

ment Convertible Notes), 5. Shin-Shi-He (New Paper

Money), 6. Kai-Ryo- Shi-He (Improved Notes). These

various notes will be described in succession.

Han-Satsu (Clan Notes). — In the period of the Kwam-

Bun (1661-1673), Matsudaira Tada Masa, the Prince of

Fukui, having suffered financial embarrassment, after pro-

claiming that the Tokugawa government had not fulfilled

its promise to gjant him additional territory, persuaded the

Shogun to give permission for the issue of clan notes to

be circulated within his territory. This was the origin of

clan notes, which were circulated until the abolishment of

Hans (clan notes) in 1872. In the Gen-Roku (1688-1704),

many southwestern provinces following the Fukui experi-

ment, and issued silver notes to a considerable extent.\*

Thereafter the feudal nobles who suffered from financial

difficulties adopted this measure to relieve the provinces

from embarrassment. Although the Tokugawa government

\*The use of paper money was introduced from China where it

had existed since the Dynasty of Kan. Mei-Ji-Sei-Shi, vol. i, p. 367.

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objected strongly to surrendering the exclusive right of coin-

age, it was compelled to grant this right to a few Daimyos.

Now to restore the right, " in 1707 (Hoyei IV), the govern-

ment prohibited the further issue of all such money, in terms

which seemed also to include even the continued circulation

of what had been already put forth. In 1730 (Kyolu XV)

it was found necessary to repeal this prohibition, in order

to bolstef up the price of rice. The permission applied to

gold, silver and copper bills equally, and was to continue

in the case of Daimyos of 200,000 koku or more for twenty-

five years, but in the case of those of smaller estates, for fif-

teen years only. In 1755, the license was restricted to silver

bills only. Subsequent legislation merely declared the policy

of refusing to gjant it to daimiates other than those already

possessing the privilege.\* At the close of the Tokugawa

government, many fiefs issued more paper money than the

law allowed and some of the Daimyos issued notes without

any permission at all.

These silver notes were of many denominations. In Fukui

(fechizen), for instance, where the earliest issue of clan

notes took place, the denominations were i, 2, 3, 5, 10, 50

and 100 momme. It would seem that none of the issues

were in name irredeemable, although the actual value of the

notes was more or less affected by the pecuniary condition

of the fief. Some of the more opulent Daimyos established

at Osaka banks for the redemption of their issues and in

consequence their notes had a large circulation outside their

own fiefs. Various artifices were employed to induce the

acceptance of the paper money. For instance, the Prince

of Bizen ordered that for 100 momme of silver coin, loi

momme of notes would be given, while for 102 momme of

notes, there would be given only 100 momme of silver. It

will easily be understood that, from the scarcity of coined

money under the old regime, the Daimyos in many cases

■ Transactions of the Asiatic Society of Japan, vol. xx, supplement,

p. 168.

30 The History of Japane^ Paper Currency. [238

felt themselves compelled to increase the currency circula-

tion by issuing paper money. In other cases, the necessity

arose of defending their own fiefs from the paper money

of adjacent fiefs by following the example of their neigh-

bors, and thus preventing a drain of their own coin. But

there were many cases in which paper money was resorted

to merely as a means of escape from pecuniary embarrass-

ment which both the taxes and the official money-lenders

were powerless to relieve.' At the time of the Restoration,

the over-issue of the paper notes had reached its maximum

and, consequently, the fall in the value of the notes was

considerable, its exchange ratio being one-eighteenth of gold.

Thus, the clan notes came to be of scarcely more value than

waste paper. When the new government issued paper

money the clan notes interfered greatly with its circulation.

The two notes could not exist together, for as the circula-

tion of one was extended, that of the other was necessarily

contracted. When the Hans (clans) were abolished and

the country was redivided into prefectures, the chief object

of the government was the centralization of power. This

included, of course, the right of coinage. But the existence

of the clan notes was contrary to the centralization of gov-

ernment, for at that time there were in circulation many

inconvertible currencies issued by the diflFerent authorities.

Moreover, this was not only detrimental to the commerce

and industry of the country, but it affected directly the

finances of the government, because since the clan notes

were legal tender, the government was obliged to accept

them whenever presented for taxes, dues, etc., while the

clan notes could not be used throughout the country, but only

within certain feudal territories.

For thfese reasons, as early as 1870, the government di-

rected its attention to the clan notes. At first, the govern-

ment issued an order prohibiting the circulation of the notes

\* Transactions of the Asiatic Society of Japan, vol. xx, supplement,

p. 169.

239] Kinds of the Paper Currency. 31

issued without the permission of the Shogunate, and those

issued after the Restoration. Secondly, all further issue

of notes and bills similar to the clan notes was stopped and

the manufacture of the paper used for the clan notes was

brought under direct governmental inspection. Finally, the

government attempted to exchange the clan notes for gov-

ernment notes. In the decree issued on July 14, 1871, we

read, "currency should be of uniform nature, yet hereto-

fore the different fiefs have issued various notes, and the

system has thus become heterogeneous, while the exchange

value of the notes has become extremely confusing. Now

that the Hans are abolished, these notes should be exchanged

for the government notes according to the exchange value

of to-day." \* Later on, it was ordered that " such plates as

are used for printing the notes, and the unused material shall

be taken by the authorities and be destroyed," '

At the close of the Tokugawa regime there were 244

Hans (clans), 14 Ken (Tokugawa's direct territory), 9

Hatamato (direct retainers of Tokugawa), whose issues of

paper money were extant. The notes were of various kinds,

and of different denominations; there were 1694 different

kinds and the amount of circulation in the value of the coin,

was 24,930,000 yen. At first, the government ordered the

Hans to liquidate all the notes in circulation within each

territory, but owing to the inability of the Hans to do so,

the government was obliged to assume the liability for the

entire amount. To accomplish this the government deter-

mined to exchange the clan notes for the "New Paper

Money," \* thus unifying the currency system of the country.

Two difficulties presented themselves in carrying out this

measure: i. The heterogeneous kinds of clan notes, and the

existence of notes of small denominations ; 2. The absence of

any provision for the exchange of these notes. The govern-

ment was accordingly forced to postpone the exchange and

to permit the clan notes to continue in circulation.

\* Kem-Po-Rui-Hen, vol. iv, p. 25.

