

Economic History 1603–1912

Significant political and economic transformation of the Japanese system may ultimately have occurred in the nineteenth century even without the intrusion of foreigners; but we shall never know, for intrude they did.

The Meiji era (1868–1912)

By the dawn of the nineteenth century, Russian, American, and European trade with China was beginning to result in incidental Japanese contacts with foreign vessels, apart from the long sanctioned visits of Dutch and Chinese vessels to Nagasaki. In 1792 Catherine II dispatched a naval envoy to request an opening of trade with Japan, but little came of it. And in 1832 the US president Andrew Jackson sent a naval envoy to China with instructions also to open trade with Japan if feasible, but the envoy died en route and matters went no further at that time. Twenty years later, another US president, Millard Fillmore, dispatched a naval flotilla under the command of Commodore Matthew C. Perry with instructions to demand coal depots and supply stations for American ships, permission for American vessels to enter Japanese ports (to be designated by treaty) for the purpose of trade, and amicable treatment of any Americans marooned on Japan.

Perry reached Uraga harbor near Edo in 1853 and presented the American demands, promising to return for the answer a year later. After unprecedented consultation with the leading *daimyō*, the *bakufu* agreed in 1854 to the treaty of Kanagawa which allowed American ships to obtain provisions at Shimoda (on the Izu peninsula south of Edo) and Hakodate (in the northern island of Ezo, now called Hokkaido), and also provided for an American consul posted in Japan to negotiate further trade relations between the two nations.

Perry's visits initiated a political crisis in Japan that ultimately proved fatal to the *bakufu*'s authority. There was much sentiment among the *daimyō* in favor of armed resistance to the Americans, yet the shogunate acceded to the American requests. In 1858 representatives of the shogunate signed a Treaty of Amity and Commerce with the United States establishing extraterritoriality and American trade in Kanagawa (now known as Yokohama), Nagasaki, Niigata, and Hyōgo (now Kobe), as well as

Shimoda and Hakodate. Britain, France, Russia, and the Netherlands signed nearly identical treaties with Japan later that same year.

As foreigners came to the treaty ports and trade commenced on a large scale, Japan's two centuries of seclusion finally ended. During these early years of open trade, foreigners gained an unsavory reputation in Japan for sharp practices and exploitative behavior. It did not help matters that in the Treaty of Amity and Commerce the shogunate had yielded to the American consul Townsend Harris's stubborn insistence that the official foreign exchange rate between Japanese and foreign coins should equal the coins' relative contents of precious metal. Silver coins circulating in Japan in the 1850s held far less value as precious metal than the coins' exchange value in terms of other goods. This was less true of the gold coins then circulating in Japan. The price of Japan's gold coins in terms of its silver coins in 1858 was such that, by trading Japanese silver coins for gold coins, one obtained gold of 3.45 times greater value on the world market than the silver metal given up. The Mexican silver dollars that were the predominant international currency of the Orient at that time were virtually a commodity money, the equivalent of bullion. To forestall foreigners' trading Mexican silver dollars to the *bakufu* for Japanese silver coins at the unfair exchange rate stipulated in the treaty, and trading the Japanese silver coins for gold ones, the *bakufu* at first, in June 1859, attempted to remind Japan's silver coins, increasing their value relative to gold, and, under the terms of the treaty as understood by the *bakufu*, thereby increasing their foreign exchange value. But a month later, after foreign protests, it had to abandon this scheme and proceeded instead to make the best of a bad situation by reminting the gold coins, greatly inflating their issue and thereby degrading their value relative to indigenous silver coins (which it also allowed to depreciate in value in terms of domestic goods). This eliminated the unfair foreign arbitrage but also led to a four-fold increase in Japanese domestic prices between 1860 and 1866.²⁰

²⁰ For the details of this episode, refer to Peter Frost, *The Bakumatsu Currency Crisis*, Harvard East Asian Monographs, Harvard University Press, 1970. Also see (Takehiko) Ohkura and (Hiroshi) Shimbo, "The Tokugawa Monetary Policy in the Eighteenth and Nineteenth Centuries", *Explorations in Economic History*, vol. 15 (1978), pp. 101–24.

