“RESTORING OUR COMMERCIAL RIGHTS”: SILK, NATIONALISM, COMMERCIAL POLICY, AND THE DIRECT TRADE MOVEMENT IN MEIJI JAPAN, 1868-1890

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ABSTRACT

MICHAEL BRADY SMITH: "Restoring our Commercial Rights": silk, nationalism, commercial policy, and the direct trade movement in Meiji Japan, 1868-1890.
(Under the direction of W. Miles Fletcher)

In 1858 Japan responded to demands from Western governments to remove restrictions on trading with foreigners by signing a series of trade treaties which opened up a number of Japanese ports to unrestricted foreign trade. After these ports were opened, Western mercantile firms armed with intimate knowledge of world markets and ready access to capital quickly became the dominant force in Japan's overseas trade. When the new Meiji government assumed power in 1868, government officials, businessmen, and intellectuals who feared foreign domination of Japan's overseas trade, began a concerted campaign to challenge the dominance of foreign merchants in Japan's treaty ports and reclaim Japanese "commercial rights" (*shōken*) through the promotion "direct trade" (*jiki yushutsu*). Despite vigorous efforts to promote direct trade which culminated in a battle with foreign merchants over the control of Japan's lucrative raw silk trade, the movement failed to break the foreign merchants' stranglehold. This dissertation examines the failed direct trade movement as a way to reassess the popular assumptions about the Meiji government's role in Japan's economic development and "modernization." While some scholars have argued the economic successes of the Meiji era were due to careful government planning and guidance "from above," this dissertation argues that the story of the direct trade movement shows the government's economic policies in the period were a series of confused and ill-considered extemporaneous measures designed only to meet the immediate needs of the moment. This study also argues that although the Meiji state was an authoritarian regime, it was not invulnerable to influences “from below.” Businessmen and intellectuals advocating the adoption of direct trade policies were able to influence the direction of the government’s commercial policies thanks to a lack of stable institutions and processes for determining economic policy in the early Meiji period. Although the direct trade movement ended in failure, this lack of institutional structures and norms along with close collaboration between the state and the private sector gave commercial policy the flexibility needed to make the later economic successes of the Meiji period possible.

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INTRODUCTION

On July 2nd, 1853 four American warships commanded by Commodore Matthew C. Perry appeared at the entrance of Edo Bay, off the coast of Japan. Perry had come to deliver a letter from American president Millard Fillmore addressed to the emperor of Japan. Fillmore's letter expressed the hope that "…the United States and Japan should live in friendship and have commercial intercourse with one another."[1] Emphasizing a strong desire for commerce with Japan among the American people, Fillmore suggested that if "your Imperial Majesty were…to change the ancient laws as to allow free trade between the two countries, it would be extremely beneficial for both."[2] After delivering Fillmore's letter to officials of the Tokugawa shogun, Perry used both moral suasion and the not so subtle threat of military force to convince his Japanese hosts of the benefits of opening Japanese ports to foreign shipping. Tokugawa officials were not won over by Fillmore's letter. To them, the idea of opening the country to commercial relations with a group of barbarians who threatened them with violence was hardly appealing. Luckily for Perry, however, his warships were sufficiently intimidating to convince his Japanese hosts that it was better not to reject his request. When Perry's fleet returned to Japan in February, 1854, the Tokugawa government reluctantly agreed to open two supply ports to American ships.

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[1] "Letter of the President of the United States to the Emperor of Japan," in Commodore Matthew Calbraith Perry, *The Japan Expedition, 1852-1854: the personal journal of Commodore Matthew C. Perry*, ed. Roger Pomeau, with an introduction by Samuel Eliot Morison (Washington: Smithsonian Institute Press, 1968), 220.

[2] Ibid.

The historic agreement marked the beginning of Japan's forced integration into an emerging world economic system dominated by the Western powers. By 1858 Japan had signed a series of trade treaties, commonly referred to as the Ansei treaties, with America, the Netherlands, Russia, Britain, and France which opened up the nation to nearly unrestricted foreign trade.[3] While these treaties marked the beginning of Japan's full participation in the capitalist world market, the treaties also relegated Japan to the status of an inferior nation in the emerging Western dominated world order. The treaties stripped Japan of tariff autonomy and granted extraterritorial privileges to Westerners living and conducting business in the island nation. No similar privileges were extended to Japan in return.[4] Japan's trading partners were free to erect tariff barriers against Japanese goods if they wished and Japanese subjects living abroad would have to do without the privilege of extraterritoriality.

Yet even without the humiliating concessions granted to foreigners by the Ansei treaties, Japan found its new position in the capitalist world order to be a precarious one. Lacking adequate (or often any) knowledge of foreign markets, modern financial institutions to facilitate long distance commercial exchange, and a merchant fleet capable of carrying domestically produced goods to foreign ports, Japan's manufacturers and merchants were forced to depend on foreign commercial houses in Yokohama and the other treaty ports in order to sell their wares to customers overseas. As soon as Japan opened its ports, its emerging overseas trade was almost completely dominated by foreign merchants who were able to utilize their superior access to capital and detailed knowledge of world markets to

[3] Nakamura Satoru, "Kaikō," in *Kōza Nihonshi*, ed. Rekishigaku Kenkyūkai and Nihonshi Rekishi Kenkyūkai, vol. 5, *Meiji Ishin* (Tōkyō: Tōkyō Daigaku Shuppankai, 1977), 55-56.

[4] Ibid.

profit from servicing Japan's foreign trade. In 1878, two decades after the signing of the Ansei treaties, nearly 98 percent of all of Japan's exports and imports passed through foreign trading firms.[5] As foreign banks such as the Oriental Bank and the Hong Kong Shanghai Banking Company established beachheads in the treaty ports and mercantile firms such as the Jardine Matherson Company grew in size and influence, the foreign economic presence in Japan threatened to transform Japan into an economic colony of the West.[6]

Widespread anger at the Tokugawa *shōguns* for their inability to stop the encroachment of foreign powers helped spark a revolt against the Tokugawa regime by a group of rebel domains. The rebels succeeded in toppling the Tokugawa regime in 1868 and announced the restoration of imperial rule and the beginning a new era of "enlightened government" (Meiji). Japan's new leaders promised to begin an aggressive program of self-strengthening reforms which would transform Japan into a powerful nation capable of resisting Western interference.

The commanding position foreigners enjoyed over Japan's overseas trade deeply disturbed Japan's new leaders. Japan's elites were already worried that an influx of cheap factory produced Western imports would drown local manufactures and strip the nation of its indigenous industries. A young Matsukata Masayoshi, who would one day become the nation's Minister of Finance, warned his superiors in the government that Japan's people

[5] The percentage calculation is based on the total value of imports and exports handled by foreign firms compared to the total value of Japan's import and export trade for that year. Naikaku Tōkeikyoku, *Nihon teikoku tōkei nenkan*, ed. Tōkei Kyoku, vo l, (Tōkyō: Naikaku Tōkeikyoku, 1882: reprint Tōkyō: Tōkei Kyōkai, 1968), 296.

[6] Frank H. H. King , *The History of the Hong Kong Shanghai Banking Corporation*, vol. *1The Hong Kong bank in late imperial China*, *1865-1902: on an even keel* (New York: Cambridge University Press, 1987), 96.

would soon "…lose their industries and fall into starvation."[7] The prominent writer and intellectual, Fukuzawa Yukichi, echoed similar sentiments, warning his audience at a public speaking event that Japan might soon be transformed into a nation of poor manual laborers inhabiting a, "hellish world of labor," where Japan's entire populace would be little more than coolies producing raw materials to fuel the advanced industries of the West.[8] Maeda Masana, a young French-educated government official argued that the foreign economic supremacy would cause the "vitality of the whole country to weaken, wilt, and decay."[9]

Overcoming Japan's peripheral political and economic status and creating a new polity capable of maintaining its independence were major concerns of the new Meiji government which came to power in 1868. To accomplish this goal, the new regime believed it needed to reform all aspects of Japanese society and transform Japan into a Western style-nation state. The desire for reform was particularly acute in the realm of trade. The Meiji oligarchs viewed the export trade as the primary instrument by which Japan would acquire the necessary wealth to fund ambitious modernizing programs. They wanted to encourage exports by all means possible. Beyond this practical consideration, however, they believed a vigorous foreign trade was one of the defining features of all great world powers. The volume and value of the nation's trade became a metric measuring the success of the Meiji government's modernizing reforms. The state of the nation's foreign trade became synonymous with the health of the Japanese nation-state itself.

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[7] Quoted in Thomas C. Smith, *Political Change and Industrial Development in Japan*, 2nd printing (Stanford: Stanford University Press, 1955), 30.

[8] Fukuzawa Yukichi, "Gaikokujin no naichi zakkyo yyurusu bekarazaru no ron," in *Fukuzawa Yukichi Zenshū*, ed. Keiō Gijuku Daigaku, vol. 19 (Tōkyō: Iwanami Shoten, 1962), 124.

[9] Maeda Masana, "Chokusetsu bōeki iken ippan," in *Keizai kōsō*, ed. Nakamura Masanori, Ishii Kanji, and Kazuga Yutaka, vol. 8, *Nihon kindai shisō taikei* (Tōkyō: Iwanami Shoten, 2000), 75.

Thus Japan's leaders were convinced that transforming their country into a great commercial power was central to their effort to create a modern and powerful nation-state capable of resisting foreign encroachment. Yet the domineering position that foreign merchant houses enjoyed in Japan's overseas trade posed a serious challenge to efforts to make Japan into a great trading power. In order for Japan to ensure its continued existence as an independent polity and establish itself as a great nation, Japanese had to challenge the dominance of foreign merchants in the treaty ports and reclaim Japan's "commercial rights" (*shōken*).

Reasserting Japan's economic independence and making Japanese merchants the masters of the nation's foreign trade was the goal of the "direct trade" (*jiki yushutsu*) movement. The concept itself was relatively simple. Japanese merchants and manufacturers would simply cut out the foreign middleman in Japan's overseas trade by establishing direct contact between Japanese sellers and foreign buyers of Japanese goods residing in markets overseas. Putting the simple idea into practice, however, proved to be a herculean challenge. From the mid-1870s until the beginning of the 1880s a group of government officials, intellectuals, and businessmen worked furiously to establish direct commercial exchanges between Japanese merchants and manufacturers and the consumers of Japanese goods in foreign countries. Government agencies issued generous subsidies and loans to Japanese firms selling their goods abroad, ambitious entrepreneurs ventured abroad to sell their wares, and intellectuals drew up plans for a Japanese commercial renaissance that would establish the country as a mighty trading power in its own right. In short, both the public and private sectors witnessed major efforts to establish direct trading relationships between foreign consumers and Japanese suppliers and ensure the conduct of the nation's trade would lie entirely in Japanese hands.

Although the Meiji government's drive to transform Japan into a rich and powerful "modern" nation-state is usually remembered as an outstanding success story, the direct trade movement and the attempt to restore Japan's commercial rights in the 1870s and 1880s ended in failure. In 1892 over 84 percent of the nation's total export and import trade was still in the hands of foreign firms.[10] Despite generous government support, the best efforts of talented businessmen, and a widespread popular desire to break the foreign stranglehold on Japan's trade, foreign firms would continue to play a key role in Japan's trade well into the twentieth century.

This dissertation examines this important case of Japanese failure in Meiji era economic policy. Through an examination of the commercial policies of the Meiji state and the direct trade movement, this study seeks to show that one of the greatest economic challenges Meiji Japan faced was not the establishment of "modern" industrial enterprises but rather the effort to master the art of foreign trade and establish Japan as a commercial power in its own right. By highlighting the difficulties Japanese officials and entrepreneurs faced in adjusting to practicing commerce in a global marketplace this study seeks to dispel some enduring myths of what is too often portrayed as a brilliantly successful, authoritarian Japanese state. Japan's leaders and entrepreneurs were far from far-sighted visionaries motivated by patriotic devotion to national self-strengthening through economic development. Instead, the actions of businessmen and politicians in the Meiji era were reflexive responses

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[10] Naikaku Tōkeikyoku, *Nihon teikoku tōkei nenkan,* ed. Tōkei Kyoku, vol. 19, (Tōkyō: Naikaku Tōkeikyoku, 1900; reprint, Tōkyō: Tōkei Kyōkai, 1973), 536.

to contingencies of the moment carried out by elites desperate to ensure their own continued survival.

Oversights and Controversies regarding the Modern Japanese Economy

What is the significance of examining the direct trade movement? The movement today remains essentially unknown in English language research on the Japanese economy and most economic histories of the Meiji period written in Japanese relegate the movement to a footnote.[11] As has already been indicated, the movement also failed to accomplish its goal of overthrowing the rule of foreign merchants over Japan's overseas trade and fell well short of recapturing "commercial rights" for the Japanese nation. If the movement has any enduring legacy one might point to the creation of a powerful Japanese trading company, the Mitsui Trading Company (Mitsui Bussan), which remains in operation to this day. Otherwise, however, direct trade appears to be more of a historical oddity as a failure than a topic requiring detailed investigation.

Yet even a historical oddity can shed light on important but previously ignored aspects of the past and the direct trade movement is one of those oddities. An examination of the direct trade movement not only focuses attention on neglected but important aspects of Japanese economic history which have been sadly overlooked in previous studies, but will also shed light on two controversies about modern Japan's economic history. In particular, a

[11] The two most prominent studies ("Jiki yushutsu no tenkai" in volume 3 part 1 of *Yokohama Shishi* and *Meiji no Bōeki*) that highlighted the direct trade movement as an important development in Japan's economic history were both authored by economic historian Unno Fukuju in the 1950s and 1960s. Since the publication of Unno's monographs, direct trade usually receives mention in most surveys of Japanese economic history, but the typically the subject of direct trade serves as a background for explaining the emergence of trading companies beginning in the 1870s. See Unno Fukuju, *Meiji no vōeki: kyoyūchi bōeki to shōken kaifuku* (Tōkyō: Hanawa Shobō, 1967) and Unno Fukuju, "Jiki Yushutsu no tenkai," in *Yokohama Shishi*, ed. Yokohama-shi Sōmukyoku Shishi Henshūshitsu, vol. 3 part 1 (Yokohama: Yokohama-shi, 1958). See also Hashimoto Jurō and Ōzuki Yuka, *Kindai Nihon keizaishi* (Tōkyō: Iwanami Shoten, 2002), 36-39.

study of the direct trade movement will shift attention away from an unhealthy over-emphasis on "industrial policy" and modern industrial sectors in Japan's economic history and highlight the important and forgotten role played by commercial policy and indigenous industries (*zairai sangyō*)[12]in the economic development of the nation. A study of the direct trade movement will also help resolve two enduring points of controversy regarding the economic history of nineteenth century Japan and the nature of the Meiji state and its relationship to Japanese society. The first controversy relates to the role of the Japanese state in the nation's nineteenth century economy and the second debate concerns competing explanations of the respective power of the state and private industry in the formation of economic policy. Both controversies will be explained in detail below.

Commerce and Silk: the forgotten pillars of the Japanese economy

Understanding the causes of Japan's economic successes in the nineteenth century has been a central goal of research in Japanese economic history for some time, but the general tendency in previous studies has been to understand economic growth as equivalent to industrialization. A peculiar obsession with industry and industrial policy has over the years obscured other important aspects of Japan's economic history. As a result Japan's modern economic history often appears as little more than a technologically centered narrative focused on explaining the growth of industrial productivity.

Although it would be an exaggeration to say that English language scholarly research on modern Japanese economic history has focused exclusively on growth of industry and industrial policy, policies to promote industry have always remained at the forefront of

[12] *Zairai sangyō* could be literally translated as "previously existing industry." Typical examples of such indigenous industries in Japan include silk, tea, lacquer ware, porcelain, and other handicraft industries which existed prior to the opening of the first treaty ports in 1854.

scholars' concerns. Early studies by scholars like William Lockwood and Thomas C. Smith focused on the process of industrialization itself and tended to frame analysis of all economic developments in Japan in terms of how these developments contributed to or hindered the emergence of productive enterprise. The overwhelming focus of Lockwood's pioneering work, *The Economic Development of Japan*, is on the growth of Japanese industry and even chapters on the topic of Japan's foreign trade mainly portray the main contribution of trade as bringing new technology and raw materials to Japan to aid the growth of industry.[13] Similarly the primary concern of Smith's *Political Change and Industrial Development in Japan* is the "critical period of Japanese industrialization,"[14] in analyzing the Japanese government's establishment state owned enterprises in the 1870s and contributions to Japan's economic development.[15]

It should be emphasized that although focused narrowly on industrial enterprise, Lockwood and Smith's pioneering studies deserve credit for recognizing obstacles and complexities Meiji Japan faced in fostering economic development. In arguing that a reluctant Meiji regime felt forced to create government enterprises, Smith highlighted the seemingly insurmountable challenges that Japan had to overcome in order to industrialize. An ambitious entrepreneur who sought to set up a factory faced many obstacles in mobilizing the necessary capital, acquiring technical expertise, and learning new techniques of

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[13] William W. Lockwood, *The Economic Development of Japan: growth and structural change*, expanded ed. (Princeton: Princeton University Press, 1968), 306.