" Kem-Po-Rui-Hen, vol. iv, p. 34. \* See p. 39-

32 The History of Japanese Paper Currency, [240

The abolishment of the Han and the establishment of pre-

fectures, created confusion in regard to the boundaries of

territory, since the old Han did not altogether correspond

with the new prefecture, and consequently there was also

confusion of the limits of the circulation of the clan notes,

resulting in their depreciation. To overcome this difficulty,

the government fixed a ratio between the clan notes and

new currency on one hand and, on the other, it defined the

boundary lines within which each clan note should be circu-

lated. For example, where an old clan now came under the

jurisdiction of more than one political division, according

to the new system, the clan note could be circulated within

the new political division, although it might be outside of

the original clan jurisdiction. In order to raise the value

of the notes, the banks were ordered to buy in the notes

where they were the most depreciated, and the government,

at the same time, undertook to cancel all the notes. Such

notes as were received from the Hans, either for the reserves,

or for the repayment of individual loans, or for taxes or

dues, were destroyed. But the exchange of small notes of

less than 5 sen (cent) was postponed until small coin could

be issued.

In 1872 when the whole provision for the exchange of

clan notes was made, the government began to exchange all

the notes above five sen for the new currency (and the notes

below that denomination in 1874). The redemption of the

clan notes was completed in June, 1879. This conversion

of the clan notes was one of the most important measures

undertaken by the new government. It facilitated the free

exchange of commodities and developed the national econ-

omy, extending the circulation of the government notes, in-

creasing the confidence of the people in the government, and,

finally, unifying the currency system of the Empire.

Dai'JO'Kwan-Satsu (Government Notes). — ^The Imperial

government issued its note in 1868 with the intention of con-

tinuing it in circulation for thirteen years, at the end of

which time the issue was to be converted into coin. Later,

241] Kinds of the Paper Currency. 33

when the people began to discredit the notes and their value

consequently fell, the term was shortened to five years. If

the notes were not redeemed at that date, interest at the

i\*ate of 6 per cent was to be paid upon the whole amount

in circulation. At the end of the fifth year, 1873, with the

object of contracting the circulation, " Bonds in exchange

for Kinsatau " (paper money) were issued, undertaking to

pay 6 per cent interest on all amounts of paper currency

which might be offered in exchange for these bonds. But

as the credit of the paper currency was daily improving,

while there was a general need for capital for carrying on

business, there was very little demand for these bonds. The

amount and denominations of the government notes issued

from May, 1868, to December, 1869, were as follows :

Kinds. Amount.

Rio 10 bill Rio 23,032,000

Rio 5 bill Rio 5,969,000

Rio I bill Rio 15,485,000

Bu I bill Rio 5,161,000

Shu I bill .Rio 1,050,000

Mim-Bu'ShO'Satsu ( Civic Department Notes ) . — ^This

form of currency was issued in accordance with the ordi-

nance of September, 1869, by the Civic Department.^ It was

of small denominations, namely: two-Bu (50 sen), one-Bu

(25-sen), two- Shu (12.5 sen), and one-Shu (6.25 sen).

The full amount of the currency was not to exceed 7,500,000

rio.

These notes stood in the relation of subsidiary currency

to the government notes ; the decree describing the object of

the issue, stated : " Owing to the fact that the existing cur-

rency consists only of paper notes of large denominations,

the people of the remote towns and villages may suffer from

inconvenience in the daily transaction of business. Hence,

^Afterwards the Civic Department was divided into the Depart-

ments of Finance, Interior and Justice.

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34 The History of Japanese Paper Currency. [242

the Bureau for Commerce will proceed to issue notes of

smaller denominations, and the notes of larger denomina-

tions which are exchanged for the smaller shall be de-

stroyed." •

The question arises, in view of the fact that both this

currency and the government notes were issued by the same

central government, why one was called" Government notes"

and the other " Civic Department notes " ? The answer is,

that the government declared in May, 1868, that the "amount

of the notes will be limited to 3,250,000 rio, and after that

amount is reached, the plate used for the issue will be de-

stroyed . . ." The government could not change the prom-

ise thus made to the public, but ordered the department in

which the financial function of the government was exercised

to issue these subsidiary notes in the name of the department.

The total amount of notes issued of the various denomina-

tions was as follows :

DenomiBatlons. Amount.

Two-Bu bill 3,683,000 rio

One-Bu bill 2,407,000 rio

Two-Shu bill 1,093,000 rio

One-Shu bill 315,000 rio

The issue began in September, 1869, and was completed

in October, 1870; in October, 1880, with the government

notes, it was exchanged for the " New Paper Money."

O'Kura-ShO'Dakkwan-ShO'Ken ( Treasury Convertible

Notes). — ^These notes were issued by the ordinance of Octo-

ber, 1871, in the name of the Mitsui Company.\* The object

• Kem-Po-Rui-Hen, vol. ix, p. 40.

•The House of Mitsui was founded early in the 17th century in

Kyoto by a man of that name coming from Echigo province in the

West. Contradictory stories are told as to which member of the

family first brought it into prominence by his energy and skill.

Romance has colored its earlier days; but at any rate no lonjg time

elapsed before prosperity began to visit the house, and after one or

two generations, its branches extended to all parts of the country,

the chief stores being six in number, one for each branch of the

family. The house had taken the name of "Echigo House;" and

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of issuing these notes was twofold; primarily, to defray

government expenditures, and secondarily, to buy in all the

old coins which were floating in the country.

The year 1871 marks the abolition of the Han (clan) and

the redivision of the country into prefectures ; the adminis-

trative sphere was correspondingly extended, causing ordi-

nary and extraordinary expenditures to be increased to

57,730,000 rio. On the other hand, owing to the fall in

price of rice,\*\* which constituted the principal source of the

government revenue, the income from both ordinary and

extraordinary sources, did not exceed 32,610,000 yen, leav-

ing a deficit of 25,120,000 yen.

To make up this deficit two measures were considered :

(a) the issue of more inconvertible notes, and the sale of the

coins (Ni-bu-kin) which were deposited in the Treasury

from time to time. Neither of these measures seemed prac-

ticable; for the former would be contrary to the decree

announcing that no further issue would be made and the

latter was undesirable at a time when the government was

planning to establish a new coinage system. The value of

specie fell very low and the people disliked to use the coin.

Moreover, the government was gathering all the coin pos-

sible in order to prepare a basis for a future coinage, so that

the sale of such coin as the government already possessed

was not to be thought of. Hence another measure was

sought. This scheme was to authorize a private commercial

house to issue notes and to circulate them. The adoption

of this scheme had two advantages: (a) the government

could succeed in raising enough to meet the deficit; (b) a

large quantity of specie could be collected with comparatively

little expense.

It is to be noted that the Mitsui Company acted as a gov-

as early as the last decade of the 17th century its fame was such

that Kaempfer was attracted by the extent of its commercial opera-

tions and made special mention of its achievments. Since the Res-

toration, this house has acted as a financial agent of the government.

"In 1871, the maximum price of rice was 4.32 yen per koku and

the minimum price 1.81 yen.