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The massive inflation can only have exacerbated the already tense relations between Japanese and foreigners and further tested the shogunate's increasingly tenuous hold on power. In 1858 the reigning *shōgun* had died without an heir, and in the succession dispute and aftermath there ensued purges, executions, and assassinations. Amidst this turmoil, the opening of the treaty ports soon provoked terrorist activity directed against foreign residents. In retaliation, the British navy in 1863 bombarded Kagoshima, a harbor city in Satsuma (in south-west Kyushu, today's Kagoshima prefecture), and the following year it destroyed a coastal battery in Chōshū (at the extreme western tip of the main island of Japan, today's Yamaguchi prefecture). Delay in implementing the terms of the 1858 treaties provoked the threat of a further armed response. In 1865 an allied flotilla entered Hyōgo (today's Kobe) and succeeded in gaining imperial, rather than *bakufu*, ratification of the treaties, now revised so that Japanese tariff rates (tax rates on imports) would be subject to ceilings averaging about 5 percent, not 20 percent as before. These "unequal" treaties, forced on Japan at gunpoint, would be honored by subsequent Japanese governments, but not without rancor.

By 1867 the end of the shogunate was assuming an aura of inevitability. On January 3, 1868, armies of several *han* from the south-west of Japan entered Kyoto and announced the establishment of direct rule by the Meiji emperor, then a boy of fifteen, a "restoration" of the form of government historically assumed to have existed in Japan of the seventh century. In fact, the new government was a virtual oligarchy primarily comprised of the leading figures of the Satsuma and Chōshū *han* governments which had spearheaded the rebellion. Armed resistance to the new government was feeble and unsuccessful.

Early steps of the new government, 1869–1871

Immediately following the 1868 Meiji Restoration, the newly proclaimed ruling council of government, the *dajōkan*, acted quickly to consolidate its authority. At first the Meiji leaders merely usurped the position previously occupied by the Tokugawa *bakufu*, continuing both to collect rice taxes and to pay samurai stipends, and allowed *han* governments

to do likewise and function largely as before. During this very early period they had no way of augmenting finances to meet the continuing threat of internal military crisis except to issue inconvertible paper money, and this they proceeded to do.

Under the earlier regime, gold-based currency had circulated in Edo (which the Meiji oligarchs now renamed Tokyo) and silver-based currency had circulated in Osaka and elsewhere. In 1868 the *dajōkan* ordered the conversion into newly issued paper notes of all indigenous silver-based currency. In the treaty ports silver "trade dollars" continued to circulate. The money of various kinds (*hansatsu*) previously issued by the *daimyō*, as well as gold, silver, and copper coins issued by the *bakufu*, and Mexican silver circulating in the treaty ports. To these were now added the inconvertible notes of the Meiji government, optimistically labeled "gold notes" (*kinsatsu*). The nominal money stock in Japan was expanded by approximately 100 percent in the first year after the restoration. In 1869 prices rose to one and a half times their levels of the previous year.²¹ The gold notes were in fact never convertible into gold. Silver trade dollars now began to circulate throughout Japan, not only in the treaty ports as before. Attempts to establish a gold standard by fiat had resulted in what the government of Japan later referred to as a "de facto silver standard".²² Actually, the paper money that continued to circulate was not made fully convertible even into silver until 1886.

In July 1871, the Meiji government, in a promulgation known as *haihan chiken*, abolished the *han*, and replaced them with new political units, three *fu* and 302 *ken*, both called "prefectures" in English. In November the same year it consolidated these into three *fu* and 72 *ken*. Japan today has 48 prefectures. With *haihan chiken*, the *dajōkan* assumed all debts and obligations of the *daimyō* rulers of the 260 *han*. It discharged these claims by the forced conversion of notes previously issued by the *han* governments into interest-bearing paper notes (*dajōkansatsu*) denominated in the newly defined unit of account, the "yen". The gold notes previously issued by the

²¹ Shimbo Hiroshi, "Kinsei no bukka to keizai hatten" (Economic development and the price level in pre-modern Japan), *Toyo keizai shimo shu* (1978), table 5-9, p. 282.

²² Matsukata Masayoshi, *Report on Adoption of the Gold Standard*, Tokyo, 1899, sect. 3, p. 38.