[14] Smith, *Political Change and Industrial Development in Japan*, viii.

[15] Ibid., 101-103.

management to make industrial production profitable.[16] In a related manner Lockwood argued that Japan's successful industrialization resulted from an intricate interaction of individual aspirations, nationalist sentiment, management of human and natural resources, and access to technology among many factors.[17]Combined together their studies presented a picture of a vulnerable Japan that had to overcome daunting challenges in its program of economic modernization and an image of a Meiji state which contributed to, but did could not guarantee, the success of the Japanese economy as a whole.

Yet Lockwood and Smith's overwhelming focus on the establishment of mechanized productive industries as the ultimate measure of economic success obscured the important role played by commerce and commercial policy in the efforts of the Meiji state to create a modern economy. Introducing new technologies and techniques in order to produce goods more efficiently was only one part of a larger effort by Japanese elites to reform their economy and create a wealthy and powerful nation state. Once goods had been produced there had to be some way of selling them abroad in order to increase the nation's wealth. If Japan's economy was not to be beholden to the whims of foreign merchants in this regard, Japanese had to create a network of Japanese firms and entrepreneurs stationed around the world who would sell Japanese goods in foreign markets and develop new outlets for Japanese products.

There is also ample evidence that Japanese leaders viewed developing and extending the nation's export trade as being equally if not more important than the development of mechanized industry. Britain, the early object of Meiji leaders' admiration as the ideal

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[16] Ibid., 52.

[17] Lockwood, *The Economic Development of Japan*, 574.

modern and powerful state, received attention less for its industry than its status as a great trading nation. Japanese intellectuals pointed to the Navigation Acts, a set of laws passed in the 1600s which required all goods imported into Britain to be carried on British ships, rather than Britain's textile mills as the key to British economic and military supremacy.[18] Japan's own economic policies in the first two decades of the Meiji era also suggested a strong commercial orientation. Although the government actively set up model factories that produced textiles, glassware, bricks and other objects, perhaps the most enduring government program for support centered on shipping in order to encourage the expansion of Japanese commerce.[19] Considering the importance that Meiji leaders gave to commerce as a key to national strength and their unceasing desire to expand the nation's export trade, an account of commercial policy as an important subject of inquiry in its own right is in order.

Following works of Lockwood and Smith, scholars writing in English took an intense interest in the more narrow issue of the role of the state and industrial policy in economic growth. More than any other study, Chalmers Johnson's *MITI and the Japanese Miracle*, influenced this trend. In this now classic study, Johnson, whose primary concern was to understand the causes of Japan's post-1945 economic miracle, argued that Japan was a "developmental state," the defining features of which included a strategic, goal oriented approach to economic policy and a strong state bureaucracy to plan and guide national

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[18] One example of Japanese interest in the Navigation Acts can be found in Ōkubo's proposals to encourage the development of domestic industry. Ōkubo argued the implementation of a Japanese version of the Navigation Acts would be the most viable way keep imported goods out of Japan and protect Japan's industries. See Ōkubo Toshimichi, "Ōkubo Toshimichi no shokusan kōgyō ni kansuru Iken," in *Keizai kōsō*, ed. Nakamura Masanori, Ishii Kanji, and Kasuga Yutaka ,vol. 8, *Kindai Nihon shisō taikei*, (Tōkyō: Iwanami Shoten, 2000), 18.

[19] Although the Meiji government created a number of state owned enterprises, the majority of these enterprises were sold off in the early 1880s and the government retreated from direct involvement in the development of industry. In contrast, the government maintained an active interest in the shipping industry providing subsidies for major shippers well into the 1890s. See William Wray, *Mitsubishi and the N.Y.K., 1870-1914: Business Strategy in the Japanese Shipping Industry* (Cambridge: Harvard University Press, 1984), 302-307.

economic development.[20] For Johnson a key feature of the developmental state was the creation and implementation of a carefully crafted set of industrial policies which explained the stunning economic success of postwar Japan from the mid-1950s though the 1970s.[21]

Although Johnson intended his developmental state paradigm primarily as a description of the post-1945 Japanese state, the concept had a profound impact on research on the Meiji economy. Like Lockwood and Smith before him, Johnson's main interest was in explaining the growth of Japanese industry. Yet by highlighting industrial policy as a key element in explaining Japanese economic success, Johnson opened up the door to the study of what might be termed the "politics of development" in Japanese economic history.[22] This new focus provided scholars with a whole new set of questions about the complex set of interactions between the state and interest groups which led to a deeper, more nuanced understanding of the dynamics involved in the policy making process in Meiji Japan. By framing the Japanese state's role in the economy in an overall narrative of the evolution of the developmental state, Johnson prompted researchers to look beyond government enterprises and examine the Meiji government's broader role in the economy.[23]

Yet Johnson's focus on the politics of development and industrial policy have become such dominant themes in modern Japanese economic history that concerns with these issues

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[20] Chalmers Johnson, *MITI and the Japanese Miracle: the growth of industrial policy, 1925-1975* (Stanford: Stanford University Press, 1982), 18 & 20-21.

[21] Ibid., 19-20.

[22] Steven J. Ericson, *The Sound of the Whistle: railroad and the state in Meiji Japan* (Cambridge: Harvard University Press, 1996), 3.

[23] For a summary of the impact of Johnson's ideas see Meredith Woo-Cummings, "Introduction: Chalmers Johnson and the politics of nationalism and development," in *The Developmental State*, ed. Meredith Woo-Cummings (Ithaca: Cornell University Press, 1999), 1-30.

have narrowed the scope of the field. Almost every study of Meiji era economic history must now inevitably answer the question of whether or not Meiji Japan had an "industrial policy" or if antecedents of the postwar developmental state can be detected in the policies or political institutions of the Meiji period. While such questions are important, the underlying assumption is that the complexities of economic growth and economic activity can be reduced down to questions of policy and bureaucratic procedure. The emphasis on obstacles to growth and the play of economic forces that appeared in Lockwood and Smith's works has largely disappeared from studies of Meiji economic history in English.[24]

A focus on commercial policy and the direct trade movement will not only help correct the industrial bias in research on the Meiji Japanese economy but will also serve as an important reminder of the many obstacles and complicating factors in Japan's economic development that the current stress on the "politics of development" has tended to overshadow. An examination of the direct trade movement will accomplish this goal in two ways. First, a study of commercial policy will remind us of the ways in which economic realities affected the economic policies of the Meiji regime. In its early years the Meiji government faced an acute crisis in raising revenue and even after this problem was solved by land tax reform, the problem of stabilizing the currency acted as a significant restraint on the Meiji government's resources. Second, commercial policy presented the Meiji regime with some of its greatest challenges. Increasing exports could not be accomplished by bureaucratic fiat, but required government officials and entrepreneurs to learn how to adapt to doing business overseas. This task was at least as difficult as improving productivity.

[24] For two prime example of this trend, see Richard Samuels,. *The Business of the Japanese State: energy markets in comparative and historical perspective* (Ithaca: Cornell University Press, 1987) and Kyoko Sheridan, *Governing the Japanese Economy* (Cambridge: Polity Press, 1993).

Another general tendency in research on modern Japan's economic history which needs correcting is the neglect of serious study of indigenous industries. The overwhelming concern of researchers had been with the development of mechanized "modern" industries in Japan. Extensive studies have appeared of railroads, steam shipping, and cotton spinning in the Meiji era and for many scholars no account of Japan's economic history could be complete without at least passing mention of the famous Yawata Steelworks.[25] The long-term importance of all of these industries is beyond dispute. Railroads and steamships revolutionized the Japanese economy by creating a truly integrated national market and giving Japanese products more convenient access to markets abroad. Cotton spinning and the cotton textile industry would also become a foundation of Japanese prosperity. Yet in the first two decades of the Meiji era these modern industries were in their formative stages. Investment in railways, shipping and cotton mills was taking in more capital in investment than it was generating in profits and they contributed little to the growth of Japan's export trade. Instead indigenous industries provided most of Japan's export earnings throughout the second half of the nineteenth century. Two products the Japanese had been producing for some time, tea and silk, in particular produced the bulk of Japan's income from exports and played thus a vital role in funding investment in other industries.

The role of indigenous industry has, however, received scant attention. With the rare exception of David Wittner's work on the diffusion of silk reeling technology in the Meiji era and Penelope Frank's work on the relationship between rural industries and consumer culture in Japan, there are no major English language studies on Japan's silk or tea industries, despite

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[25] Ericson, *The Sound of the Whistle*, William D. Wray, *Mitsubishi and the NYK, 1870-1914* and, W. Miles Fletcher, "The Japan Spinner's Association: creating industrial policy in Meiji Japan," *Journal of Japanese Studies* 22, no. 1 (Winter, 1996), 49-75, Kozo Yamamura, "Success Illgotten?: the role of Meiji militarism in Japan's technological progress," *The Journal of Economic History* 37, no. 1 (March, 1977), 113-135.

the vital role that those two played in Japan's economic history.[26] Nor is there any serious analysis of government policy toward the tea and silk industries despite the intense interest that the state had in nurturing both industries. This situation is lamentable not only because it leaves a large blind spot in our portrait of Japan's economic history but the story of indigenous industries provides ample examples of state intervention in the economy aimed at encouraging the growth of private industry. If there was a place to find antecedents to Japan's postwar "developmental state" surely it would be in the industrial policies designed to support silk and tea producers.

This dissertation will provide only a partial remedy to this glaring oversight. Some of the most vocal and active advocates of direct trade were silk producers. This dissertation will therefore include an examination of the silk industry and the challenges silk exporters faced in attempting to export directly to foreign markets and the obstacles government officials faced in framing a set of commercial policies which would support silk producers and exporters in bringing their wares to consumers on distant shores. Raw silk was Meiji Japan's most important export item as it along with other silk products generated nearly half of all of Japan's export earnings. Not only did the central government want to promote silk exports, but local governments and elites took an interest in the health of the industry as an important part of the rural economy.

The Role of the Meiji State: Grand Architect orAccidental Actor?

Beyond examining the important role played by commercial policy and indigenous industries in modern Japan's economic development, this study will also weigh in on two

[26] David Wittner, *Technology and the Culture of Progress in Modern Japan* (New York: Routledge, 2008) and Penelope Franks, *The Japanese Consumer: an alternative economic history of modern Japan* (New York: Cambridge University Press, 2009).

issues that have remained the subject of controversy in scholarly works on the Japanese economy. The first controversy concerns how to assess the Meiji state's role in the nation's economy. While scholars agree that the Meiji state played a vital role in modern Japan's modern economic development, they disagree over how much credit the state deserves for the nation's economic successes. Was the Meiji state a brilliant architect carefully planning and directing economic development or simply just an accidental actor who benefited from a convergence of favorable circumstances and happened to select some effective economic policies through almost sheer luck?

The origins of the controversy lie in the attempts to explain the causes of Japan's successful economic modernization in comparison to the economic failures of other Asian polities, particularly China under the Qing Dynasty. In seeking to explain what had enabled Japan's leaders alone among Asia's elites to build a strong modern nation-state capable of resisting foreign encroachment several scholars saw the key to Japanese success in the reformist tendencies of Japan's governing elites. Unlike their Chinese counterparts, Japan's leadership moved swiftly to destroy the old "feudal" social structures that inhibited economic growth and wholeheartedly embraced a path of "economic modernization."[27] Lockwood and Smith argued that the bold decision by Japan's leaders to embrace radical socio-political change rescued Japan from the fate of Qing China which obstinately clung to an outmoded socio-political status quo that inhibited growth and ultimately doomed the Qing Empire.[28]

This conclusion led Lockwood and Smith to view the role of the state to be decisive in pioneering early industrialization in Japan. Lockwood marveled at, "…the remarkable

[27] Lockwood, *The Economic Development of Japan*, 505.

[28] Lockwood, *The Economic Development of Japan*, 505 & Smith, *Political Change and Industrial Development in Japan*, 22 & 103.

capacity of the Japanese at critical points to produce vigorous leaders able to map out a long term program and then decisively put it into action, " and credited the government with spearheading the industrialization process. [29] In his study of government enterprises, Smith also highlighted the critical pioneering role played by the state and concluded that without the state's willingness to create such enterprises, "…economic development would have been delayed or arrested…."[30]

Yet if Lockwood and Smith viewed the decision by Japan's leaders to destroy the old "feudal" socio-political order and initiate a crash program of industrialization as the correct set of policies for a late-developing nation like Japan to pursue, both scholars were quick to emphasize these decisions had developed largely by accident. Smith argued that there was "…no evidence in their writings that the Meiji leaders had any clear, preconceived solution to the problem [of making the transition from a traditional to a modern society]."[31] He contended that the Japanese state took the initiative in industrial development in the late nineteenth century not because of any conviction that the state should do so, but rather because private industry lacked the necessary resources and willpower to invest in new technologies and production methods.[32] Smith stressed that the Japanese leaders, "hammered out an industrial policy that was successful, precisely because it was geared to present needs

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[29] Lockwood, *The Economic Development of Japan*, 13 & 506.

[30] Smith, *Political Change and Industrial Development in Japan*, 103.

[31] Ibid., 34.

[32] Ibid., 42.

and not distant arbitrary objectives."[33] Lockwood argued that the decisions of Japan's leadership in the Meiji period were, "…*ad hoc* and stemmed from a variety of motives."[34] For Lockwood, "There was often confusion and hasty improvisation in deciding upon an actual course of action…The experiments with State pioneering of industry, with banking institutions with railway financing, and with other ventures all show much trial and error throughout the nineteenth century."[35] Thus while highlighting the state's role as critical, both Smith and Lockwood held that Japan's nineteenth century successes were either almost entirely coincidental or the result of a focus on pragmatic problem solving rather than tenacious dedication to a grand modernizing project.

In subsequent decades some historians tended to give more credit to the Japanese state. Japan's era of high speed growth in the 1960s and early 1970s, commonly hailed as an economic miracle, inspired comparisons to what one might call Japan's first economic miracle, its success in industrialization in the Meiji period. At the same time, Johnson's argument that postwar Japan was a developmental state raised new questions about how Japan's economic and political institutions had evolved in a way so radically different from the Anglo-American regulatory state. Some researchers began to suggest that perhaps some roots of Japan's postwar developmental state could be found in the late nineteenth century experiences of the Meiji state. By the 1990s a few scholars were ready to declare that even in the Meiji era Japan had been led by men of uncanny economic wisdom with an almost magical ability to conjure economic growth out of thin air. The Meiji state had gone from

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[33] Ibid., 102.

[34] Lockwood, *The Economic Development of Japan*, 561.

[35] Ibid., 506.

being the accidental hero of Japanese industrialization to the ingenious master architect of economic development.[36]

Even though Johnson originally applied the concept of the "developmental state" to postwar Japan, Johnson himself also suggested that Meiji Japan might have also been a developmental state. Even in *MITI and the Japanese Miracle* he noted that "…modern Japan began in 1868 to become plan rational and developmental."[37]Later Johnson classified Meiji Japan as an example of a "capitalist developmental state" which shared traits common to Leninist-Stalinist "mobilization regimes" such as, "…social goal setting [by the state], forced saving, mercantilism, and bureaucratism," but relied on indirect and market conforming means to control the economy.[38] He thus implied the Meiji state had taken a strong role in both planning and guiding the direction of Japan's economic development.

If Johnson was inconsistent in his characterization of the Meiji state, some researchers who were inspired by his developmental state paradigm were more consistent and bold. Bai Gao, who [like Johnson] traced the beginnings of the Japanese developmental state back only to the 1930s, saw important antecedents to the developmental state in the Meiji era nationalist desire to, "…strengthen the nation's power in international competition," which Gao argued persisted into the postwar era.[39] Steven Ericson argued that the concept of the developmental state did not accurately describe the Meiji state after the institution of a

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[36] Kyoko Sheridan, *Governing the Japanese Economy* (Cambridge: Polity Press, 1993).

[37] Johnson, *MITI and the Japanese Miracle*, 23.

[38] "Social Values and the Theory of Late Economic Development in East Asia," *in Japan: Who Governs? The rise of the developmental state* (New York: W.W. Norton, 1995), 45.