36 The History of Japanese Paper Currency, [244

emment agent in issuing this currency." Whenever the

Treasury Department wanted money, the Q>mpany received

its order accompanied by a reserve equal to one-half of the

amount of notes to be issued. If exchange in specie were

demanded and the demand were greater than the reserve

received, the Company had the right to demand more of the

government. Accounts of all transactions were subject to

government inspection. In the case of destruction or loss

of the measure either by fire or theft, the Company was re- '

sponsible for the loss. All expenses incurred in issuing the

notes were paid by the Q)mpany. For all this trouble and

work, the Company was permitted to receive as compensa-

tion twenty per cent of the total issue, for their own use

without reserve.

This compensation was clearly excessive. While the notes

were in circulation, the Company had the right of using for

their own benefit one-fifth of all issued. The notes being

convertible, the Company was obliged to have some reserve,

but so long as there was not much demand for redemption,

it could use the government reserve, if need be, since there

was no definite rule for the exchange for coin, nor for the

circulation of certificates whereby the notes in the use of the

government were distinguished from those of the Mitsui

Company. Again, the expense of issuing the certificate was

slight and, moreover, because of its privilege, the credit of

the Company became very great and its profits extraordi-

nary.

It was not long, however, before the government found

out that the compensation of the Company was too much

for the service rendered. In 1872, the government estab-

lished the system of deposit for exchanging the notes. Since

then, the contract with the Mitsui Company has been modi-

fied, and now, although it still has the use of one-fifth of

the total notes issued, yet the Company is obliged to ex-

change one-fifth of all notes presented for redemption. After

" Mei-Ji-Sei-Shi, vol. i, p. 240.

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five years, the Company was obliged to pay back twenty per

cent of all the notes issued to the Treasury Department, and

during that length of time the Q>mpany was required to

deposit twenty per cent of the sum in specie, on which the

government paid reasonable interest. In short, according to

this new contract, the compensation of the Company was the

privilege of borrowing money without interest for a security

bearing interest.

The original intention of the government was to limit the

amount of the notes to 3,000,000 yen ; but as its financial diffi-

culties were critical and the issue was intended to meet the

deficit in public revenues, the government issued more than

was originally intended. The amount of notes issued from

October to December, 1871, reached 4,772,000 yen, and dur-

ing January and February, 1872, 2,028,000 yen, making a

total of 6,800,000 yen. Notwithstanding the enormous in-

crease of the issue, their credit did not decline; for at the

beginning of the issue the government promised to exchange

notes for coins on demand and to destroy the notes re-

deemed. Moreover, since it was at a time when the old

coin was unpopular, the people preferred the use of the

paper money to that of specie. In issuing these convertible

notes, the government was certainly successful. But subse-

quent policies caused the notes to fall into great disfavor,

from the evil effect of which the country suffered for many

years.

If the government had followed the plan originally stated,

destroying the notes exchanged, the entire issue would have

disappeared and the economic condition of the country would

have been greatly bettered. But contrary to what was ori-

ginally intended, when the notes redeemed reached one-fifth

of the total issue (October, 1871, to March, 1872), the gov-

ernment, instead of destroying redeemed notes, returned

them again to circulation. Again, when the amount of new

coin reached 51,990,000 yen, the government could have

accomplished the resumption of specie payments as origin-

ally intended. But instead of attempting this plan, it ex-

38 The History of Japanese Paper Currency. [246

changed the notes for the " New Paper Money " which was

itself inconvertible money. Thus, the paper money which

was originally issued with the promise of convertibility lost

that quality and was added to the enormous amount of in-

convertible paper money already in circulation. All this

mismanagement was based on the belief of the officials that

as the notes could be circulated at par value with coin,

whether convertible or inconvertible, conversion into coin

upon demand was unnecessary.

Kai'TakU'Shi-Dakkwan-ShO'Ken Ojlonial Department

Convertible Certificate). — This issue, as the one preceding,

was emitted in accordance with the ordinance of May, 1871,

by the Treasury Department in the name of the Mitsui

Company.

The object of the issue was the promotion of the industry

and commerce of the Northern Island (Hokkaido). The

important question, how to open the "Island of the Bar-

barians," had been agitated from time immemorial. With

the Restoration and the nationalization of the Empire, the

need of settling this question was very keenly felt. This

island, as the northern gate of the Empire, required a gar-

rison for defense from northern invasion. Having a large

population relative to its area, the government required all

its arable land for cultivation, while experience proved that

the island was covered with valuable natural treasure."

Accordingly, soon after the new government was organ-

ized, the question of the colonization of the Hokkaido was

considered. It was a great undertaking, requiring large

funds in order to attain any success. Owing to its financial

embarrassment, the government could not appropriate any

additional revenues for this purpose. In 1872, Gen. Kuroda,

the head of the Colonial Department, with the consent of

the Treasiuy Department, proposed to issue convertible cer-

tificates amounting to 2,500,000 yen, and the proposition was

accepted by the Council of State.

"Rein, Industries of Japan, p. 324.

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The issue of these notes was similar to that of the Treas-

ury notes, but with certain modifications. As the Colonial

Department required the notes, they were issued by the Mit-

sui Company upon order of the Treasury Department,

against a reserve equal to one-third of the amount issued.

The time of circulation was to be ten years, during which

term the Colonial Department was to prepare for redemp-

tion. If no steps were taken for this purpose, the Treasury

Department was authorized to withhold such amount from

the annual appropriation of the Colonial Department. All

the expenses of issuing the certificates were to be borne by

the Colonial Department. Both Treasury and Colonial cer-

tificates were, however, poorly manufactured, and were

easily counterfeited. Hence the government decided to

stop their circulation after May, 1877, and they were ex-

changed for the " New Paper Money."

Shin-Shi-Hei (New Paper Money). — ^The object of issu-

ing this paper money was twofold; to prevent the circula-

tion of counterfeit money and to unify the currency system.

In 1870, when the paper money had begun to win the con-

fidence of the people and the solid basis of the currency

system was almost laid, the country was greatly alarmed

by the appearance of numerous counterfeit bills of various

kinds. This spurious money was emitted not only by na-

tives, but also by Chinese counterfeiters. There had been

many forgeries committed while the " clan governments "

were still in power, but that was in a time of great confusion,

when the centralization of power was not fully consummated,

and the government could not take any strict measure against

the offense. But now when the central government was fully

recognized by the people throughout the country, the author-

ities determined to put an end to counterfeiting and all the

evils connected therewith. Accordingly the government

issued private instructions addressed to local authorities

throughout the Empire as follows : " Notwithstanding the

fact that the government had already made the announce-

ment that it would convert paper money into specie, we are

40 The History of Japanese Paper Currency. [248

surprised at the appearance of counterfeit bills. This for-

gery is a great evil which endangers the prosperity of the

nation. Therefore, careful investigation should be made and

those persons who have committed the forgery should be

judged according to the law. Search for the spurious

money, examine it with care, and if proved to be counter-

feit, destroy it and report to the Civic Department concern-

ing the matter. Manage the affair privately, for if the

public know this fact, the people may refuse to receive paper

notes, thus preventing again the circulation of any kind of

paper currency." "

Soon after these instructions were issued, knowledge

thereof became public. So the central government coun-

selled the public to be on the watch for spurious money,

and established examining offices at Tokyo, Osaka, Kobe

and Yokahama, and afterwards at the seat of each pre-

fectural government, in order to prevent the continued

circulation of the counterfeit notes. Many persons were

sentenced for participation in the forgery. The Chi-

kuzen province was punished severely. Kuroda, the chiji,"

head of the provincial government, was dismissed from

office owing to some of his clan having been implicated in

counterfeiting the paper money to a considerable extent in

their province; five were condemned to death and four to

ten years' penal servitude."

The period of counterfeiting which at one time placed the

country in a very dangerous position, but which was sup-

pressed within a short time, directed the attention of the

authorities to the fact that this was due to two defects

" Mei-Ji-Sei-Shi, vol. i, p. $20.

\*\* The head of the local authority.

\*' F. O. Adams, History of Japan, vol. 1, p. 255. Concerning for-

eign criminals, the government discovered that four subjects of the

Chinese Empire, named Go-Kitsu-ho, So-sho-ho, Li-Shi-Kong and

Chon-yie-Kyoku, were implicated in the forgery. The Chief of

Police, Chin-fuku-kun, was notified and directed to punish them and

to destroy the thirty plates of counterfeit money, and the head of the

provincial government "was requested to take some measure for pre-

vention of future forgery.

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in the existing paper money, namely, its imperfect manu-

facture rendering it easy to counterfeit, and the poor

material of which it was made rendering it non-durable.

These facts caused the government to consider a change in

the existing paper money and the issue of a perfect currency,

thus preventing any successful forgery in the future. Just

at that time, a German establishment, Dondorf by name, lo-

cated in Frankfort-on-the-Main, advised the government

through Herr von Blank, German Minister to Japan, that

the lithographed paper money issued by their establishment

would never be forged, and that if a first order were placed

with them, they would teach the art to Japanese artists.

The Japanese government accepted the offer, and a contract

for paper notes amounting to 5,000,000 yen was completed

in October, 1871, and artists were sent in January to learn

the art of lithography."

A few months later the authorities found that in conse-

quence of the strict measures adopted for the prevention of

counterfeiting, the credit of the government notes was re-

stored and the number of spurious notes was greatly dimin-

ished. Accordingly the officers in charge of the financial

affairs of the government considered it unnecessary to re-

deem all the old notes immediately, but proceeded at once

to call in the clan notes. This proposition was accepted by

the Councillors of State, and the proclamation of December,

1871, was issued:

" Owing to the poor manufacture of paper money, there

are many who have lawlessly attempted to counterfeit the

government notes, and there are also gold, silver and copper

bills in present circulation, which have been issued by divers

clans. These elements create much inconvenience, as well

as positive loss in the transaction of business. Therefore,

although the government has been burdened with enormous

outlay yearly, it has issued new paper money of excellent

quality of the following denominations: 100 yen, 50 yen,

" History of Japanese Currency, vol. xv, p. 35.

42 The History of Japanese Paper Currency, [250

20 yen, 10 yen, 5 yen, 2 yen, i yen, 50 sen, 20 sen, 10 sen,

and 5 sen. Of these, i yen, 50 sen, 20 sen, and 10 sen

will be issued and circulated from February 15, 1872. As

soon as issued, all the old government notes and clan notes

will be taken in exchange for them." "

In 1872, when the Han (clan) was changed into the

Prefecture, the government determined to exchange all clan

notes and placed a second order for 50,000,000 yen. After-

wards, the original lithogfraphic plate was transferred from

Germany to Japan and the reserve notes were issued at the

" Paper Currency Bureau " to the amount of 3,537,000 yen.

After these two original objects were accomplished, the

government sought to exchange all government notes and

certificates. The various purposes for which these so-called

" New German paper notes " were issued, are summarized

in the following table :

Purpose of Issue. Amount.

Conversion of old notes 52,897,000 yen

Conversion of clan notes 22,618,000 "

To defray colonial expenses. 1,100,000 "

Conversion of Treasury certificates 6,784,000 "

Conversion of Colonial certificates 2,463,000 "

To cover deficit 8,525,000 "

To cover expenses of suppressing Rebellion

of 1877 27.000,000 "

121,387,000 yen

The first purpose of issue, conversion of old government

notes, was to exchange Treasury and Colonial Department

certificates for the new paper money." It was argued that

the issue of 100,000,000 yen had been ordered, although the

total sum of government," civic" and clan notes to be ex-

changed was not more than 85,000,000 yen; that there ex-

isted, therefore, an excess of 15,000 yen; that if this excess

were devoted to the redemption of other outstanding notes

amounting to 9,300,000 yen. Treasury notes of 6,800,000

yen and Colonial certificates of 2,500,000 yen, there would

" Kem-Po-Rui-Hen, vol. ix, p. 25.

" See p. 52. " See p. 42, above. \* See p. 45, above.

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then be no need of expending specie for their redemption.

Inconvertible certificates were thus exchanged for converti-

ble notes.

The use of paper money by the government was favored

by the fact that the certificates when issued were received

by the people very favorably and circulated extensively,

very few notes being presented for redemption. Moreover,

as notes of the smaller denominations circulated among the

mountaineers and fishermen, the wear and tear was great

and it seemed impossible that the amount which was origin-

ally intended for circulation would last ten years. In any

event, as the island was gradually opened and the wilder-

ness became a taxable area, it seemed no difficult task to

redeem the notes with the coin paid in as taxes in the island.

Hence, holding the sum of 1,800,000 yen, which was lent

to the people of Hokkaido, as a reserve, the government

issued additional notes to the amount of 1,100,000 yen.

In the year 1871, when the country was redivided, the

public expenditure became very great, and the government

suffered from financial embarrassment. Whenever a deficit

occurred, the Bureau of Ways and Means would borrow

temporarily from the Bureau of Currency to meet the defi-

ciency, with the intention of repaying the amount when

taxes were received. Now this seems very similar to the

treasury certificate system. But, in the first case, there was

a definite term within which the debt would be paid, usually

not longer than a fiscal year, whereas the system adopted

by the Japanese government provided no definite term for

liquidation. The Minister of State for Finance simply be-

came a debtor of the Bureau of Currency, and a creditor

of the Bureau for Revenue; the liability of debtor and the

right of creditor rested upon one person, and there was no

specific obligation to pay at all. This mode of transaction

was resorted to nine times during the five months from

October, 1872, to February, 1873, and the amount thus bor-

rowed was 8,000,000 yen. In 1874, this debt was converted

into the " new paper notes."