[39] Bai Gao, *Economic Ideology and Japanese industrial policy: developmentalism from 1930-1965* (New York: Cambridge University Press, 1997), 41.

national assembly, the Diet, in 1890 opened up the policy making process, but he asserted that Johnson's image of a "strong, smart" developmental state applied, "…fairly well to Japan during the first two decades of the Meiji period."[40] Kyoko Sheridan has perhaps gone the farthest in awarding the Japanese state a critical role in consciously directing Japan's economic development since 1868. She argued that "…state planning and direction of economic development has been continuous."[41]

The twists and turns in portrayals of the Meiji state show that there is still considerable confusion about how to assess the role of the Japanese state in encouraging economic development in the Meiji period. A small, but significant group of researchers, many of whom do not specialize in research on the Meiji era, have portrayed the Meiji state as a master architect of economic development that skillfully mapped out the course of economic development and implemented carefully crafted policies to reach set targets for economic development. Although even advocates of this position are willing to concede the Japanese state was not always successful or competent, their accounts do not provide many examples of failure or even flaws in the government's policies.[42]

One of the conclusions of this dissertation is that the Meiji state's role was much closer to that of the accidental actor of Lockwood and Smith, than the grand architect of Sheridan or the capitalist developmental state suggested by Johnson. In fact, the story of the Meiji state's policies to promote direct trade demonstrates that in the 1870s and 1880s the state resembled a bumbling amateur that occasionally stumbled upon an effective policy. To

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[40] Ericson, *The Sound of the Whistle*, 16.

[41] Sheridan, *Governing the Japanese Economy*, 6.

[42]Ibid., 180.

be sure, the Meiji state deserves credit for actively attempting to do *something* to challenge the foreign dominance of Japan's overseas trade and making an honest effort to aid struggling exporters. Even though the Meiji state failed to realize any of its short term aims, it did achieve some accidental and important successes in recovering Japan's commercial rights because of its persistence in maintaining an activist stance and willingness to be flexible and change the direction of policies when they appeared to be failing.

Consensus versus Conflict in the Making of Economic Policy

Just as scholars have different views on the effectiveness of state planning, they have also presented conflicting interpretations of the process of making economic policies in Meiji Japan. One view stressed that the forging of a broad social consensus about the direction of economic policy enabled government officials to determine policies. An alternate vision emphasized a complex process of conflict and negotiation between the state and business. Yet advocates of both visions tended to neglect the first two decades of the Meiji era.

If the Meiji state had indeed been a strong and smart developmental state as scholars such as Johnson suggested, the next natural question to arise was what factors had led to the rise of the strong and smart Meiji state? Unless one was willing to endorse the view that certain Japanese cultural tendencies could explain the existence of a strong, smart Meiji state and speak as Kyoko Sheridan did about Japan's "unusual capacity for making deliberate, effective choices of national direction, or "the Japanese willingness to plan" the source of the Japanese state's strength and ability to plan begged for a careful historically minded explanation.[43]

[43] Sheridan, *Governing the Japanese Economy*, 1 and Kyoko Sheridan, *Planning Japan's Economic Future* (New York: Palgrave Macmillan, 2005), 3.

Those who emphasize the power of the Meiji state to direct economic policy highlight Japan's situation as a late developer in a world economy dominated by Western industrial powers. In this view, a broadly shared desire to construct a "rich nation, strong army" (*fukoku kyōhei*) motivated the government and eased the acceptance of its policies. Johnson spoke of a situational nationalism which arose from "a desire to assume full human status by taking part in an industrial civilization."[44]This popular nationalist desire to obtain equality with the industrialized west allowed the developmental state to pursue its ambitious programs.[45] Other scholars like Bai Gao and Richard Samuels believed that the deep nationalist impulse in Japan induced Japan's leaders to think about all economic problems in terms of their effect on the health of the nation-state rather than from the "individualistic" consumer oriented orientation commonly found in "Anglo-Saxon capitalism."[46] Both authors agreed that the privileging of the health of the nation-state as the ultimate aim of economic policy was the result of Japan's experience as a late developer and the nation's acute desire to "catch-up" with the West.[47]

As Carl Mosk indicated, the slogan *fukoku kyohei* served as "political cement" or a "big tent" accommodating the competing agendas of everyone from militarists to well-to-do

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[44] Johnson, MITI and the Japanese Miracle, 25.

[45] Ibid., 307.

[46] Gao, *Economic Ideology and Japanese Economic Policy*, 40-41 & Richard Samuels, Rich Nation Strong Army: national security and the technological transformation of Japan (Ithica: Cornell University Press, 1994), 6-7.

[47] The conclusions Samuels reached in *Rich Nation, Strong Army* seem to contradict the conclusions he drew from his study of the Japanese energy industry which will be discussed below. For Samuels and Gao's arguments about consensus see Samuels, *Rich Nation, Strong Army*, 31 and Gao, *Economic Ideology and Japanese Economic Policy*, 39.

peasants.[48]Thus, in the early Meiji period few questioned the direction of national economic policy and the government's policies. Real disputes would only arise later in the Meiji period when the desire for empire and expansion abroad began to place larger burdens on the domestic Japanese economy.[49] While the perception of a hegemonic consensus did not preclude the possibility that rival interests existed in Meiji Japan, researchers posited that the overwhelming desire to "catch-up" with the West and nationalist impulses kept in check complaints about the methods used to pursue these goals.

Other scholars denied that any sort of consensus had ever existed when it came to matters of economic policy. In the preface to the second printing of his *Political Change and Economic Development in Japan*, Thomas Smith pointed out that, "…decisions were often painfully reached after bitter controversies and sometimes bitter ideological clashes between bureaucratic factions…There is no more persistent, widespread, or foolish misconception about early Japanese industrialization than that the Meiji leaders…knew precisely what they were doing and were all of the same mind."[50] Smith, however, did not provide any specific examples of such conflict.

Several decades later Richard Samuels' first book, a study of the Japanese energy industry, showed how the formation of economic policy in a particular sector, depended upon a continuous process of negotiation between the state and private industry and "reciprocal

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[48] Carl Mosk, *Japanese Economic Development: markets, norms, structures* (New York: Routledge, 2008), 94.

[49] Ibid., 130-131.

[50] Smith, *Political Change and Industrial Development in Japan*, v.

consent" between public and private actors.[51] Samuels suggested that Japan's private sector had its own self-interested agenda that needed to be taken into account in order to understand Japan's political economy. Although his work, like Johnson's *MITI and the Japanese Miracle*, centered on the twentieth century, his concept of "reciprocal consent" had potential implications for research on the Meiji era.

Studies of the shipping, railroad, and cotton spinning industries in the Meiji published in the 1980s and 1990s seemed to confirm the utility of Samuels' approach by presenting a picture of conflict and contention over economic policy. William Wray's study of the history of the NYK, a large shipping firm that had emerged from a government encouraged merger of two private firms, revealed bitter rivalries between different government ministries, disputes in the Diet, and differences of opinion over how to support and nurture a native shipping industry.[52] Steven Ericson's study of the railroads in the Meiji era also revealed similar intra-government disputes, and struggles between the state and private industry over economic policy, especially after the creation of the Diet in 1890.[53] Miles Fletcher's article on the cotton spinning industry painted a picture of a private industry group successfully lobbying politicians in the Diet to abolish tariffs on raw cotton imports.[54] Together these

[51]Richard J. Samuels, *The Business of the Japanese State: energy markets in comparative and historical perspective* (Ithaca: Cornell University Press, 1987), 2.

[52] William D. Wray, *Mitsubishi and the NYK, 1870-1914: Business Stragegy in the Japanese Shipping Industry* (Cambridge: Harvard University Press, 1984).

[53] Steven J. Ericson, *The Sound of the Whistle: railroad and the state in Meiji Japan* (Cambridge: Harvard University Press, 1996).

[54] W. Miles Fletcher, "The Japan Spinner's Association: creating industrial policy in Meiji Japan," *Journal of Japanese Studies* 22, no. 1 (Winter, 1996), 49-75

studies suggested a Meiji state where economic policy evolved through a complex process of contestation and negotiation between interested state and non-state actors.

The "reciprocal consent" model, though, may not apply to the early Meiji period. All three studies cited above examine events taking place after the opening of the Diet in 1890 as an institutional arena for companies and business groups to exert influence on Diet members in the making of national economic policy.[55] The question of how economic policy developed during the first two decades of the Meiji era that preceded the establishment of the Diet remains an open question. Did the lack of stable institutions and formally organized private interests give the state the necessary latitude to dictate economic policy or was policy decided through a process of contestation and negotiation even in the 1870s and 1880s?

The direct trade movement, which reached its zenith in the early 1880s long before the formation of the Diet, provides a valuable opportunity to examine how commercial policy developed during the most authoritarian period of the Meiji regime's existence. The direct trade movement is also significant in that it was not simply a government initiative but had widespread and active support from a group of entrepreneurs and intellectuals who saw direct trade as a solution to dealing with the economic challenges of adapting to global trade. An examination of the direct trade movement reveals that although it attracted broad support on the goal of challenging the predominance of foreign merchants, serious disputes regarding implementation arose between different ideological camps and interest groups Despite the Meiji state's monopoly on political power, economic policy still involved a process of negotiation between interested parties. The process resembled Samuels' model of "reciprocal consent," only more confused.

[55] Samuels, *The Business of the Japanese State*, 8.

Commercial Policy and the Meiji State

In sum, this examination of the direct trade movement that attempted to challenge the dominant position of foreign merchants in Japan's overseas trade presents four main arguments. First, commercial policy played a vital role in Japan's economic development. Commercial policy was important not only because Japan's prosperity depended upon increasing exports and finding new outlets for its products but also because Japan's leadership considered commercial prowess to be a vital feature of a modern and powerful state. Commercial policy was thus not only crucial to the Meiji regime because of its practical economic benefits, but also because transforming Japan into a great trading nation was a central goal of the Meiji regime. Second, the work will focus on Japan' indigenous industries as a vital engine propelling Meiji Japan's economic development. Because indigenous industries, such as raw silk and tea, provided the bulk of Japan's export they merit attention.

The next two arguments pertain to the role of the state in the Meiji economy and the way in which economic policy making occurred in the Meiji state. These two points are interrelated in that they have a vital bearing on our understanding of the nature of the Meiji state and its relationship to Meiji society. Contrary to the view that the Meiji state was the master architect of Japan's economic development by carefully planning and guiding industrialization, this study finds that the Meiji state was at best a reluctant and clumsy actor in the story of the Meiji economic "miracle." Far from being carefully planned, the government's interventions in the economy were *ad hoc* and were driven largely by the contingencies of the moment. More often than not government actions ended in failure with only occasional and often unanticipated successes. If the Meiji government helped to encourage economic development, its positive contributions resulted from its remaining an activist and flexible state that continued experimenting with economic policy. In brief, in its interventions in the economy the Meiji government was grasping at straws and occasionally it was able to grab one.

If the Meiji state was not the master architect of economic development in Japan but a pragmatic and often desperate actor struggling to find ways to spur economic growth, what implications does this insight have for our understanding of the way in which economic policy evolved during the first two decades of the Meiji period? Despite the government's autocratic powers to create new laws and regulations by fiat, in the realm of economic policy there was a remarkable amount of contestation between members of the political and economic elite. This conflict over policy issues illustrates the ways in which the Meiji regime even in its first two decades was a competitive and pluralistic autocracy.

CHAPTER 1:

Silk, Tea, and Foreign Devils: foreign trade in the early Meiji period

Japan will always be remembered as the one that got away. In the latter half of the nineteenth century as much of the rest of Asia fell under the colonial rule of the Western powers and China was in the process of becoming a colonial outpost with only nominal independence, Japan alone managed not only to escape domination by the Western powers, but even managed to become a great world power in its own right. Japan's seemingly miraculous ability to escape the sad fate of its colonized and semi-colonized Asian counterparts has always been a topic of fascination for historians. Many have wondered, what was different about Japan? Were there some special factors that made Japan different from other Asian societies? Of course, such kinds of questions assume the existence of some type of Japanese "uniqueness" lacking in other Asian societies. This assumption can make Japan's "modernizing" successes seem inevitable.

In reality, however, Japanese achievements in creating a powerful modern nation-state were anything but inevitable. Japan began its modern era as a polity that, in an economic sense, was indistinguishable from other Asian societies. After the opening of its ports in 1858, Japan was a semi-colonized peripheral zone in the world economy where trade was dominated by Western merchants, much like the rest of Asia.

Although it is undeniable that Japan would eventually become the world's first non-Western industrial power, in the 1870s there was nothing to indicate that Japan's fate in the world economy would be any different from that of other colonized and semi-colonized regions in Asia. Like many of the other Asian economies in the early modern period, Japan experienced a period of dynamic economic growth under the Tokugawa regime.[56] By the time Perry's black ships first appeared in Edo Bay in 1853, Japan could boast large, well developed urban centers in Tōkyō, Ōsaka and Kyōto, an integrated national market, and an impressive record of proto-industrial growth fueled by an emerging consumer economy.[57] Some scholars have pointed to these developments as proof that Japan underwent a unique series of economic transformations that set it apart from its continental Asian neighbors and gave Japan a special advantage in its transition to an industrial capitalist economy.[58] Despite these significant developments, however, Japan enjoyed no special competitive advantages when it opened itself up to foreign trade with the West in 1858. Japan remained a predominantly agrarian nation and had relatively little to offer the newly industrialized West beyond a few primary commodities that could be utilized as the raw inputs for factory production and lightly processed agricultural consumer goods. Japan had little in the way of exportable value-added manufactures. In this respect, Japan was indistinguishable from other Asian economies.

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[56] Although some researchers may still insist that economic growth in early modern Japan followed a pattern which displayed a unique dynamism lacking in other Asian economies, revisionist accounts of economy and society in early modern India and China suggest a similar economic dynamism. For revisionist accounts on China and India see Kenneth Pomeranz, *The Great Divergence: Europe, China, and the making of the modern world economy* (Princeton: Princeton University Press, 2000); C.A. Bayly, *Rulers, Townsmen and Bazaars: North Indian society in the age of British expansion, 1770-1870* (New York: Cambridge University Press, 1983).

[57] Penelope Franks, *The Japanese Consumer: an alternate economic history of Japan* (New York: Cambridge University Press, 2009), 12.

[58] Thomas C. Smith, *The Agrarian Origins of Modern Japan* (Stanford: Stanford University Press, 1959).

Japan did possess a vibrant handicraft manufacturing sector, but the future of Japanese indigenous manufacturing was by no means certain in the late nineteenth century. Rapid technological advances in the production of everything from textiles to porcelain and tea in the industrialized West threatened to make Japan's handicraft industries outdated and inefficient. The sudden forced opening of Japan to unrestricted foreign trade and the beginning of country's integration into global circuits of trade in 1858 therefore posed a serious challenge to indigenous manufacturers who were at risk of drowning in a flood of cheap factory produced Western imports. Among the sectors that were particularly hard hit by Western imports were sugar and cotton textiles, two important rural industries which appeared to be entering into a terminal decline and which demonstrated the serious challenge Western industry posed to Japan's indigenous manufactures.

On the positive side, the beginning of unrestricted foreign trade between Japan and the rest of the world proved lucrative to other sectors of the Japanese economy. Since foreigners proved to have a seemingly insatiable demand for Japanese silk and tea, exports of those goods boomed, causing the rapid growth in silk and tea production. There was, however, a hidden peril behind the growth of the silk and tea industries in Japan. Silk and tea were also the primary export products of Japan's neighbor, China, a country with substantially more arable land and a larger labor force.[59] Strong competition from China and other tea and silk producing nations could, in theory, completely drown out Japanese products in international markets. The existence of alternative suppliers of tea and silk also made the international market for those products a buyers' market. If a potential buyer did not like the prices of Japanese teas and silks he could easily take his business elsewhere. This

[59] Lillian M. Li, *China's Silk Trade: traditional industry in the modern world, 1842-1937* (Cambridge: Harvard University Press, 1981), 73.

situation gave Western merchants who came to Japan to purchase tea and silk significant power in determining prices. Thus tea and silk, while lucrative, appeared to be at best an uncertain foundation upon which to base the nation's economic future.

With important domestic industries experiencing decline due to competition from the industrialized West and a domestic economy increasingly reliant on the export of a few lightly processed commodities, Japan in the early Meiji period appeared to share much in common with other societies that would experience decades of "underdevelopment." Although Japan would ultimately escape the trap of underdevelopment, it is important to remember that there was nothing in the early 1870s to indicate that Japan would manage this feat. A heritage of economic growth and innovation in the Tokugawa period by no means guaranteed future economic success in the global marketplace.

It is also vital to remember the precarious nature of Japan's position in the world economy in the Meiji period to understand the economic challenges Japan faced and the problems its government's commercial policies had to address. The following brief overview of Japan's foreign trade will outline the promises and challenges of Japan's foreign trade in the 1870s. Some of the greatest economic challenges the nation faced did not involve technology transfer or the introduction of mechanized production, but rather lay in barriers to the establishment of a foreign trade free from the mediation of foreign merchants in the treaty ports. The desire to overcome these challenges would give rise to the direct trade movement.