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At the beginning of the new era of the Meiji, the govern-

ment adopted the policy of interference in commerce and

industry. It went so far in this direction that it was said

that the government monopolized all the industries of the

country. This policy cost the government 500,000 yen,

which necessitated another issue of paper money.

In 1877, when the country had entered upon its prosperous

career, the development of national life was suddenly checked

by a civil war, which left the country in a serious condi-

tion. To meet the enormous expenditure incident to the

war, the government having no other source from which it

could draw, circulated paper notes to the value of 27,000,000

yen from the reserve currency which was to be used for

exchanging "worn-out paper notes." In the same year

it was decreed that this reserve currency should circulate

for fifteen years, and at the end of that period be exchanged

for bonds.

Kai'RyO'Shi'Hei (Improved Paper Money). — ^The new

paper money which was claimed to be perfect in manufacture

was found, a few years after it was circulated, to be imper-

fect in three particulars: (i) As the notes of all denomi-

nations were of the same size, differing only in the figure

which indicated the denomination, it was very difficult to

distinguish one denomination from the other. (2) Owing to

the character of the paper, the color used in the lithographic

print was not absorbed sufficiently to prevent it from being

changed very easily. (3) Owing to the poor texture of the

paper, the notes were easily torn and were soon worn out.

It is reported that 100,000 yen worth of notes were brought

to be exchanged in one month.

For these reasons, the government ordered the Financial

Department to issue another note known as the " Improved

Paper Money," which should remedy these defective quali-

ties in the " New Paper Money."

CHAPTER IV

Redemption of Paper Currency

Although all the notes described in the preceding chap-

ters are included under the name of " Government Notes,"

yet in regard to their characteristics and their objects, the

various issues may be divided into the two following classes :

A. Those issued for meeting a temporary deficit, because of

the excess of expenditures over the revenues of the govern-

ment ; but forming no addition to the permanent debt of the

government.

B. Those issued for defraying the government expendi-

ture and destined to become a permanent debt of the gov-

ernment.

It is not unusual in financial administration for the expen-

diture and revenue to be unequal; sometimes the former is

greater than the latter ; while at other times the reverse is the

case. " Temporary deficits and surpluses cannot be avoided.

In the management of a large financial organization complete

equalization of receipts and expenditure could hardly ever

be obtained, or, if it were, would be due to chance." \* Hence

governments usually provide some method of borrowing

which may be utilized in case of temporary inequality be-

tween expenditure and revenue. The Japanese government

having no central banks, adopted the system of "reserve

paper notes," considering that "this method is better than

issuing a loan, for by it, the government is free from paying

interest and free also from the trouble of collecting the:

loans." But in 1877 and the four years following, a succes-

sion of events necessitated a large amount of extraordinary

expenditure and the government was forced to issue an ex-

\* C F. Bastable's Public Finance, p. 535.

46 The History of Japanese Paper Currency. [254

cessive quantity of notes. Consequently, at the end of 1881,

the depreciation of the paper notes was so great that the

government was compelled to undertake their reform.'

This important work was left to the ministry of Count

Matsukata. Soon after entering upon his office, the Count

found that the " reserve notes " in circulation amounted to

10,430,000 yen.' He took measures for the redemption of

the "reserve notes," and in order to accomplish his plan

carried out the following reforms :

1. In the first place, he remodelled the method of receiving

revenue and of defraying expenditure. Hitherto it had been

the custom to keep the taxes paid by the people in the treas-

ury of the local authorities for some months before trans-

mitting to the central government. On the other hand,

financial regulations required the Financial Department to

pay in advance one-twelfth of the appropriation for the dif-

ferent departments of the central government, and one-fourth

of that for the provincial government.\* Thus some reserve

was rendered necessary.

Count Matsukata changed the system so that the surplus

of one province could be used to cancel the deficit of another.

He ordered all the local governments to report to the Finan-

cial Department every other day, by telegraph, the amoimt

of money in their local treasuries. Thus he was enabled

to use a surplus existing in one part of the Empire to bal-

ance a deficit in another.

2. Count Matsukata endeavored also to replace the " re-

serve notes " with specie. The larger part of the reserve

was in the form of loans and government bonds, and only

the sum of 8,000,000 yen was held in specie to effect the

conversion of the bills. Hence he resolved to augment the

amount of specie. To accomplish this, he sold the bonds

and arranged for the payment of all loans so that the reserve

consisted entirely of specie. When the government should

• Report of the Minister of Finance, p. 73.

" Count Matsukata's Report of 1890, p. 75.

\* Ministers\* Report, p. 10.

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have a deficit, the coin reserve was to be used instead of the

old paper notes.

3. The third measure taken was the diversion of the specie

paid in for building the Middle Provincial Railroad to the

temporary needs of the government. In 1883, it was deter-

mined to lay a railroad joining the two capitals, Tokyo and

Kyoto, through the Middle Provinces. Bonds were offered

for sale in the same year and a large amount of specie was

thus brought into the central treasury. The government

was able to use this sum for tiding over the temporary

emergency until the carrying out of the project demanded

the money. Through these measures, all the notes of Class A

were converted into specie in 1883.'

For the reasons mentioned in the preceding chapters, the

amount of inconvertible notes, in new paper money, reached

in 1878 the following enormous figures :

Amount issued for the conversion of old

government notes and bills 61,367,000 yen

Amount issued for the conversion of clan

notes 22,908,000 "

Amount issued for meeting general defi-

ciency 8,525,000 "

Amount used for the expenses of the Insur-

rection 27,000,000 "

Total 119,800,000 •

We shall now consider how the government managed this

enormous amount of inconvertible notes. In 1873, when it

was decreed that the old notes should be exchanged for the

new coins and that if all were not so exchanged, six per cent

interest should be paid on those continuing in circulation,

the government attempted the fulfilment of these promises

and took several measures for the redemption of the paper

notes.^

The first of these was the issue of the " Bond in exchange

for Paper Money," and the second, the establishment of

• Count Matsukata's Report of 1890, p. 78.

• See Compendium of the Japanese Finance, vol. ii, p. 240.

'Cf., p. 30.

48 The History of Japanese Paper Currency. [256

national banks with the right to issue convertible certificates.

According to these regulations, national banks were estab-

lished, each of which should have a capital of at least

50,000 yen. Six-tenths of the capital was to be deposited in

paper money at the Financial Department and the remaining

four-tenths was to be held in specie as a reserve for the

redemption of the bank's notes. Then the Financial Depart-

ment issued "Bonds in exchange for the Notes," bearing

interest at the rate of six per cent per annum payable in

gold, which the banks were required to retain as security for

the note issue. The amount of the notes could not exceed

the security possessed by the bank. Concerning the advan-

tages of issuing the " Bonds in exchange for Paper Notes,"

Count Okuma says, " This plan has two advantages ; in the

first place, when the rate of interest falls below six per cent

in gold, owing to an excess of paper money in circulation,

the holder will be at liberty to exchange them for public

bonds, while the government would be enabled to with-

draw enough paper money to maintain the circulation at an

amount suitable to the requirements of the country; and in

the second place, when the paper currency falls below par,

the holder will be able to obtain bonds, the interest of which

will be payable in specie." \*

These were really the first steps taken by the government

towards the redemption of the paper currency, but the press-

ing necessity for the conversion of "clan notes" and the

outbreak of the Kiushu Insurrection compelled the govern-

ment to issue additional notes to the amount of something

over 31,000,000 yen and thus abandon the plans for re-

demption.

During the five years from 1874 to 1879 ^^e government

notes in circulation increased to a considerable amount. In

the early part of the period, as there was only a limited

issue of the notes, they circulated at par with specie,\* but,

"Okuma's Review, p. 14.

• Of course, silver beinp^ the only money used in Japan's foreign

trade, there were fluctuations in the value of silver according to the

shifting relation of imports to exports.

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later, owing to the inconvertible character of the notes and to

their over-issue after 1877, they began to fall in value. For a

time the result disturbed the internal as well as the foreign

trade.

The first effect of the depreciation was the excess of im-

ports over exports, and the second was the outflow of the

monetary metals. Both of these results are shown in the

following tables : "

TABIiE I.

EXPORTS AND IMPORTS OF COMMODITIES

Year

Imports

Exports

Excess of

Imports

Excess of

Exports

yen

yen

yen

yen

1872...

26,174,000

7,026,000

9,148,000

1873...

28,107,009

21,635,000

6,471,000

1874...

23,461,000

19,317,000

4,144,000

1875...

20,975,000

18,611,000

11,364,000

1876"..

23,964,000

27,711,000

3,746,000

1877 ...

27,420,000

23,348,000

Table II.

4,072,000

IMPORTS AND EXPORTS OF PRECIOUS METAL.

Year

Imports

Exports

Excess of

Imports

Excess of

Exports

yen

yen

yen

yen

1872...

3,691,000

4,480,000

789,000

1873...

3,080,000

5,122,000

2,042,000

1874...

1,071,000

13,995,000

12,923,000

1875...

298,000

14,668,000

14,366,000

1876...

8,267,000

10,675,000

2,408,000

1877...

2,173,000

9,441,000

7,267,000

Notwithstanding these clear evidences of the effects which

we have ascribed to the over-issue of the paper notes,

most of the financiers of the time attributeii this alarming

inequality between imports and exports to the scarcity of

capital and sought a remedy in the issue of more bank notes.

With this end in view revision was made of the Bank Regu-

lation by which more inconvertible bank notes were issued.

The government required the banks to deposit in the Finan-

cial Department government bonds bearing four per cent

interest to the amount of eight-tenths of its capital, leaving

"Count Matsuka\*s Report of 1890, p. 85.

" The excess of imports in the year 1876 was due to the failure

of the silk crop in the European countries, and the consequent in-

creased exports of silk from Japan.

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50 The History of Japanese Paper Currency. [258

only two-tenths of the capital in specie. Upon the basis of

this specie the bank was allowed to issue notes to the

amount of the deposited bonds. This measure indicates that

»the government had at that time abandoned entirely its first

idea of redeeming the inconvertible notes, by allowing the

exchange of bank notes for government notes, which were

themselves inconvertible. Thus, during three or four years,

there were added to the amount of inconvertible paper money

already in existence over 100,000,000 yen."

An incidental factor in the adoption of this measure was

the commutation at this time of the hereditary pension of

the military classes into " Public Debt Bonds." " This class

beyond the functions which had appertained to it under the

regime that had passed away, was ignorant of the ordinary

means of gaining a livelihood, and now being suddenly

relieved from those functions, was in great danger of falling

into a state of indigence and perhaps into pauperism, unless

some calling could be found for its members. The govern-

ment consequently sought a means by which the military

class could turn their " Public Debt Bonds " to account in

obtaining a livelihood." " These circumstances, the demand

for more capital, and the relief of the military class led

the government to revise the Bank Regulations and to issue

the additional inconvertible notes.

The results of this measure were felt in the finances of the

country soon after the revision took place in 1878. There

ensued further depreciation of the paper money, an excess

of imports over exports, an efflux of silver and gold, and

a rise of general prices. These phenomena are shown in

the following tables :

Table I.

AMOUNT OF PAPER NOTES IN CIRCULATION

Tear Glass A Glass B fiank Notes Total

yen yen yen yen

1877 11,961,000 93,886,000 13,352,000 119,149,000

1878 19,618,000 119,800,000 36,279,000 166,697,000

1879 16,118,000 114,190,000 34,046,000 164,864,000

1880 16,528,000 108,412,000 34,426,000 159,366,000

1881 13,000,000 105,905,000 84,396,000 153,802,000

" See the Compendium of the Japanese Finance.

" Count Okuma's " Review," p. 29.

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Table II.

DBPRBCIATION OF THB PAPER NOTES IN COMPARISON WITH SIL-

VER. (PRIOR TO SEPTEMBER, 1879, IN THB MEXICAN DOL-

LAR COIN AND THEREAFTER IN JAPANESE YEN COIN).

Tear Jan. Feb. Iter. Apr. May Jane July Auf. Sept. Oci. Nov. Dec. Aver,

yen yen yen yen yen yen yen yen yen yen yen yen yen

1877 1,018 1,037 1,026 1,084 1,015 1,024 1,034 1,062 1,068 1,048 1,037 1,030 1,088

1878 1,049 1,076 1405 1,076 1,066 1,068 1,068 i;078 1,110 1,143 1,131 1,217 1,099

1879 1,217 1,246 1,261 1,247 1,161 1,102 1,121 1,172 1,168 1,288 1,286 1,386 1,212

1880 1,865 1,889 1,486 1,549 1,878 1,867 1,878 1,887 1,489 1,661 1,686 1,659 1,477

1881 1,728 1,746 1,774 1,796 1,620 1,625 1.628 1,629 1,690 1,784 1,692 1,695 1,696

Table III.

IMPORTS AND EXPORTS.