Foreign Trade by the Numbers: An overview of Japan's foreign trade

A brief overview of Japan's foreign trade in the early Meiji period displays a gloomy picture of Japan's future prospects. True to the patterns of a peripheral, under-developing nation, Japan's exports consisted almost entirely of primary commodities or lightly processed agricultural goods. Table 1 below shows the product categories that made up Meiji Japan's key exports in the early 1870s when the government first compiled official statistical records of Japan's trade. In the table key exports are defined as any category of products totaling more than 1 million yen in exports *per annum*. Also included are a few select categories of goods which averaged total exports in the hundreds of thousands of yen *per annum*.

Raw silk (*kiito*) and tea stand at the top of the list. Japan's main exports in the early Meiji period, they serve as prime examples of the fundamentally agrarian, low-value added nature of most Japanese exports. Japanese raw silk served as the raw material for the production of silk fabrics in the advanced industrial economies of the West, particularly France and the United States. Raw silk and related silk products (silkworm egg cards, waste silk) accounted for almost half of Japan's export trade well into the 1890s.[60] Tea came a distant second, although by the mid -1890s its status as a major export began to wane.[61] Japanese tea was a consumer good that proved popular in the American market in the last half of the nineteenth century.

In addition to these two goods, a secondary group of primary commodities; rice, coal copper, and camphor also accounted for sizable portion of Japan's export trade. Other important exports included *konbu*, an edible type of seaweed, along with other marine products. Most of of the *konbu* and marine products were exported to China. There was also a wide variety products classified by Japanese authorities as "miscellaneous goods" (*zakka*), a category that came to include a variety of handicraft items such as bamboo products,

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[60] Sugiyama Shinya, "Kokusai kankyō to gaikoku bōeki" in *Nihon keizaishi,* ed. Ishii Kanji, Hara Akira, and Takeda Haruhito*,* vol. 3, *kaikō to ishin* (Tōkyō: Iwanami Shoten, 1989), 202.

[61] Ibid., 196-197.

lacquer ware, and matches which added together made up for a respectable chunk of Japan's exports.[62] With the exception of matches, these items were the products of Japan's traditional industries (*zairai sangyō*) which were dominated by small scale manufacturers with insufficient capital to engage in overseas trade independently.[63] The only significant valued added product exported by Japan at the time was lacquer ware.

This is, of course, only a rough sketch of the overall characteristics of Japan's export trade. Trade statistics kept by the Meiji government divided Japan's exports into hundreds of separate categories, many of which registered at the most only thousands or hundreds of thousands of yen in exports *per annum*. It is neither possible nor desirable to list all the numerous categories here; many are simply not statistically significant. Moreover, some of the categories changed over time so that they included different products at different times. Nevertheless, it is clear that the majority of Japan's exports were lightly processed commodities.

Table 1. Japan's Primary Exports, 1879-1882*[64]

Year	**Tea**	**Raw Silk**	**Lacquer ware**	**Coal**	**Rice**	**Copper**	**Konbu**	**Camphor**	**Total**

[62] This category first appears in official records starting in 1883. See Naikaku Tōkeikyoku, *Nihon teikoku tōkei nenkan* ed. Tōkeikyoku, vol. 2 (Tōkyō: Naikaku Tōkeikyoku, 1883; reprint, Tōkyō: Nihon Tōkei Kyōkai, 1968), 224.

[63] Sugiyama, "Kokusai kankyō to gaikoku bōeki," 198.

[64] Figures derived from Naikaku Tōkeikyoku, *Nihon teikoku tōkei nenkan*, ed. Tōkeikyoku, vol. 1 (Tōkyō: Naikaku Tōkeikyoku, 1885; reprint, Tōkyō: Nihon Tōkei Kyōkai, 1968), 293-305.

1874	7,193	5,302	223	555	322	17	259	155	19,315
1875	6,745	5,424	167	1,010	18	80	284	138	18,611
1876	5,530	13,197	116	776	810	133	397	174	27,511
1877	4,288	9,626	185	735	2269	164	339	238	23,333

*unit of measurement-1,000 yen

Analyzing the composition of Japan's imports is a more challenging task. Some goods such as machinery and raw materials do not show up in official trade statistics.[65] The official records also divide imports into a larger number of itemized sub-categories than exports. Still, one can discern that Japan's import trade followed the classic trading pattern of a peripheral country in the world economy which typically exchanges primary commodity exports for manufactured products from the industrialized West. The largest and most prominent category of imports was cotton yarn and textiles which accounted for approximately 50% of the total value of all goods imported into Japan *per annum* in the late 1870s and early 1880s.[66] Another major import was processed sugar which made up about

[65] Masao Baba and Masahiro Tatemono, "Foreign Trade and Economic Growth in Japan: 1858-1937," in Michael Smitka ed., *Japan;s Econommic History 1600-1960 Vol. 5: Japan's economic ascent: international trade, growth and postwar reconstruction* (New York: Garland Publishing, 1998), 7.

[66]Kondō Tetsuo, "Shokusan kōgyō to zairai sangyō" in *Iwanami Kōza Nihon no Rekishi,* ed. Naoki Kōjirō, vol. 14, part 1 (Tōkyō: Iwanami Shoten, 1975), 217.

10% of the Japan's annual imports by value.[67] The remainder of imports consisted primarily of various types of machinery and "productive inputs" (*seisan shudan*) from the industrialized West to be used in the creation of Japan's own industries.[68]

Table 2 shows Japan's main imports, defined here as any category of goods totaling one million yen or more of imports *per annum*. Cotton yarn easily stands out as the top import. Grosgrain (*goro*), a type of coarse corded cloth, and canequim (*kiganekin*), a type of unbleached muslin, vied for second place, along with red sugar. The figures in this table fail, however, to demonstrate the true predominance of the import of textile products, which amounted to around 10 million yen *per annum*, because official statistics divided textile imports into a large number of sub-categories that are too numerous to list here.[69] Also obscured in the information provided in Table 2 is the rapid shift in consumer preference away from the less processed "red sugar" to highly processed white sugar which begins to show up in official trade statistics in 1880.[70]

Table 2. Japan's Primary Imports, 1879-1882*[71]

Year	Red Sugar	Cotton Yarn	Grosgrain	Canequim	Total
1874	1,888	3,573	981	3,594	22,926

[67] Ibid.

[68] Kondo Tetsuo, "Shokusan Kōgyō to Zairai Sangyō," 213.

[69] Statistics derived from Naikaku Tōkeikyoku, *Nihon teikoku tōkei nenkan* ed. Tōkeikyoku, vol. 1 (Tōkyō: Naikaku Tōkeikyoku, 1885; reprint, Tōkyō: Nihon Tōkei Kyōkai, 1963), 293& 305-317.

[70] Ibid.

[71] Ibid.

1875	2,582	4,058	2,393	2,425	29,332
1876	2,185	4,151	2,263	2,817	23,478
1877	2,105	4,084	2,373	1,835	27,063

*unit of measurement-1,000 yen

Japan's general trading pattern, exchanging primary commodities and agricultural goods for finished products and manufactures fits the general picture painted here of Japan as a peripheral region in the world economy indistinguishable from other Asian economies at the time. Yet the summary overview of Japan's exports and imports alone is not sufficient to prove that Japan in the nineteenth century deserves the moniker of "peripheral economy."[72] The term suggests a subservient position in the international division of labor in which the peripheral region supplies the raw inputs for production in a metropolitan industrial core in exchange for finished manufactured products from the core. In short, Meiji Japan's trade patterns must also demonstrate that Japanese raw materials are exchanged for Western finished manufactures. Demonstrating this point requires a brief examination of the destinations of Japan's exports and the sources of imports.

Table 3 shows the four largest markets for Japanese exports--North America, China, France and England. North America proved the biggest customer for Japanese goods, taking in roughly a third of all of Japan's exports. Thirsty Americans consumed the bulk of Japan's

[72] Here the term peripheral economy is used in the sense developed by Immanuel Wallerstein's work on global commodity chains. Wallertein argues that a "social division of labor" exists between different regions in the world economy with "peripheral" regions supplying bulk commodities and raw materials to "core" economies which utilize the raw materials to manufacture value added goods. While such characterization of the workings of the world economy are perhaps oversimplified, Wallerstein's concept of "core" and periphery "regions" arguably provides a useful framework for understanding the early Meiji Japanese economy and its place in the larger nineteenth century world economy. For more on Wallerstein's views see Immanuel Wallerstein, *Historical Capitalism with Capitalist Civilization*. new ed. (New York: Verso, 1995), 29-32.

tea exports and, starting in the 1870s, a large share of Japan's raw silk found its way to American textile factories which wove it into a variety of silk garments. The French silk textile industry was another important buyer of Japanese raw silk. Exports to China consisted mainly of foodstuffs with *konbu* being the most notable example.

Table 3. Primary Destination of Japanese Exports and Amounts*†[73]

Years	China	North America	England	France	Total
1873-1875	4,209	6,194	3,638	3,305	19,312
1876-1880	5,727	7,959	4,790	5,822	26,226
1881-1885	6,547	13,486	3,939	8,383	34,218

*unit of measurement- 1,000 yen
† "Total" figures represent the total value of all Japanese exports including exports to markets outside of the four listed in the table

As shown in Table 4, Britain provided the largest share of imports. British goods accounted for almost one half of the total value of Japan's imports from 1873 to 1885. In comparison imports from America and France were negligible in light of the important place both counties occupied in Japan's export trade. Each nation provided only around 10% of the total value of Japan's total import trade. China alone stood as both a major market for Japanese goods and a significant supplier of goods to Japan. Although China maintained a

[73] Figures obtained from Sugiyama Shinya, "Kokusai kankyō to gaikoku bōeki," 200.

slightly favorable balance of trade relative to Japan, throughout most of the period between1873 and 1885 Sino-Japanese trade was almost equally balanced.

Table 4. Primary Origins of Japanese Imports*[74]

Years	China	America	Britain	France	Total
1873-1875	8,916	1,328	12,372	2,179	27,181
1876-1880	5,928	2,294	16,513	3,362	30,768
1881-1885	6,237	2,685	13,673	1,891	29,622

*unit of measurement- 1,000 yen

The pattern that emerges from this rough and generalized examination of Japan's foreign trade largely confirms the picture of Japan as a "peripheral" economy acting as a supplier of raw inputs for foreign industries and receiving finished products from abroad in exchange. Japan was largely supplying American and French factories with raw silk while it imported textiles and advanced machinery from Britain. However, one should make some caveats to this overall picture. While Japan may have been a peripheral supplier of raw inputs to the industrialized core economies of the West, Japan was never economically so closely tied to a single metropolitan core economy as to be completely reliant on only one trading partner as both a source of its imports and destination for its exports. Japan enjoyed a large favorable balance of trade with America and France, two important export markets which helped cover the large deficits Japan had with Britain. This situation may have abated any negative effects from Japan's peripheral status in the world market, in the sense that a single Western nation was never able to effectively capture the Japanese economy to serve its own

[74] Figures obtained from Sugiyama Shinya, "Kokusai kankyō to gaikoku bōeki," 200.

interests. Thus, Japan was never completely a captive plantation economy of a single metropolitan power. Japan's large and balanced trade with China also displayed patterns that deviated from the stereotype of a peripheral producer of primary goods.

The last distinguishing feature of Japan's foreign trade in the early Meiji period was a stubborn and persistent trade deficit which resulted in the outflow of large amounts of specie from Japan.[75] Trade deficits from 1869 to 1881 totaled roughly 105, 833,000 yen according to the calculations of Baba Masao and Tatemoto Masahiro.[76] As Baba and Tatemoto themselves point out, this figure tends to present a relatively rosy picture of Japan's overall balance of payment deficits, because the figure fails to take into account goods imported by the Meiji government and debts incurred through shipping and freight services.[77] After 1873 when the Meiji government effectively rejected the idea of foreign investment in Japan or foreign borrowing, the Japanese paid for these deficits by exporting gold and silver specie. The yearly outflows of specie, which amounted to 10 million yen per year in the years 1874 to 1881, added up to a significant loss.

One of the cornerstones of underdevelopment theory is the argument that international trade in a capitalist world economy is an inherently unequal form of exchange. Industrial nations reap large profits from the export of high value-added manufactures while peripheral nations obtain only paltry returns from exports of primary commodities. As a result, a flood of manufactured imports from the industrial core areas stunts the potential

[75] Masao Baba and Masahiro Tatemono, "Foreign Trade and Economic Growth in Japan: 1858-1937," 7.

[76] Ibid., 8.

[77] Ibid., 7.

growth of domestic industry.[78] The persistently unfavorable balance of trade provides further proof of Japan's status as a peripheral agrarian Asian nation existing on the fringes of a world economy driven by demands of the industrialized West. This deficit occurred, because Japan's exports of primary commodities and lightly processed agricultural goods with low profit margins could not cover the costs of purchasing higher valued added imports from the West. The constant outflow of specie merely manifested a fundamentally unequal trading relationship between Japan and the West which drained specie from Japan.

The Challenges of Primary Commodity Exports

These patterns in Japan's foreign trade are significant for two reasons. First, Japan's reliance on primary commodity exports had important implications for Japan's future economic potential and shaped the practical problems the new Meiji regime had to address. The reliance on primary commodities was at best an unsteady foundation upon which to build a new national economy capable of providing the necessary financial resources for the Meiji leaders' ambitious goal of creating a strong central government. Japan's trading patterns also caused much hand wringing among the Meiji elite who worried that foreign trade was stripping Japan of its indigenous industries. For them, an export trade consisting largely of primary commodities was a hallmark of weak and vulnerable nation.

Economies that rely on primary commodities exports usually suffer from several potential weaknesses. As goods which are minimally processed or left close to their natural state, primary commodities are by definition typically low value-added products which require little technological expertise and minimal amounts of capital investment to produce.

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[78] For a classic statement of underdevelopment theory, see, Andre Gunder Frank, *Capitalism and Underdevelopment in Latin America: Historical Studies in Chile and Brazil* (New York: Monthly Review Press, 1969), 8-12.

Thus, the "entry barrier" for market participation is low.[79] Anyone with a minimal amount of knowledge and rudimentary capital can engage in the production of primary commodities. In the first two decades of the Meiji era when silk production and tea production were still largely dominated by artisanal producers, a peasant household in Japan needed only a small amount of capital to dedicate a portion of its land or labor to begin cultivating tea leaves or raising silk.

The relative ease by which anyone can enter the market and begin production of primary commodities, in turn, suggests that production will be highly sensitive to movements in prices. As the price of a primary commodity rises, individuals or firms will rush to exploit the opportunity and join in production of the commodity. This rush leads to an upswing in supply of the commodity which is eventually accompanied by an eventual drop in price.[80] The general tendency in primary commodity production will be price volatility and a long term tendency toward deterioration of the terms of trade as any price increase for the product will merely encourage a rush to join the bonanza leading to increased production that eventually cancels out any increases in price. This general model applies most closely to agricultural commodities which can be cultivated in a variety of different regions.

Japan's two most prominent exports in 1870, tea and raw silk, had all the characteristics of primary commodities. Their production required little in the way of advanced technology and only minimal investments of capital. In fact, the primary requirements for the production of both goods were largely limited to favorable climate and

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[79] Benoit Daviron and Stefano Ponte, *The Coffee Paradox: global markets, commodity trade and the elusive promise of development* (New York: Zed Books, 2005), 26-27.

[80] Marian Radetzki, *A Handbook of Primary Commodities in the Global Economy* (New York: Cambridge, 2008), 59.

availability of labor.[81] Low barriers to market participation allowed a large portion of Japan's farming population to engage in the production of tea and silk and quickly respond to increases in prices by ramping up production.

This phenomenon occurred in Japan's silk industry in the 1870s when foreign merchants began to complain about noticeable declines in the quality of Japanese silk being delivered to Yokohama. In this decade, previously reputable raw silks from Northeastern Japan (Ōshū) and Maebashi (modern day Gunma) lost their good reputation among foreign buyers due a sudden drop in quality.[82]Experienced silk producers blamed the decline in quality on a sudden increase in the number of silk producers, many of whom had little or no knowledge of the proper methods of silk production and were seeking to turn a quick profit.[83]

Because tea and silk were two globally produced and consumed commodities, Japan's tea and silk exports were easily affected by fluctuations in supply and demand on the global market and by foreign competition. In the 1860s an outbreak of silkworm blight in Europe and an ensuing worldwide shortage of silk played a key role in transforming Japan into a major silk exporter.[84] Later, beginning in the late 1870s, declining silk prices in Europe coupled with the emergence of a mechanized silk textile industry focused on mass production in America triggered a shift in the focus of Japanese silk exports from France to

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[81] Giovanni Federico, *An Economic history of the Silk Industry, 1830-1930* (New York: Cambridge University Press, 1977), 13-15.

[82] Taniyama Eisuke, "Meiji shoki Yokohama kyoryūchi no kiito torihiki ni okeru seido to sono keisei katei: 'rengō kiito niazukarijo jikken' no keizai-teki igi," *Shakai Keizai Shigaku* 74, no. 2 (July, 2008): 30-31.