Tear Imports

yen

1877 27,420,000

1878 82,874,000

1879 32,963,000

1880 36,626,000

1881 81,191,000

Exports Excess of Imports

yen yen

23,848,000 4,072,000

26,986,000 6,886,000

28,176,000 4,777,000

28,895,000 8,281,000

31,068,000 132,000

Table IV.

EXPORTS AND IMPORTS OF THE PRECIOUS METALS.

Year Imports Exports Excess of Exports

yen yen yen

1877 2,173,000 9,441,000 7,267,000

1878 2,189,000 8,328,000 6,189,000

1879 8,184,000 12,778,000 9,644,000

1880 8,638,000 13,222,000 9,684,000

1881 1,866,000 7,490,000 6,684,000

Table V.

PRICE OP RICE »♦

Year Maximum

yen

1877 6,67

1878 7,08

1879 9,87

1880 12,11

1881 11,58

Minimum

Avera^

yen

yen

4,68

5,15

6,87

6,20

7,05

8,21

8,15

10,13

9,44

10,48

As shown by the above tables, depreciation of the paper

money caused by the over-issue began in 1877. At the be-

ginning of the year 1874, silver money brought 7 or 8 sen

" The price of rice is selected because of its universal use through-

out the country; the price given is that per koku in the Tokyo

market.

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premium, and at the end of the year the paper depreciated

and the difference between paper and silver was 22 sen.

This phenomenon called the attention of the financiers to

the importance and necessity of some action. They failed,

however, to see the real cause of the premium. They thought

the depreciation of the paper due to the appreciation of

silver ; that the appreciation of the metal was caused by the

1 unfavorable balance in the foreign trade, and that this, in

j turn, was owing to scarcity of capital which hindered indus-

j trial enterprises. Hence, the measures adopted by the gov-

ernment were not intended to contract the inconvertible

notes but rather to prevent the appreciation of silver money.

In 1879 t^^ premium on silver went up as high as 25

per cent. In order to stop the appreciation of silver, the

government authorized two banks at Tokyo, Mitsui and

Second National Banks, to sell silver to the amount of

2,400,000 yen from the Reserve fund." This measure caused

silver to depreciate slightly ; it had been at 16 sen premium,

but now fell to 12 sen. When the sale stopped silver went

up again to 23 sen, then to 33 sen, and in 1880 it rose as

high as 54 sen premium. In that year, the government or-

dered three banks (First, Second and Mitsui) to sell silver

to the amount of about 6,000,000 yen.

Silver, as a result, fell down to 37 sen premium, but in

the autumn of the same year it went up to 48 sen. Having

thus failed in all its attempts to prevent the appreciation of

silver, the government abandoned the plan of selling silver

and determined to accomplish its purpose by the more direct

method of contracting the paper currency.

Two measures looking to this end were immediately

adopted: i. An increase in the tax on liquor. 2. A reduc-

tion in the outlay of the government. By the first measure

the Financial Department was able to add 6,000,000 yen

and by the second 3,500,000 to the reserve which was in-

tended for the redemption of the paper currency.

" Mei-Ji-Sei-Shi, vol. ii, p. 234.

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But the appreciation of silver did not stop and in 1881

silver was at 79 sen premium, the maximum limit of the

appreciation. The effect of the premium upon industry and

commerce was alarming. The revenue of the government ■

decreased to one-half its nominal value ; many of those whose

livelihood depended upon salaries and pensions were reduced

to want. The rate of interest rose and the govermnent bonds

fell in value. All commodities rose in price, and the effect ,

of the high price of rice was especially severe upon the

common people, as it is the chief product and the staple

food of the Japanese people. The farmers alone are sup-

posed to have been benefited by the appreciation of silver.

" In the year 1881," says Hon. T. R. Jennigan, the United

States consul at Osaka, " nearly every thing in Japan had

greatly risen in price, and as the great majority of the

people considered only price and not value, and ignored the

wholly fictitious nature of the advance, it is not surprising

that they imagined it both solid and likely to endure, and

thought themselves very prosperous and quite justified in

launching into much extravagant expenditure. Accord-

ingly, new farm houses sprang up in every province; new

clothes and ornaments were freely purchased, landed prop-

erty came in great demand . . . and in general everybody

rejoiced in hope and a sense of prosperity." "

Before long, the government awoke to the danger and

renewed its efforts to diminish the note circulation. This

important matter was left to the ministry of Count Matsn-

kata.

In October, 1881, Count Matsukata was appointed Minis-

ter of State for Finance and immediately undertook to con-

tract the currency. The first step he took was to segregate

as large a specie reserve as possible. With this in view.

Count Matsukata ascertained how much specie the govern-

ment could devote to the purpose. In his report on the

result of this investigation, he says, " We have an average

"U. S. Consular Reports, vol. xix, No. 68, p. 655.

54 The History of Japanese Paper Currency. [262

annual surplus of revenue amounting to 7,000,000 yen, and

a reserve already made, amounting to 36,438,000 yen, mak-

ing a total 43,438,000 yen which we can use for the manage-

ment of the paper currency." " If," he continues, " we

manage our annual income and reserve properly, before

many years pass we can accomplish the redemption of all

inconvertible notes."" From this time on, the government

on the one hand contracted the paper notes and on the other,

increased the reserve, with the intention, ultimately, of

changing the irredeemable paper notes into convertible cer-

tificates. To accomplish this aim, the government, on the

advice of Count Matsukata, on October 10, 1882, established

v/ the " Central Bank of Japan."

The object of the establishment of the Bank of Japan is

described in the memoir of Count Matsukata. He says,

" The existing banks (260 in number, including all branch

offices) scattered over the country have no business connec-

tion with each other; and the feudal barrier still separates

one bank from another. Consequently, specie to the value

of 50,000 yen cannot be utilized, and thus there is no way

for extending the credit of the banks. Hence, although the

amount of bank notes issued reaches the enormous sum of

over 34,000,000 yen, yet the country has been feeling the

insufficiency of the medium of exchange.

" If this were the age of feudalism such an institution

might have been of some service to society. But, fortunately,

that age has passed and gone. By this time the central gov-

ernment has been formed and all the provincial governments

have been established, bearing a definite relation to the cen-

tral government. But sad to say, the banking system, which

is the most important factor of the financial welfare of the

country, is not in accord with the centralization of the

government.

"Accordingly, in order to save the country from an un-

balanced situation in its political and financial system, there

" Count Matsukata's Report of 1890, p. 123.

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is left but one measure, that is, the estabhshment of the

\* Central Bank of Japan.' The circulation of the currency

is like the circulation of the blood, and what keeps up the

circulation is the heart. The central bank is the heart o|

the currency circulation of a country, without which the

finances of the country cannot be successfully adminis-

tered.""

This memoir was accepted unanimously by the members

of the Cabinet, and the " Regulation of the Bank of Japan "

was proclaimed June 27, 1882. The " Regulation " may be

summed up as follows :

1. The object of the Bank shall be: (a) To make the

flow of currency in circulation easy and undisturbed, (b)

To render service to the government as a financial agent in

international trade, (c) To aid the government in its ordi-

nary financial operations, (d) To monopolize the power of

issuing certificates. '<

2. Its term of business shall be thirty years.

3. The capital of the Bank shall be 10,000,000 yen.

4. One-fifth of the authorized capital shall be paid in

•before the Bank may open business and the remainder at

the convenience of the stockholders.

5. The business of the Bank shall not be restricted, unless

it tends to unjust and disastrous speculation, in which case

measures will be taken.

6. If the government sees fit, the Bank may be entrusted

with the management of the financial affairs of the govern-

ment.

7. The Bank has the right to issue convertible certificates,

but at present it shall not exercise this right."

8. The President of the Bank shall be a person of the

First Rank and the Vice-President, one of the Second Rank.

9. The Minister of Finance shall appoint an official who

shall inspect the business of the Bank.

"Count Matsukata's Memorial, dated March i, 1882.

"This clause was added on account of the great depreciation of

the paper currency.

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10. The President shall present to the Minister of Finance

monthly a report of the condition of the Bank.

11. The government shall invest capital amounting to one-

half of the whole capital of the Bank in the stock of the

Bank.

Meanwhile, the government endeavored to increase the

central specie reserve through economy and the introduction

of business methods, until, in 1885, it aggregated 2,806,000

yen. In May of the same year, by the act proposed by

Count Matsukata, the " Bank of Japan " was authorized to

issue certificates amounting to 2,645,000 yen.

Finally, in June, 1885, the government issued the follow-

ing proclamation :

" The government paper notes (inconvertible) shall grad-

ually be exchanged for silver coin, beginning in June, 1886,

and those redeemed shall be cancelled. The method of mak-

ing the exchange fixed by the Minister of Finance and the

management thereof shall be entrusted to the \* Bank of

Japan.' ''

Conversion began on the date fixed by the decree, and

owing to the general tranquillity during the four years fol- <

lowing, combined with the industrial development and com-

mercial prosperity of the realm, the measure was carried

to a successful termination. The amount of the specie,

bonds and certificates held against the inconvertible notes in

1890 is shown in the following table :

Credit yen Debit yen

Certificates 77,615,000 Government Notes 40,066,000

Specie 54,976,000 Bank and National 26,391,000

Bonds 28,659,000

Total 155,230,000 Total 66,456,000

The next step taken by the government in the redemption

of the inconvertible notes was th^ reform of the bank note

circulation.

The first bank notes were issued in accordance with the

Bank Regulation of 1873, and they were convertible certifi-

265] Redemption of Paper Currency, 67

cates.\*\* But in 1875 ^ind 1876, when the balance of foreign

trade was unfavorable to Japan, and, consequently, the out-

flow of specie was greatly enhanced, gold appreciated and

there were many demands for the conversion of the paper.

It became evident that if the banks continued to redeem the

notes as originally planned, not only would such a course

be destructive to the banks, but it would also facilitate the

outflow of specie. Therefore, four banks of Tokyo appealed

to the government to modify the law. Although the authori-

ties were aware that evil effects would follow an over-issue

of inconvertible bank notes, yet on account of the need for

funds to meet the heavy government expenditures caused

largely by the commutation of the hereditary pensions of the

military class into a public charge, it seemed necessary to

grant the banks the power of issuing inconvertible notes."

For these reasons, a revision of the Regulation was made

in 1876, and the bank notes, instead of being converted into

specie, were redeemed with inconvertible government notes.

The distinguishing quality of the bank note — ^its converti-

bility — was thus lost. In 1883, therefore (after the estab-

lishment of the Bank of Japan), the government began to \

consider the reform of the bank note circulation. Two I

methods were recommended to the government for accom-

plishing its purpose:

1. It was suggested that all the bank notes be made a lia-

bility of the Bank of Japan. As to this method, Count Mat-

sukata said, " If the Bank of Japan had to-day enough finan-

cial strength to be able to issue convertible notes, such a

method might indeed be adopted. But unfortunately such

is not yet the case." "

2. Another plan considered was to permit the banks to

continue as before during the term of years prescribed in

the Regulation, and at the end of the period to require the

banks to redeem all their notes. To this also Count Matsu-

\*" Cf., p. go. ^ See p. 80.

"Count Matsukata's Report of 1890, p. 240.

68 The History of Japanese Paper Currency. [266

kata objected on the ground that if, at the end of their term

of 20 years, all of the 140 banks sold their bonds at once,

a disastrous effect would be produced on the economic affairs

of the country.

3. Count Matsukata proposed that all the reserves of the

national banks should be transferred to the Bank of Japan

and that each national bank should deposit out of its annual

profits an amount of money equal to two and one-half per

cent of the amount of its notes in circulation. With these

funds — reserves and annual payments — the Bank of Japan

should buy bonds, the interest on which should also be

devoted to the redemption of the bank notes. At the end

of 15 years, if there should still remain any unredeemed

notes, a portion of the bonds should be sold and used for

the redemption of the outstanding notes. This policy was

adopted in May, 1883.

Entering upon a policy of contraction in 1882, the gov-

ernment firmly persisted in its measures. At the end of

1884, the paper money was nearly at par, and by 1886 paper

and silver were entirely interchangeable. But this whole-

some end was not and could not be thus rapidly attained

without great disturbance in all other business. "The

prices, of course, fell as precipitately as they had risen ; with

the fall in prices, distress and desolation extended over the

land, and millions of people who had supposed themselves

on the high road to wealth suddenly found poverty staring

them in the face, while exacting creditors on all sides de-

manded the liquidation of debts." "

But necessity forced many to exertion and with a return

to frugality and diligence, production and trade were gradu-

ally revived and prosperity returned. At the end of the

annual report of 1890, Count Matsukata happily states that,

" If we look back upon the financial condition of the country

at the time when the government notes fell in value to their

lowest point and see the consequent evil effects upon indus-

\*\* The U. S. Consular Report, vol. xix, No. 68, p. 654.

267] Redemption of Paper Currency. 59

try and commerce, we are conscious of the sense of fear

and anxiety felt at that time. But what glory to the country

and what blessing to the people! Through the wise man-

agement and ardent zeal of the cabinet, step after step, year

after year, the measure has advanced and now all the pro-

visions for the redemption of the notes are completed/'

BlBLIOGIt^PHY

The following are the important works which have been

consulted in the preparation of this monograph :

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