[83] Dajōkan, "Seishi Gensha Tōka-gumi enkakushi" in *Gunma Kenshi*: *shiryō hen*, ed. Gunma Kenshi Hensan Iinkai, vol. 23, *Kindai* Part 7 (Maebashi: Gunma-ken), 376.

[84] Tomizawa Kazuhiro, *Kiio jikayushutsu shōreihō no kenkyū: Hoshino Chotarō to dōhō settei undō no tenkai* (Tōkyō: Nihon Keizai Hyōronsha, 2002), 73.

America.[85] Although both the European silkworm blight in the 1860s and the rise of the American silk textile industry in the latter half of the 1870s proved fortuitous for Japan's silk producers, the events demonstrate how easily changes in the global marketplace could affect Japanese exports.

Foreign competition was also a constant specter threatening to devastate Japanese silk exports. Japanese silk had to battle with silks from China, Italy, and India for customers in the global market.[86] Any buyer of silk had any number of sources around the globe to choose from as a source of supply. Japanese silk producers were well aware of their precarious position in the world market and were sensitive to developments in silk industries abroad. When France enacted mildly protectionist legislation to encourage the revival of domestic sericulture, Japanese silk producers quickly organized to demand their government provide subsidies that would help counteract the protectionist measures being introduced in France.[87]

Foreign competition and shifts in the global market also affected Japanese tea exports. Japanese tea exports had formidable rivals in Indian and Sri Lankan teas, not to mention Latin American coffee which quickly came to dominate the American market which had previously consumed large amounts of Japanese tea. Like other producers of primary commodities, Japan could benefit and suffer from natural phenomena. If before Japan had benefited from a silk blight in Europe, an outbreak of coffee leaf blight in Ceylon (Sri Lanka), which resulted in a massive shift to tea production on the island, affected Japanese exports of

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[85] Nakamura Masaki, "Bokkōki kindai seishigyō no hatten keiro: Nagano-ken Suwa-gun no seishi keiei," in *Meiji Zenki no Nihon Keizai: shihhon shugi e no michi*, ed. Takamura Naosuke (Tōkyō: Nihon Keizai Hyōronsha, 2004), 202-203.

[86] Shinsuke Kaneko, "Inter-Asian Competition in the World Silk Market: 1859-1929" in *Inter-Asian Trade and the World Market* ed. A.J.H. Latham and Heita Kawakatsu (New York: Routledge, 2006), 75.

[87] Tomizawa, *Kiito jikiyushutsu shōreihō no kenkyū*, 183-184.

tea by increasing global supply at a time when demand for tea in the United States was beginning to wane.[88]

Other primary commodities produced in Japan faced similar competitive pressures. Production of coal and copper required larger outlays of capital but there was nothing special about Japanese coal or copper which made those goods more attractive than coal or copper extracted elsewhere in the world. Among Japan's primary commodity exports perhaps only *konbu*, a kind of edible seaweed, was unique enough to be especially prized.[89]

Fluctuation in the global market and the threat of competition on the world market were only the most obvious drawbacks to an export trade based on primary commodities. A deeper problem was that primary commodity exports offered few opportunities for the future development of Japanese industry. As H.W. Singer pointed out in his discussion of the impact of the commodity dependency in developing economies, the production of primary commodities, "diverted the underdeveloped countries into types of activity offering less scope for technical progress…and withheld from the course of their economic history a central factor of dynamic radiation which has revolutionized society in industrialized countries."[90] Because products like tea, raw silk or copper needed only minimal amounts of industrial processing they provided both less opportunity and less incentive for technological innovation which might have positive impacts on economic growth. Even if technological innovations did increase the productivity of those goods, strong pricing pressures on the

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[88] Benoit Daviron and Stefano Ponte, *The Coffee Paradox*, 84.

[89] Kagotani Naoto, *Ajia kokusai tsūshō chistsujo to kindai Nihon* (Nagoya: Nagoya Daigaku Shuppankai, 2000), 91-92.

[90] H.W. Singer, "The Distribution of Gains between Investing and Borrowing Countries," in *American Economic Review* 40, no. 2 (May, 1950): 477.

world market meant any savings in production costs were more likely go to consumers rather than producers.

Foreign Imports and Economic Change: A case of deindustrialization?

If Japan's export trade promised to do little to encourage the growth of modern industry, Japan's import trade posed a major challenge to the indigenous industry that still remained in Japan. A generation ago scholars analyzing Japanese trade after the opening of the treaty ports tended to take at face value alarmist assessments of the impact of foreign trade on the Japanese economy made by contemporaries and concluded the "heavy artillery" of cheap commodities from abroad had devastated Japan's indigenous industries.[91] The reality was more complex, as some traditional industries survived for a while by transforming the way in which they ran their businesses and marketed their goods.

The sugar and textile industries presented examples of different outcomes in this process. An influx of cheap foreign produced sugar and changing consumer tastes devastated Japanese sugar producers to the extent that domestic sugar production nearly ceased.[92] In contrast, foreign cotton textiles had much less of a negative impact on Japan's cotton textile producers thanks largely to rapidly increasing demand and an increase in the purchasing

[91] The reference to the famous line in Marx's *Communist Manifesto* appears both in Kondo Testuo, "Shokusan kōgyō tio zairai sangyō," 210 and Nakamura Satoru, "Kaikō," in *Kōza Nihonshi*, ed. Rekishigaku Kenkyūkai and Nihonshi Kenkyūkai, vol. 5, *Meiji Ishin*, (Tōkyō: Tōkyō Daigaku Shuppankai, 1976), 53. For the original reference to the "heavy artillery" of the bourgeoisie see Karl Marx and Friedrich Engels, *The Communist Manifesto*, Oxford World's Classics (New York: Oxford University Press, 1998), 7.

[92] Kondo Tetsuo, "Shokusan kōgyō to zairai sangyō," 220.

power of farm families due to inflation in rice prices.[93] The cotton textile industry, though still relying largely on handicraft production, proved surprisingly resilient in the 1870s. Survival for domestic manufactures, however, depended on the ability to switch rapidly from the utilization of domestic cotton yarn and cloth to the employment of cheaper imported yarn and coarse cloth, a trend which increased Japan's import bill.[94] The arrival of foreign imports, however, was not completely painless. Some regions of cotton textile production that failed to make the switch to utilizing imported foreign yarns and coarse cloth were unable to compete and experienced a process of deindustrialization.[95]

A more serious challenge to Japan's indigenous industries was the booming export sector. As Japan in nineteenth century became part of networks of global economic exchange, productive activity in the countryside gradually shifted from a domestic orientation to production for world markets. This process has been most masterfully described and analyzed by Kären Wigen in her work on the Shimoina region in present day Nagano.[96] As Wigen shows, handicraft industry slowly withered away as an increasing amount of resources and effort went to silk production. The region changed from encompassing diverse proto-industries to a mere supplier of raw materials to distant industrial centers.[97] Often the

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[93] Taneki Masayuki, "Zairai sangyō no henyō to tenkai," in *Nihon Keizaishi*, ed. Ishii Kanji, Hara Akira and Takeda Haruhito, vol. 1, *Bakumatsu Ishinki* (Tōkyō: Tōkyō Daigaku Shuppankai, 2000), 171-170.

[94] Ibid., 174.

[95] Ibid., 172-173.

[96] Kären Wigen, *The Making of a Japanese Periphery, 1750-1920* (Berkeley: University of California Press, 1995).

[97] Ibid., 279.

"pull" of the export economy and production for the world market, rather than the "push" of foreign imports caused deindustrialization in a region.

Japan's leaders viewed deindustrialization as a pressing problem. The two most readily visible indicators of Japan's poor economic health, persistent trade deficits and the boom in production of low value added-goods, convinced officials that the nation was losing its manufacturing industries. Moreover, cotton textiles and sugar, two relatively advanced sectors of the traditional manufacturing economy, were clearly suffering from foreign competition. Reflecting the pessimistic mood amongst the Meiji leadership, a young Matsukata Masayoshi, later to become one of Japan's most famous ministers of finance, warned his superiors the Japanese people might, "lose their industries and fall into poverty and starvation."[98] On a deeper level, however, the anxiety about reliance on primary commodity exports reflected Japanese anxieties over its international status. Meiji leaders hoped to build a strong, wealthy and modern nation which would have all the trappings of Western civilization. The new rulers of the nation viewed modern industries as central to this vision. Reliance on the export of raw materials demonstrated Japanese backwardness and subservience to the West. In a public speech the prominent intellectual, Fukuzawa Yukichi, warned the gradual disappearance of Japanese industry signaled Japan's slide down to the lower rungs of the international pecking order. Fukuzawa mused that Japan faced a real risk of becoming a nation of coolies forever consigned to the "hellish world of burdensome labor."[99]

[98] Quoted in Thomas C. Smith, *Political Change and Industrial Development in Japan: government enterprise, 1868-1880* (Stanford: Stanford University Press, 1955), 30.

[99] Fukuzawa Yukichi, "Gaikokujin no naichi zakkyo yurusu bekarazaru no ron," in *Fukuzawa Yukichi Zenshū*, ed. Keiō Gijuku Daigaku, vol. 20 (Tōkyō: Iwanami Shoten, 1962), 124.

Foreign Merchant Dominance of Japan's Trade

Another menace to national prosperity and strength lay in the foreign domination of Japan's overseas trade. Soon after the opening of the treaty ports, foreign banks and merchant houses flocked to Japan where they immediately established a dominant position as middlemen in overseas trade. Japanese merchants and producers became almost totally dependent on foreign merchants and financers to sell their goods abroad; virtually no Japanese merchant sold his wares directly in a foreign market without the intermediation of a foreign merchant. Table 5 shows that foreign merchant houses handled the overwhelming bulk of Japan's exports in the late 1870s. What accounted for the overwhelming dominance of foreign firms in Japan's overseas trade? A glance at the barriers to Japanese merchant activity abroad shows the true extent of the obstacles facing Japanese exporters and the development of overseas trade. These challenges had nothing to do with production, but rather lay in the difficulties of doing business in distant and unfamiliar markets.

Several barriers stood in the way of Japanese merchant activity abroad. The commercial and diplomatic treaties Japan signed with the Western powers created the most visible problems. The treaties stripped Japan of legal jurisdiction over foreign merchants living within its own borders and robbed the nation of the ability to protect its domestic industries from foreign competition with tariffs by imposing a low treaty enforced tariff rate on Japan. Japan's merchants also faced several practical difficulties in expanding their activities overseas. Japanese traders lacked useful information about foreign markets and access to capital to fund overseas trade. As a result, Japan's merchants were forced to satisfy themselves with selling their goods to foreign merchants in the treaty ports.

Table 5. Percentage of Total Exports Handled by Japanese and Foreign Merchants*[100]

Year	Japanese Merchant Houses	Foreign Merchant Houses
1877	11.7%	88.2%
1878	9.1%	90.8%
1879	16.3%	83.7%
1880	19.9%	80%

*percentages calculated from comparison of total yen value of trade exports handled by foreign versus Japanese merchants. All figures have been rounded to the nearest tenth decimal place and therefore do not exactly equal 100%.

The Unequal Treaties

The trade treaties Japan signed with the Western powers beginning in 1858 limited the nation's economic autonomy and helped determine the shape of Japan's international trade. As noted above, the treaties denied Japan autonomy over its own tariffs and conferred extraterritorial privileges on foreigners living in Japan. Japanese leaders all reviled the unequal treaties as the primary instrument of Western domination designed to check Japan's economic progress. Yet, at the same time, extraterritorial privilege and treaty enforced tariffs shaped the structure of Japan's trade in ways that were more complex than the simplistic Meiji era laments of commercial exploitation by the West suggested.

Treaty mandated tariff rates most obviously restricted Japan's economic sovereignty. The loss of tariff rights occurred gradually. Japan's first trade treaty with the United States,

[100] Naikaku Tōkeikyoku, *Nihon teikoku tōkei tenkan*, ed. Tōkeikyoku, vol. 3 (Tōkyō: Naikaku Tōkeikyoku, 1884; reprint, Tōkyō: Tōkei Kyōkai, 1963), 253.

concluded in 1858, allowed a generous 20 percent *ad valorem* tariff on several key imports from the West.[101] Subsequent treaties incrementally lowered this relatively high rate. Foreign pressure, particularly the demands of the American consul for lower import tariffs to allow American tea merchants to import cheap materials from China to use in packaging Japanese teas for export, was only one reason for the reduction in Japanese tariff rates.[102] The Tokugawa *bakufu* initially agreed to reduce import tariffs on selected goods in the hopes that such concessions would aid in obtaining the consent of the Western powers for the closure of Yokohama, the treaty port closest to the administrative capital, Edo (present day Tōkyō).[103] By the 1860s the attitude of the Tokugawa regime toward trade had changed as officials had come to see it as a way to obtain extra tax revenues for stabilizing tottering government finances. Desperate to find new sources of cash and convinced that there was a limitless demand for Japanese goods abroad, these officials predicted that reduced tariff rates would encourage the growth of trade and provide a new, broadly based stream of revenue for the Tokugawa *bakufu*. In 1866 a final round of commercial treaties reduced tariff rates in Japan to a treaty enforced maximum rate of 5 percent *ad valorem* on all exports and imports.[104] These treaties committed Japan's rulers to the low 5 percent rate without any reciprocal concessions on tariff rates for Japanese goods exported to the Western nations.

[101] Michael R. Auslin, *Negotiating with Imperialism: the unequal treaties and the culture of Japanese diplomacy* (Cambridge: Harvard University Press, 2004), 122.

[102] Ibid., 125-126.

[103] Ibid., 128.

[104] Ibid., 132.

This low mandated tariff rate had two important effects. It left the state without the ability to protect domestic industry through the use of protective tariffs. It also limited the state's ability to capitalize on the taxation of trade. Whether or not a protective tariff would have ultimately proved a benefit to Japanese industry is open to debate, but the low tariff rates meant that there would be no protective sheltering of Japanese industry which was now exposed to the full brutality of international competition. More importantly, the limited ability to generate revenue through tariffs had a major impact on Japan's domestic political economy. Tariffs were a key source of revenue for many national governments in the nineteenth century.[105] Lacking this major potential source of cash to fund its various programs of national self-strengthening, the Meiji government had to seek revenues from a politically unpopular land tax and equally despised excise taxes on *saké* (rice wine) and tobacco. For the Meiji government the challenges faced in generating sufficient tax revenue nudged government officials toward the promotion of Japanese exports as a way of enriching the nation and strengthening the population's ability to bear the burden of high rates of taxation.

More than low tariff rates, the extraterritorial privileges became the most hated infringement on Japan's sovereignty. Upon signing the unequal treaties, Japan surrendered all legal jurisdiction over Westerners living within its borders. The authorities in Japan promised to refer any crime or legal dispute involving foreigners to foreign consular courts

[105] In the 19th century many nations relied on tariffs as a significant source of state revenue. Between 1870 and 1890, the federal government of the United States collected an average of 54% of total tax revenues from tariffs and even in "free trading" Britain tariffs accounted for an average of around 25% of annual government revenue in the same period. In contrast, the Japanese government only derived, on average, a paltry 3.5% of total of its total yearly tax revenue from tariffs in the period from 1875-1890. See*, United States Bureau of the Census, The Statistical History of the United States: from colonial times to the present*, introduction by Ben J. Wattenberg (New York: Basic Books, Inc., 1976), 1106; B.R. Mitchell, *Abstract of British Historical Statistics* (New York: Cambridge University Press, 1962), 393-394; Naikaku Tōkeikyoku, *Nihon teikoku tōkei nenkan*, ed. Tōkeikyoku, vol. 3 (Tōkyō: Naikaku Tōkeikyoku, 1883; reprint, Tōkyō: Tōkei Kyōkai, 1963),

that would operate according to foreign laws. The granting of extraterritorial privileges marked Japan as one of the "backward" and "inferior" nations in the world order, in the company of such polities as the Ottoman Empire, Qing China and Siam. Extraterritoriality made all Westerners residing in Japan members of a legally privileged elite for whom Japanese law did not apply.

The potential for the abuse of this special legal status was especially acute in commercial transactions. Extraterritorial privilege translated into potential commercial advantages for the Western merchant since he was protected by the familiar legal codes of his own country and consular courts staffed by his fellow countrymen. Although consular courts may have been, for the most part, fair in their rulings on commercial disputes between Japanese and foreign merchants, there were occasionally rulings that raised doubts about the fairness of consular courts. In one famous case, a dispute broke out between Swiss merchants and Mitsui, a prominent Japanese merchant house, in 1875. The Swiss firm had received a shipment of seaweed products from Mitsui, but after the firm sold the goods at a loss in the Shanghai market, the Swiss firm refused to pay Mitsui for the goods, claiming that Mitsui had not acted in good faith and had knowingly sold sub-standard quality goods to the firm. Local Japanese officials argued in favor of Mitsui by pointing out that the goods had been thoroughly inspected before delivery. Yet when Mitsui sued the firm to force payment, the Swiss consulate issued a ruling in favor of the Swiss firm, arguing that Mitsui could indeed be held responsible for the quality of its goods even after the Swiss firm had inspected and accepted the goods and both parties had signed a binding sales contract. As a result, Mitsui lost over 3,000 yen and was forced to close its main operations in the port city of Kōbe due to the large financial losses the firm had incurred.[106]

There was, however, one important concession the Japanese managed to obtain from the Western powers in exchange for extraterritorial rights, the limitation of foreign residence and commercial activity to a small area surrounding the concession areas in the treaty ports. The treaties allowed foreigners to travel no further than ten *li* (roughly 20 miles) from the concession areas.[107] This provision confined the scope of foreign commercial activity to small areas around the six treaty ports that were eventually opened to unrestricted foreign commerce: Yokohama, Kōbe, Ōsaka, Niigata, Hakodate and Nagasaki.[108] The rest of Japan's interior was officially off limits to travel and residence by all foreigners without special permission. The government in 1873 further forbade foreign investment in Japanese assets. That year the Ministry of Industry's Directive Concerning Mines (*Kōzan Shintokusho*) proclaimed that in principle all the nation's mineral resources belonged to the Imperial Household and prohibited foreign ownership of mines and other natural resources.[109]Subsequent directives effectively banned all foreign direct investment.

The restrictions on foreign residence, travel, and capital helped give a peculiar shape to Japan's economy. The treaty ports became the sites of freewheeling global trade, while the domestic market remained the exclusive domain of native capitalists. Japan's merchants were

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[106] Ishii Kanji, *Nihon ryutsūshi* (Tōkyo: Yuhikaku, 2003), 101.

[107] Uno Fukuju. *Meiji no bōeki* (Tōkyō: Hanawa Shobō, 1967), 19-20.

[108] Komine Kazuo, "Taguchi Ukichi no egaita kaihō keizai kokka Nihon no shinro," in *Taguchi Ukichi to Tōkyō Keizai Zasshi*, ed. Sugihara Shirō and Okuda Kazunobu, (Tōkyo: Nihon Keizai Hyōronsha, 1995), 215.

[109] Kōbushō, "Kozan shintokusho" in *Nihon Keizai kōsō*, ed. Nakamura Masanori, Ishii Kanji and Kasuga Yutaka, vol. 8 *Nihon kindai shiso taikei*, (Tōkyō: Iwanami Shoten, 2000), 13-15.

able to exercise a strong influence over the nation's import trade because of their exclusive access to the country's interior.[110] Some scholars see the decision to exclude foreign capital as one of the main reasons Japan escaped economic colonization by the West and industrialized in spite of fierce foreign competition.[111] There may be some truth to this argument, but the short term impact on the Meiji state seems to have been anything but advantageous. Excluding foreign capital meant that the Meiji government had to finance all of its initiatives to strengthen the nation solely through the mobilization of domestic resources or by funds earned through the sale of goods abroad. This limitation exacerbated the great dilemma that early Meiji state faced in trying to expand revenue. Because it had prevented itself from tapping into the international money market, the Meiji government had to look toward commercial policy and increasing exports as a method of increasing national wealth and building up a reliable tax base.

The restrictions also played a key role in the diplomacy and politics of the early Meiji period. Many observers at the time credited the exclusion of foreigners from Japan's interior as the main barrier protecting Japan against complete economic colonization by the Western powers. Even as late as the 1890s, arguments in favor of removing the restrictions on foreign travel and residence or "mixed residence" (*naichi zakkyo*) and allowing foreign direct investment in Japan sparked dire warnings from critics who predicted such mistaken policies would result in nothing less than the enslavement of Japan's population to foreign capitalists. Leading figures of Japan's early labor movement emphasized the need for labor unions by reasoning that Japanese workers would soon be laboring for rapacious Western capitalists

[110] Sugiyama Shinya,"Kokusai kankyō to gaikoku bōeki," 191.

[111]Leften Stavros Stravrianos, *Global Rift: the third world comes of age* (New York: William Morrow and Co., 1981) 360.

who would neither share Japanese communitarian values nor be concerned with the welfare of a workforce made up of people of an alien race.[112] Top officials in the Ministry of Finance worried that allowing foreign capital into Japan would transform the country into an Ireland of Asia, where a class of wealthy foreigners ruled over a native underclass.[113] These underlying anxieties lay behind debates over economic policy and motivated the establishment of a vigorous and independent Japanese export trade.

The Meiji regime which came to power in 1868 fully intended to revise the unequal treaties and abolish the commercial and diplomatic restrictions that the Western powers had imposed upon Japan. The creation of an independent Japanese export trade was a crucial part of the effort for the recovery of "commercial rights" (*shōken kaifuku*). Until Japan scored its first success in negotiating treaty revisions with Britain in 1894, however, the short term solution to overcoming the economic disadvantages created by the treaties lay not in diplomacy but in economic policy.

Market Barriers

Added to the burdens imposed on Japan by the unequal treaties was a set of severe handicaps Japanese merchants suffered in the global marketplace. Foreign firms in the treaty ports conducted most of Japan's overseas trade by purchasing Japanese products and packaging, shipping and selling those goods to consumers in the West. Serving as mediators between the Japanese and the world market, foreign merchants extracted profits by buying

[112]A classic example of such rhetoric can be found in Yokoyama Gennosuke, *Naichi zakkyogo no Nihon* (Tōkyō: Rōdō Shinbunsha, 1899; reprint, Tōkyō: Iwanami Shoten, 2007), 15-16.

[113] See Soeda Juichi's statements on the importation of foreign capital in Nōshōkōtō Kaigi ed. *Nōshōkōtō Kaigi Giji Sokkiroku*, vol. 3 part 2 (Tōkyō, 1899; reprint, Tōkyō: Hara Shobō, 1991), 589-599.

cheaply in Japan and selling dear in their home markets. By cutting the foreign firms out of the picture, Japan's merchants and producers stood to capture the profits that would otherwise end up in the pockets of the unwelcome outsiders. This task was, however, easier said than done. Doing business abroad posed several daunting challenges for which even Japan's most adventurous entrepreneurs were ill prepared.

The most formidable of these challenges was a lack of useful information about markets overseas which any potential exporter desperately needed in order to participate directly in the world market. As economic historian Tsunoyama Sakae observed, despite an impressive understanding of Western politics, science, and culture, few in Japan possessed the kind of knowledge that would be helpful for conducting trade with the West. Merchants and producers simply had no idea of what to sell, where to sell, or what kinds of demand for Japanese products existed abroad.[114] Reliable information about tariffs and legal and technical regulations governing commercial activity in other countries was in short supply. Many aspiring Japanese exporters abandoned the idea of venturing beyond Japan's shores simply because they had no information about markets overseas and simply did not know what opportunities might exist in foreign markets.

There were also no guarantees that information would be timely. Arriving late to an emerging world market, Japanese entrepreneurs lacked the means to readily obtain important commercial information. The 1840s and 1850s had witnessed a revolution in commercial information in the West. New publications and news services dedicated to relaying the latest information about markets, such as Britain's *Economist*, America's *Banker's Magazine* and

[114] Tsunoyama Sakae, "Yojō" in *Nihon Ryōji hōkoku no kenkyū*, ed. Tsunoyama Sakae (Tōkyō: Dōbunsha, 1986).

the *Reuters* news service all sprang into existence in this period.[115] The rapid extension of telegraph lines around the globe beginning with the first trans-Atlantic cable connection which was completed in 1866 spurred the expansion of these publications and services.[116] The first business oriented weekly magazine did not appear in Japan until the 1879 publication of the *Tōkyō Keizai Zasshi*.[117] Telegraph links with the outside world came earlier, arriving with a cable line between Shanghai and Nagasaki in 1870, but the domestic network which would allow entrepreneurs across the country to benefit from the links was still under construction.[118]

The newly created Meiji government also lacked extensive networks of embassies and consulates that could serve as gatherers of commercial information about foreign markets. Japan did not have a consulate in Europe until 1872 and did not establish a consulate in London, arguably the commercial nerve center of the nineteenth century world economy, until 1876. Furthermore the Foreign Affairs Ministry did not begin gathering and disseminating commercial information until the publication of a regular circular, the *Tsūshō Ihen*, in 1882.[119] The lack of sources of timely commercial information put Japanese exporters at a disadvantage in relation to their foreign competitors, who often benefited from

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[115]Tsunoyama Sakae, *Tsūshō kokka Nihon no jōhō senrayku: ryōji hōkoku wo yomu* (Tōkyō: Nihon Hoso Shuppan Kyōkai, 1988), 43.

[116] Daniel R. Headrick, *The Invisible Weapon: telecommunications and international politics, 1851-1945* (New York: Oxford University Press, 1991), 18-19.

[117] Sugihara Shirō, *Nihon no keizai zasshi* (Tōkyō: Nihon Keizai Hyōronsha, 1987), 23.

[118] Tsunoyama, *Tsūshō kokka Nihon no jōhō senryaku*, 43.

[119] Ibid., 61-63.

an extensive network of embassies and consulates capable of issuing timely reports on foreign markets.[120]

If Japan lacked the information networks necessary to participate directly in world markets, the lack of financial networks that could aid firms engaging in overseas trade was also a significant obstacle. Japan's trade depended on the services provided by foreign banks. To engage in trade Japanese entrepreneurs required access to credit and foreign exchange. Credit had a vital function in overseas trade because of the distance and time involved. In cases where the exporter had sufficient capital, the exporter could simply ship the goods to an importer overseas, while counting the shipment as a form of credit that the importer must pay back at a later date.[121] Most Japanese businesses in the Meiji period, however, did not have sufficient capital to finance their exports. Foreign banks which could have extended credit to Japanese firms, refused to do so, because they viewed Japanese businesses as unreliable, high risk clients.

Instead Japanese entrepreneurs transacted their business entirely in cash or relied on credit extended by foreign importers in the form of some form of commercial paper. Foreign merchants' operations in Japan either paid Japanese producers and merchants for their goods in cash (typically Mexican silver dollars which served as the common currency in East Asian trade) or with checks drawn from business accounts held at foreign banks operating in the

[120] It should be noted, however, that the quality of information offered by consular services of various countries varied greatly. D.C.M. Platt argues that while British consuls were required to issue annual reports on and provide timely information on important commercial developments in their districts, the quality of those reports varied widely. Some reports were, according to Platt "first class," while other reports had little value as commercial intelligence. Therefore the advantage gained by foreign traders from their respective embassies and consulates should not be overstated. Still it can be argued poor information was better than the complete lack of information about foreign markets among Japanese entrepreneurs. D.C.M. Platt, *The Cinderella Service: British consuls since 1825* (Hamden: Archon Books, 1971), 104-105.

[121] Alan C. Shapiro, *Multinational Financial Management*, Eighth ed. (Hoboken: John Wiley and Sons Inc., 2006), 617.

treaty ports or with banknotes issued by foreign banks.[122] If a Japanese entrepreneur received a check, only foreign banks operating in Japan could redeem these checks and banknotes. This situation reinforced the foreign banks' grip on the finance of Japan's overseas trade.

A second and equally important function of banks in international trade was providing international exchange and the remittance of payments. If Japanese entrepreneurs could manage to sell goods overseas, they needed some method of remitting the money back to Japan and converting the payments from foreign currency into yen. The Japanese exporter faced difficulties on this front as well. Foreign banks were not eager to provide services for merchants from a strange, faraway land that they had little reason to trust. For example, in 1876, when Japanese businessman Arai Ryōichirō sealed a historic deal with New York silk traders for the delivery of raw silk to be shipped directly from Japan, Arai could not convince any of the New York banks to issue him a bill of exchange to send the money that he received from American silk dealers back to his brother in Japan. Instead he had to resort to requesting a Japanese traveler passing through the area to stuff the money (all Mexican silver dollars) into his suitcase.[123]

The lack of financial backing and financial services for exports made the establishment of an independent Japanese export trade next to impossible. In theory, Western banks working in close partnership with Japanese firms could have helped Japanese exporters by providing needed financial services in the form of loans and foreign exchange, but Japanese businesses lacked credibility in the Western bankers' eyes. The extensive financial networks operated by the imperial powers excluded Japanese businesses because of their lack

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[122] Tatawaki Kazuo, *Meiji Seifu to Eikoku Tōyō Ginkō* (Tōkyō: Chūō Kōronsha, 1992), 102-103.

[123] Haru Matsukata Reischauer*, Samurai and Silk: a Japanese and American Heritage* (Cambridge: Harvard University Press, 1986), 210.

of any track record in dealing with Western banks. Gaining trust and credibility among foreign creditors therefore became a top priority for Japanese exporters. Yet Japanese entrepreneurs were caught in a conundrum. Without an established reputation in foreign markets, no Western bank would deal with a Japanese entrepreneur, but without the support and services of a foreign bank, most Japanese entrepreneurs could not operate in a foreign market.

Foreign control also extended to one more vital area of Japan's international trade: shipping and insurance. Tokugawa era prohibitions on the construction of vessels capable of long distance ocean voyages hampered the development of a merchant fleet and the training of experienced Japanese seamen to transport Japanese goods abroad. Soon after the conclusion of the first commercial treaties with Japan, foreign shipping companies rushed to service Japan's newly opened overseas trade. Within a few years Western shipping companies not only controlled all long distance shipping in and out of Japan, but even began to make serious inroads into the coastal trade shipping goods between different regions inside the country. The American Pacific Mail Steamship Company was so eager to participate in the coastal routes that it lobbied the Meiji government for a special charter to service them.[124] In the 1870s only four of a total of 74 different shipping companies operating in Japan were Japanese and none of the Japanese companies possessed steam ships capable of long distance voyages.[125] The extent of Japan's dependence on foreign shipping became painfully clear in 1874 when the Meiji government planned a punitive expedition to Taiwan to avenge the killing of Ryūkyūan fishermen by Taiwanese "bandits." Lacking adequate transport for the

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[124] William Wray, *Mitsubishi and the N.Y.K., 1870-1914: business strategy in the Japanese shipping industry* (Cambridge: Harvard University Press, 1984), 32.

[125] Ibid., 43.

army, the Meiji government contracted with the Pacific Mail Company to provide troop transport, but at the last minute, the American government forbade the company from carrying out the contract for diplomatic reasons. Forced to scramble to secure transport, Japanese officials eventually purchased steamships and contracted with a Japanese businessman, Iwasaki Yatarō, to operate the ships.[126]

Maritime insurance was crucial for shipping. Insuring goods for export greatly reduced the risk for the exporter and was absolutely essential for many small scale Japanese exporters who could not bear the risk of losing a shipment of goods in transit. Foreign shipping companies required insurance for all transported goods as a precondition of service. Yet, foreign firms did not recognize insurance policies from Japanese insurers, because Westerners viewed them as too small to have adequate reserves to cover whatever losses might occur. Japanese firms' lack of any established relationships with insurers in London and other important Western markets did not help either. In this way Western insurers gained the ability to stop the export of Japanese goods by refusing to insure goods for shipment.[127]

Conclusion

Looking back upon Meiji Japan's remarkable success in transforming a peripheral Asian nation into a powerful and prosperous nation-state, it is all too easy to forget the serious challenges and constraints Japan's new leadership had to confront. The Meiji government inherited an economy that was being radically re-organized by growing connections to the world market and was beginning to display all the characteristics of a

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[126] Ibid.

[127] Nōshokōtō Kaigi ed. *Nōshōkōtō Kaigi Giji Sokkiroku*, vol. 3 part 1 (Tōkyō, 1899; reprint, Tōkyō: Hara Shōbō, 1991), 264-265.

peripheral supplier of raw inputs for factory production in the industrialized West. There was little to suggest that Japan's economic fate would be any different from the other colonized and semi-colonized regions in Asia.

On top of this threat, the foreign domination of Japan's overseas trade and the daunting challenges the nation faced in establishing independent commercial links with the outside world posed a major obstacle to economic development. A host of factors—the conditions imposed by the unequal treaties, the commodity export nature of Japan's trade, lack of information about foreign markets, limited access to financing and foreign dominance in shipping and insurance—presented seemingly insurmountable barriers to the establishment of an independent Japanese export trade and tended to reinforce reliance on primary commodity exports in Japan's trade.

The story of Japan's foreign trade in the 1860s and 1870s was not, of course, entirely negative. The tea and silk trades because highly lucrative and made many merchants and producers into wealthy men. A trade that primarily relied on the export of such lightly processed commodities was, however, at best a precarious foundation for the construction of a powerful nation-state. Japan's leaders worried that their nation's dependence on the export of commodities and unfinished goods would eventually undermine any efforts to ensure Japan's independence from the Western powers. Unease with Western dominance of Japan's foreign trade added to Japanese anxiety. Many believed that only when Japanese gained control of the nation's foreign trade would they secure economic independence. The Meiji government was determined to reassert control over Japan's foreign trade, but first officials had to deal with the even more pressing problem of survival by gaining sufficient revenues.

CHAPTER 2:

Feeding Baby Leviathan: the Meiji state and the origins of commercial policy

When the Meiji regime came to power in 1868, it had a strong if somewhat vaguely defined vision for Japan's future. Japan's new leaders pledged to revive the nation's flagging political and economic fortunes and transform Japan into a rich nation with a strong army capable of resisting Western encroachment. Despite possessing a strong sense of its own historic mission to rescue Japan, the new regime was uncertain about what practical measures would most effectively accomplish its lofty ambitions. Economic historian Ishii Kanji aptly summed up the atmosphere of uncertainty over policy questions during the first years of the Meiji period when he observed, "…in fact there was no unified opinion within the government itself as to what it was aiming for or in which direction it should lead the country."[128]

Moreover, in the early years of the Meiji period, the primary challenge facing the new government was ensuring its continued existence by generating revenue to cover the costs of governing the country and pay for a host of ambitious military and industrial projects the new regime now hastily rushed to undertake. Far from being the "strong state" capable of re-

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[128] Ishii Kanji, *Nihon no sangyō kakumei: Nisshin, Nichirō sensō kara kanaeru* (Tōkyō: Asahi Shinbunsha, 1998), 22.

fashioning Japanese society as it is sometimes portrayed as being[129], in its initial years, the Meiji state was, as Carol Gluck has recently observed, a "not-so-strong state" with severely limited resources that constrained its ability to act.[130] As part of their attempt to solve revenue problems, the leaders of the Meiji regime hoped to boost exports to strengthen the nation's tax base, re-organize the nation's commercial life to give the central authorities stronger hold on the nation's commerce, and even considered having the state become directly engaged in foreign trade itself.

In their efforts to accomplish these goals, Meiji leaders drew extensively on the commercial policies implemented by the domains and the *bakufu* in the late Tokugawa period. Because these officials came of age in the late Tokugawa era, they were well aware of debates over the virtues and drawbacks of trade that arose in the uncertain political and economic climate of the 1850s. Some of officials in the new government had also been heavily involved in formulating new commercial policies in their home domains prior to the Restoration. Not surprisingly, these officials initially sought to apply what they had learned in their domains to commercial policy on a national scale.

Commercial policy in the initial years of the Meiji period therefore closely resembled the commercial policies the domains of the previous Tokugawa era. The Meiji state experimented with a modified version of Tokugawa era practices in which political authorities worked closely with a group of selected merchants to buy up domestically produced goods with paper currency and then sell those goods to foreign merchants for

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[129] A classic statement of such views can be found in E. H. Norman's writings. See E. Herbert Norman, *Origins of the Modern Japanese State: selected writings of E. H. Norman*, edited and with an introduction by John W. Dower (New York: Random House, 1975), 114-115.

[130] Carol Gluck, "The End of Elsewhere: writing modernity now," *American Historical Review* 116, no. 3 (2011), 682.

specie. Thus through the alchemy of commerce, the Meiji state hoped to transform plentiful paper currency into the gold and silver coin the state desperately needed.

These initial experiments in commercial policy were largely unsuccessful and were ultimately abandoned. In the process, however, a new focus on promoting "direct trade" (*jiki yushutsu*) would gradually emerge. Although the idea of creating direct trading links between Japan and the outside world remained little more than a fanciful aspiration by the end of the first half of the 1870s, the Meiji leadership had at least recognized the potential benefits of direct trade and had begun to nurture ambitions to transform Japan into a great commercial power by promoting direct trade.

Tokugawa era precedents: domain monopolies

By lucky coincidence, the economic difficulties of the Tokugawa period served as a useful preparation for the challenges of the early Meiji period. Wobbly government finances and economic instability were constant features of life for the Tokugawa *bakufu* and many of the domains in Japan from the late 18th century onward. Under Tokugawa rule, the Tokugawa exercised a loose hegemonic control over the Japanese archipelago. Over 230 separate domains ruled by great lords, or *daimyō* pledged allegiance to Tokugawa household, but were otherwise allowed to manage their own affairs as they saw fit. As Luke Roberts argues, the Tokugawa economy therefore resembled an international economic order where various independent states were free to pursue their own economic policies.[131] During this time various developments exposed the fundamental flaws of the old system of political economy based on warrior rule and taxes paid in kind and forced the domains to reconcile

[131] Luke S. Roberts, *Mercantilism in a Japanese domain: the merchant origins of 18th century Tosa* (New York: Cambridge University Press, 1998), 1.

themselves with the ascendancy of a market based cash economy.[132] Due to a long term decline in rice prices, taxes collected in rice-the primary source of income for the domains-experienced diminishing purchasing power. The diminished purchasing power of tax revenue eventually led to large deficits in domain finances as local leaders of the domains (*daimyō*) struggled to meet their various obligations with rapidly shrinking real incomes.[133] Desperately needing new sources of revenue, some innovative domains devised an ingenious solution to their fiscal problems, a form of domain mercantilism in which the domain-state established a trade monopoly in goods produced within its own borders. Such monopolies operated under a variety of different names, but historians today refer to the general system of domain monopolies as the *kokusankaisho* system, a term which might be rendered somewhat inelegantly in English as the "country product office system"(hereafter the domain monopoly system).[134]

The key elements of the system are worth examining here since they share many of the same purposes and features of commercial organizations that the national government would later create in the early Meiji period. The goal of the domain monopoly system was to obtain cash in the form of hard specie such as gold or silver through the sale of goods produced domestically within a domain in one of the central urban markets of Tokugawa Japan: Ōsaka, Kyōto and Edo (modern day Tōkyō). This system depended upon the domain

[132] Suzuki Kōzō, *Edo no keizai shisutemu: kome to kahei no haiken arasoi* (Tōkyō: Nihon Keizai Shinbunsha, 1995), 10-11.

[133] Kiyama Minoru, *Kindai Nihon to Mistui Bussan: sōgō shōsha no kigen* (Kyōto: Mineruva Shobō, 2009), 18-19.

[134] Luke S. Roberts has suggested this English rendering as a literal translation of the term *kokusongata*, an alternate term for *kokusankaisho* in his work on economic thought in 18th century Tosa. See Roberts, *Mercantilism in a Japanese Domain*, 138.

reserving for itself monopoly rights on the purchase and/or sale of goods produced within its territory. The exercise of this monopoly took three basic forms: an indirect *monopsony* system in which the domain reserved exclusive rights to sell specified goods outside the domain's borders, a *direct monopsony* system in which the domain claimed the exclusive right to purchase certain goods, or, in a handful of cases, a *production monopoly* in which the domain itself engaged in the production of goods for sale outside of the domain.[135] In the first two cases, the domain typically purchased goods from producers or merchants using paper money issued by the domain (*hansatsu*).[136] The domain then shipped those goods to be sold in one of the three largest urban markets in exchange for gold or silver coin.[137] In the case of production monopolies, the domain paid for labor and production costs in paper *hansatsu*, and then sold the goods for hard specie outside the domain, usually in one of the three large urban markets.

Just how the domain gained profits from this venture depended on the specific type of monopsony or monopoly it ran. In an indirect monopsony the domain acted as a commission merchant buying goods from merchants or producers and then selling them for a profit in Tokugawa Japan's urban markets. A portion of the profits would usually go back to the merchant or producer while the domain retained a commission fee. This was the case in the Himeiji domain's cotton monopoly where the domain purchased cotton directly from cotton merchants by paying roughly 80 percent of the price in paper *hansatsu*. The domain then

[135] Kiyama, *Kindai Nihon to Mitsui Bussan*, 19.

[136] Ibid., 18-19.

[137] Ibid.

sold the cotton for specie and remitted the remainder of the money owed to the cotton merchants while subtracting it from the profit it derived from sales of cotton in Edo.[138]

In contrast, a direct monopsony operated simply as a method of expropriating an economic surplus from the peasantry. In this case, commoners had to pay a portion of their taxes in a lucrative trade good or sell certain goods to the domain at a fixed price, usually set well below the market price. In the Yonezawa domain an official monopsony on lacquer trees required that commoners pay a fixed amount of cash and sap to the authorities as taxes which varied according to how many lacquer trees the peasants cultivated. They then had to sell any surplus to the domain at a fixed price.[139] In the case of production monopolies, the profits from sales of domain produced goods went directly into domain coffers. In all three scenarios, the domain acquired lucrative trade goods to convert into gold and silver through sales outside of the domain's territory.

Beyond the use of domain power to gain a monopoly on the purchase and sale of profitable goods produced within its territory with the ultimate goal of bringing specie into domain coffers, the third prominent feature of the system was the use of a group of privileged merchants (*tokken shōnin*) to take charge of the daily operations of the system. Domains typically entrusted the management of many of the domain monopolies to a group of favored merchants appointed to conduct commercial operations on the domain's behalf. The Tosa domain's paper monopoly was run by seven merchants who acted as official purchasing agents in charge of procuring paper from producers.[140] Similarly, the Himeiji domain

[138] Ibid., 19.

[139] Mark Ravina, *Land and Lordship in Early Modern Japan* (Stanford: Stanford University Press, 1999) 80-81.

[140] Luke S. Roberts, *Mercantilism in a Japanese Domain*, 182.

restricted the sale of cotton and cotton products within the domain to a small group of select merchants as part of its cotton monopoly.[141] Once the "exports" reached Ōsaka or other urban markets, they were stored in domain warehouses. There selected local merchants took charge of selling the goods.[142]

The domain monopolies embodied all the contradictions of the Tokugawa era economy which combined of feudal and capitalistic features. The domain monopolies depended on the power of their lords to enforce monopoly trade regulations within the domain and expropriate a surplus from producers who were usually forced to sell lucrative trade goods at discounted rates to the domains.[143] The lords also insisted on using *hansatsu* paper bills in the place of gold, silver or copper coins to fund productive activities and purchase goods from producers. At the same time, the system was only able to function because of the existence of a market oriented economy where goods were freely traded in the large cities.

The selection and employment of an inner circle of favored merchants to run the day-to-day operations of domain monopolies locked the state and Japan's nascent private capital into a tight embrace to create a mutual dependence between merchant and domain. The domain thus became dependent on a select inner circle of merchants to implement its commercial policies and take care of the procurement and sale of goods outside of the domain. The inner circle of merchants, in turn, required the backing of political authorities for special privileges. The continued expansion of a market oriented economy, however, had

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[141] Nishimukai Kosuke, "Kinsei kōki no tokusanbutsu o meguru seisaku to ryūtsū: Makishū Himeiji hanryō o chūshin ni" in *Ryūtsū to Bakuhan Kenryoku*, ed.Yoshida Nobuyuki (Tōkyō: Yamakawa Shuppansha, 2004), 104.

[142] Suzuki Kōzō, *Edo no Keizai Shisutemu: kome to kahei no haiken arasoi*, 136.

[143] Luke S. Roberts, *Mercantilism in a Japanese Domain*, 182.

the potential to subvert the various monopolies and trade restrictions imposed by the domains and their merchant allies. In the case of the Himeji cotton monopoly, as merchants from outside the domain penetrated the cotton market, they encouraged producers to ignore domain regulations and engage directly in trading on the open market.[144] The result in the late Tokugawa period was an uncomfortable bifurcation of the merchant classes into "privileged merchants" (*tokken shōnin*) closely tied to the lords of the domains or the *bakufu*, and a class of relatively autonomous "non-privileged merchants" (*hi-tokken shōnin*) whose market oriented activities threatened the existing order. Domain monopolies reinforced this division between politically well connected "insiders" and alienated "outsiders," a feature of Tokugawa society that would occur again in the Meiji era because of commercial policies that gave rise to a class of entrepreneurs known as the "political merchants" (*seishō*).

Domain monopolies sparked some resistance. In some cases it took the form of direct protests against a domain's commercial policies. In 1787 more than seven hundred villagers from the paper producing regions of Tosa fled to the nearby Matsuyama domain in a bid to convince their lord to abolish the paper monopoly by threatening to enter the service of the neighboring domain.[145] More common, however, were more passive forms of economic protest. Because Yonezawa's lacquer monopoly made cultivating lacquer trees largely unprofitable, peasants uprooted many of their trees rather than pay taxes on them.[146] Such incidents demonstrate one of the primary flaws in the domain monopoly system. While the use of state power to expropriate peasant surplus was effective to an extent, market forces

[144] Nishimukai, "Kinsei kōki no tokusanbutsu o meguru seisaku to ryūtsū: Makishū Himeiji hanryō o chūshin ni,"109.

[145] Roberts, *Mercantilism in a Japanese Domain*, 159.

[146] Ravina, *Land and Lordship*, 81.

could limit that exploitation. If peasants or merchants could not benefit by engaging in the production of lucrative trade goods, then they would resist producing and dealing in those goods.

The Pioneers of Commercial Policy: Yokoi Shōnan and Yuri Kimimasa

After the opening of Nagasaki and Yokohama to unrestricted foreign trade in 1858, several domains sought to adapt their domain monopoly systems to take advantage of the new economic opportunities offered by foreign trade. Many domains rushed to establish warehouses and trading posts in the treaty ports. There the domains hoped peddling domain goods to foreign merchants would serve as a further source of specie at a time when they faced increased expenditures due to the urgent need to buildup military capabilities in a time of growing political instability.[147]

One notable attempt by the Fukui domain to adapt the domain monopoly system to the new possibilities offered by foreign trade set an important precedent for Meiji era commercial policy. The domain created a centralized office, the General Commodity Exchange (*Bussan Sōkaisho*), that brought together prominent merchants and domain officials in a collective effort to trade with foreigners. The General Commodity Exchange was the brainchild of one of the leading intellectuals of the time, the Confucian scholar and educator, Yokoi Shōnan. Originally from the Kumamoto domain, Yokoi had been hired by the Fukui domain to serve as an advisor to the government and an educator in the domain academy.[148]

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[147] Kiyama Noboru, *Kindai Nihon to Mistui Bussan*, 22.

[148] Tokunaga Hiroshi, *Yokoi Shōnan: Meiji Ishin no aoshashin o egaita otoko*, (Tōkyō:Shichōsha, 2005), 57-66.

Shōnan was highly critical of both traditional approaches to economic management which stressed frugality and fiscal conservatism and the ways in which domain monopolies operated.[149] Yokoi provided a rough outline of a bold alternative economic program which advocated an expansive fiscal policy and an enthusiastic embrace of foreign trade in an 1860 proposal titled, *Three Theses on State Policy* (*Kokuze Sanron*).[150] In his *Three Theses*, Yokoi argued for both the moral necessity and economic advantages of active engagement in foreign trade. Commercial intercourse between nations and people was, according to Yokoi, simply the natural order of things and Japan had no right to obstinately refuse to trade with other nations. More importantly, engaging in trade with foreign countries offered a way for the state (*kuni*) to gain a profit and restore its financial health. In Yokoi's opinion, foreign trade would also allow Fukui's lord to carry out his true mission in the implementation of humane and benevolent government.[151] To ensure the full benefits of foreign trade the domain had to adopt both a liberal fiscal policy and a form of managed trade. A liberal fiscal policy would encourage the production of goods by lending money, grain, fertilizer, and other necessary supplies to anyone free of interest. The state should then collect the goods produced by its subjects and sell them to foreigners. In the process the domain would not

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[149] Yokoi Shōnan, "Three Theses on State Policy," in *Sources of Japanese Tradition: Volume 2, 1600-2000*, ed. Wm. Theodore deBary, Carol Gluck and Arthur E. Tiedemann, 2nd ed. (New York: Columbia University Press, 2001), 640-641.

[150] Ibid.

[151] Yokoi, "Three Theses on State Policy," 641.

only recover the capital expended in issuing loans to the peasantry, but would also earn a tidy profit.[152]

As with other domain monopolies, Yokoi's proposed trading scheme promised to enrich domain coffers by turning paper money into precious specie through the alchemy of trade, but it departed from previous domain monopoly schemes in several important ways. Yokoi realized that because many of the monopolies simply expropriated goods from the peasantry, such schemes only served to discourage production and damage people's livelihoods. Yokoi wanted to transform this exploitative form of domain monopoly into a practical instrument to achieve his own vision of benevolent rule. An expansionary fiscal policy and a series of interest free loans doled out to the general public would not only encourage the production of goods for trade, but would also enrich the general populace and rescue it from the parasitic grip of moneylenders who dominated the agricultural economy. Managed trade would remove the control of trade out of the hands of self-serving merchants and put it safely in the hands of moral rulers who had the common people's interests at heart. State management of trade also allowed the domain to dole out interest free loans to the people. By controlling trade and collecting a profit on the sale of goods to foreigners, both the state and the people would be able to share the benefits of foreign trade equally. In Yokoi's mind, instead of the close, interdependent relationship between political authority and merchants that domain monopolies reinforced an activist state should promote trade on behalf of the welfare of society as a whole.

While Yokoi's ideas would form the basis for the Meiji government's initial commercial policies, his vision failed to take into account the harsh realities that Japan faced. His proposal for managed trade with the outside world assumed the continuation of

[152] Ibid., 641-642.

monopolistic trade practices within Japan, something that the new trade treaties Japan signed with the Western powers in 1858 would no longer allow. The Western powers were quick to denounce any regulations which threatened to interfere with their merchants' freedom of action in the treaty ports. Yokoi also failed to appreciate fully the complexities of foreign trade. Like many of his contemporaries, Yokoi imagined trading with foreigners would operate in much the same way as the trade that the various domains conducted in the large urban centers of Tokugawa Japan. The treaty ports would function as free market centers linking Japan to distant markets in foreign lands, just as Ōsaka or Edo served as central clearing centers for products from around the country. He erred in assuming that trade in the treaty ports would be an economic interaction among equals. He underestimated the significant power that foreign merchants would be able to exercise over Japan's export trade thanks to their superior knowledge of world markets, easy access to capital, and ability to acquire goods from around the world at the cheapest price. Yokoi also never really considered what kind of demand for Japanese goods might exist on the world market, nor did he give any thought to the issue of international competition in the world economy. As Tessa Morris-Suzuki suggests, Yokoi betrayed a rather naïve view of foreign trade by assuming an unlimited foreign demand for Japanese goods.[153] He gave no consideration to the possible risks of price fluctuations for goods caused by movements in the global market or the threat that foreign competitors might pose to Japanese producers. Such violent price swings threatened to undermine Yokoi's carefully constructed vision of managed trade at any time. Yokoi remained largely unaware of these risks, instead assuming a natural order with unlimited demand and static prices.

[153] Tessa Morris-Suzuki, *A History of Japanese Economic Thought* (London: Routledge, 1989), 42.

Despite these shortcomings, the Fukui domain put into practice Yokoi's bold vision of managed trade in the late 1850s with relative success. Yuri Kimimasa, a disciple of Yokoi, immediately set out to establish a new domain managed trading venture, the General Commodity Exchange (*Bussan Sōkaisho*), roughly along the lines expounded by Yokoi. Through it, domain authorities would extend 50,000 *ryō* worth of credit to reliable producers and merchants in the form of letters of credit (*kite*).[154] As preparation for the implementation of his plan, Yuri then spent the better part of the year in 1858 investigating economic conditions in the trade port of Shimonoseki and learning the mechanics of mercantile activity.[155] More importantly, Yuri also travelled to Nagasaki where, with the help of a local merchant Kozone Rokurō, he established a warehouse for goods and successfully negotiated a sales contract with the Dutch Trading House (*Oranda Shōkan*) for the delivery of silk and soy sauce.[156] Upon his return to Fukui, he set up the headquarters for the General Commodity Exchange near Fukui Castle. A mix of domain officials and merchants staffed the office to procure goods in the domain and prepare them for shipment to the treaty ports.[157]

As soon as the necessary preparations were complete, Yuri set about implementing Yokoi's vision of a managed and virtuous trade. A last minute dispute resulted in the scrapping of plans to dole out letters of credit to producers and merchants in favor of printing 50,000 *ryō* worth of paper bills (*hansatsu*). In any event, the domain government injected a

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[154] Mikami Kazuo, *Yokoi Shōnan: sono shisō to kōdō* (Tōkyō: Yoshikawa Kōbunkan, 1999), 78-79.

[155] Ibid.

[156] Mikami Kazuo, "Bakumatsu ni okeru Echizen-han no Fukokusaku ni tsuite," *Nihon Rekishi* no. 241 (July, 1968): 96.

[157] Mikami, *Yokoi Shōnan*, 81-82.

large amount of cash into the local economy.[158] The end result was a stunning success. Goods flooded into the General Commodity Exchange, which was able to earn handsome profits by selling the goods in the treaty ports and around Japan. The contract with the Dutch Trading House for delivery of silk alone brought in sales amounting to 25,000 Mexican silver dollars (roughly 1,000,000 *ryō*).[159] Almost overnight the Fukui domain's financial situation improved as it could rapidly pay off debts and the budget moved into the black.

While Yuri demonstrated the effectiveness of the principle of inflationary finance to stimulate production, convert paper money into precious specie, and fill the pockets of the domain's lord, the General Commodity Exchange fell short of Yokoi's original vision. Despite the intent of enriching the domain by enriching the common people, the former benefited more than the latter. As Mikami Kazuo points out, since the domain's primary concern was to prop up its own finances, officials had a strong incentive to maximize profits. To do, they relied heavily on a small circle of well-connected merchants to act as its agents in buying and selling domain wares.[160] This approach led to the same type of tensions between the interests of merchants and producers that had existed in other domain monopolies, as merchants closely tied to the state were able to profit handsomely off of goods they had monopsonistic rights to purchase. Although domain bureaucrats tried to ensure that merchants did not accrue "unjust profits" from the sale of domain goods, producers could sell their goods only through the domain's approved network of merchants and agents whose primary mission was to maximize profits.

[158] Ibid.

[159] Mikami, "Bakumatsu ni okeru Echizen-han no Fukokusaku ni tsuite," 99.

[160] Ibid., 100.

The success of the managed trade scheme also required a favorable market for the domain's goods. Yet such a favorable market could never be guaranteed in a world market which experienced constant booms and busts. One of the most profitable products that the General Commodity Exchange sold, raw silk, brought in such large profits primarily because silkworm blight in the two main European silk producing nations, Italy and France, had created a scarcity in international markets that Japanese raw silk quickly filled.[161] Although relatively little is known about the details of the General Commodity Exchange's business activities or the venture's balance sheet, by Yuri's own account the domain trading venture started to register large losses soon after the Meiji Restoration. Yuri blamed the interference of merchants from his own domain as the primary cause, but large swings in the international price of raw silk and other goods may have had a larger impact on the fate of the venture.[162]

In spite of its failure to live up to Yokoi Shōnan's ideals, the success of the General Commodity Exchange in rescuing the Fukui domain's finances for several years counted most in the eyes of the new Meiji government that came to power in 1868. It desperately needed to generate funds to solidify its control over the country. Yuri Kimimasa was immediately put in charge of managing new government's finances and hammering out an effective economic policy. Naturally, Yuri attempted to solve the Meiji government's revenue problems by applying the same successful techniques he used in Fukui on a national scale.

True to form, Yuri first issued new paper notes, called *Dajokansatsu*, or literally *Council of State Bills* named after the supreme ruling organ in the new government. The

[161] Mikami, "Bakumatsu ni okeru Echizen-han no Fukokusaku ni tsuite," 100.

[162] Ibid., 101.

notes were to serve two primary functions. First, the notes were to provide the Meiji government with necessary funds to continue operating. Essentially the government sought to fund its activities by using its own authority and the power of the printing press to provide funds for itself. The second function of the *Dajokansatsu* was to encourage production by providing producers and merchants with access to capital, just as had been the case in Fukui. Yuri hinted at this second function of the new currency when he pronounced that the new bills would serve as the "foundation of national wealth" (*fukoku no kiso*).[163] The central government would loan bills to the various *daimyō* so that they, in turn, would loan the bills to producers. The government also loaned additional funds to newly formed organizations, the Commercial Offices (*Shōhōshi*).[164] Created in 1868 to support and regulate economic enterprise in Japan, the Commercial Offices served basically as a pipeline for money flowing from the government to various entrepreneurs. After receiving loans from the government, the local Commercial Offices in the treaty ports would in turn loan money to local merchants engaged in private enterprise.[165]

Prominent merchant families of Edo and Ōsaka ran the Commercial Offices. Meiji officials hoped that placing prominent leaders of the business community at the head of the offices would lend credibility to the new government bills among the general public.[166] This

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[163] Ochiai Kō, "Meiji ishinki no zaisei keizai shisō: Yuri Kimimasa to Ōkuma Shigenobu," in *Nihon no keizai shisō sekai: 'jūkyū seki' no kigyōsha, seisakusha, chishikijin*, ed. Kawaguchi Hiroshi (Tōkyō: Nihon Keizai Hyōronsha, 2004), 235.

[164] Ibid., 235-236.

[165] Tanaka Akira, *Meiji Ishin* (Tōkyō: Kōdansha, 2006), 178-179.

[166] Miyamoto Mataji, *Ono*-*gumi no Kenkyū,* vol. 4, *zenkiteki shihon no kōbō kate*i (Tōkyō: Ohara Shinseisha, 1970), 433.

arrangement, in effect, re-constructed the same pattern of mutual dependence between business and the state fostered under the domain monopolies.

The Commercial Offices provided prosperous urban merchants a privileged position from which they could extend their grip over the large urban markets and by extension the national economy. By design the Commercial Offices were supposed to use their ready access to capital to extend loans to the manufacturers of lucrative export goods. The delivery of the merchandise was to serve as repayment.[167] This policy would not only stimulate domestic production, but would also establish a virtual government monopoly on Japanese exports by securing exclusive sales rights on important exports from producers. Yet merchants running the offices were given wide latitude to do as they wished with government funds. The merchants in the Commercial Offices could easily borrow for their own purposes large sums from the offices they managed simply by filling out rudimentary paper work. One silk merchant who was involved in managing the Commercial Office in Yokohama had only to provide a single IOU in order to award himself a sizeable loan amounting to 7,000 *ryō* in new government currency.[168]

Unfortunately, with mounting military expenses from consolidating the new government's control over the country and the central government's difficulties in finding reliable sources of revenue, confidence in the new government bills collapsed and their value fell. Lending to the *daimyō* also proved to accomplish little in the way of promoting industry. Because many of the lords were deeply in debt, they had little choice but to use the loans to

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[167] Ibid., 442.

[168] Nishikawa Takeomi, *Bakumatsu, Meiji no kokusai shijyō to Nihon: kiito bōeki to Yokohama* (Tōkyō: Oyamakaku Shuppan, 1997), 96.

prop up their finances.[169] Money meant to stimulate production simply became a debased currency to dispose of bad debts.

The Commercial Offices also provoked much controversy. Britain and the other foreign powers criticized the Commercial Offices as an impediment to free commerce and therefore in violation the trade treaties.[170] Opposition to the Commercial Offices also arose within the Meiji government. Godai Tomoatsu, an official from the powerful Satsuma domain serving as the governor of Ōsaka, harshly criticized Yuri's policies. Godai argued that they placed too many unnecessary restrictions on commercial activity and called for the creation of a clearly articulated system of commercial laws, the establishment of new trading companies, and foundation of a specialized banking system.[171] Because Godai would go on to become a leading figure in Ōsaka's business community and a founder of the Ōsaka Chamber of Commerce (*Ōsaka Shōkōkaigijo*), his attacks on government policy may have represented the dissatisfaction among relatively small Ōsaka merchant houses that were excluded from official positions in the Commercial Offices. They may have feared that large merchant families might establish a monopolistic grip on the financing of overseas trade.[172]

The objections to the Commercial Offices and the deteriorating value of the *Dajōkansatsu* put this brief experiment in commercial policy to an end in early 1869. Yuri Kimimasa resigned from his post in February of that year and the Commercial Office was

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[169] Ochiai, "Meiji Ishinki no zaisei seisaku to keizai shisō," 236-237.

[170] Tanaka, *Meiji Ishin*, 180.

[171] Miyamoto, *Ono-gumi no Kenkyū*, vol. 4, 443.

[172] Ibid., 440-441.

hastily dismantled.[173] The government created a new authority, the Trade Office (*Tsūshōshi*) to supervise a wide variety of economic matters ranging from stabilizing prices to shipping and insurance.[174] The new Trade Office assumed supervisory powers over a network of subsidiary Trade Companies (*Tsūshō Kaisha*) and the Exchange Companies (*Kawase Kaisha*) that were to implement government policies in the treaty ports.

The Trade and Exchange companies that operated under the Trade Office's authority shared many of the same features of the previous Commercial Office. Together the Trade Companies and Exchange Companies were supposed to control and regulate all trade in the treaty ports. The government appointed leading urban merchants to manage the companies and gave them the right to issue paper money to stimulate production and aid in the establishment of centralized control over trade in the treaty ports.[175] The only significant difference between the new system and the previous Commercial Offices was the separation of the financial functions of the Exchange Companies from the trading activities of the Trading Companies in the management of the offices and companies more transparent.

In theory the Trade Companies would receive financing from the Exchange Companies to procure exportable goods from producers to sell to foreign merchants. In reality the Trade Companies struggled to establish their position as official middlemen in the overseas trade. Ultimately the Trade Companies ended up functioning simply as auction houses for goods moving in and out of the main ports. Merchants would gather to buy and

[173] Tanaka, *Meiji Ishin*, 180.

[174] Ibid., 182.

[175] Miyamoto, *Ono-gumi no Kenkyū*, vol. 4, 445, and Tanaka, *Meiji Ishin*, 183.

sell at the Trade Companies' offices, which offered services such as the storage and protection of goods in transit.[176]

Though more successful than the very short-lived Commercial Offices, the Trade and Exchange Companies similarly appeared to fail to live up to expectations. The government abolished the Trade Companies in 1871. This was the same year in which the government abolished the remaining feudal domains and established a system of prefectures under the direct control of the central government (*haihan chiken*). The Trade Companies had been expected to help control and regulate the foreign trade of the various domains, but now the domains no longer existed, a major part of the *raison d'être* of the Trade Companies also disappeared. The Exchange companies continued to operate, but the government would soon replace them with a system of national banks (*kokuritsu ginkō*) modeled after the national bank system in the United States.

The dismantling of the Trade and Exchange Companies marked the end of an initial period of experimentation in commercial policy. These early years of the Meiji period saw an attempt to apply a modified version of the Tokugawa era domain monopoly system to foreign trade on the national level. All of the organizations created to carry out the Meiji government's commercial policy resembled domain monopoly organizations in that they were staffed by wealthy merchants with close connections to the political authorities and aimed to monopolize the trade in major exportable goods which would be sold for specie. The ultimate goal of the organizations was to use inflationary finance and cheap paper money as a way of stimulating the production of exportable goods. Officials assumed that simply expanding the production of lucrative exports would be sufficient to correct Japan's balance

[176] Miyamoto, *Ono-kumi no Kenkyū*, vol. 4, 454-455.

of trade and stop the outflow of specie. Only after 1873 would this basic assumption start to be questioned.

Ōkubo Toshimichi and the Origins of Direct Trade

Commercial policy in the early years of the Meiji period was experimental in nature. It relied heavily on past precedents from the Tokugawa period and did virtually nothing to address the fundamental obstacles keeping Japan's merchants from engaging in international trade directly. The new rulers of the nation, after all, had little experience in managing the affairs of state and confronted the daunting task of constructing new institutions of governance. It was only natural that they reached for seemingly successful precedents in the recent past in forging their commercial policy. Even though they were inexperienced, Japan's new leaders were ultimately pragmatic in their approach to commercial policy. They had no ideological commitment to the preserving the practices of the past and were only seeking to find policies that worked. They were more than willing to embrace change.

Gradual but important shifts in Japan's commercial policy began to take place after the Iwakura Embassy returned from Europe in 1873 and the Meiji government experienced its first major split when several powerful officials in the government resigned as the result of a dispute over a proposed invasion of Korea. The Iwakura Embassy, led by imperial Prince Iwakura Tomomi, was a major diplomatic mission to Europe and America. The original goal was to renegotiate the unequal trade treaties with Western powers. To ensure success the Meiji government sent many of its top officials. When the Western powers indicated that they did not have even the slightest intention of changing the trade treaties and treating Japan as an equal member of the international community, the Embassy turned into a fact finding mission to investigate the sources of Western wealth and power. For two years members of the mission enthusiastically toured Western factories and consulted with a wide range of business and political leaders in Europe and America.

The experience of the lengthy tour of Western nations left a deep impression on the Embassy's participants. The considerable gap they perceived between Japan and the Western nations in terms of industrial and military technology frightened them. For the first time, they realized that the goal of achieving equality with the West would be a much more daunting task than they had originally anticipated. The sunny optimism of Yokoi Shōnan seemed now naïve.[177] At the same time, the trip also awakened the members of the Embassy to the full power of Western industry and commerce.[178] The Meiji government had already accepted the idea that trade with the outside world would help enrich the nation, but the participants in the Iwakura mission now saw a nation's volume of trade as both an important barometer of a nation's international status and the primary instrument by which nations obtained wealth and power.

The views of the members of the Iwakura Embassy had an important impact because the officials who participated would dominate the Meiji government after 1873. The Iwakura Embassy returned to Japan, just in time to enter the fray of a heated debate over a proposed punitive military expedition to Korea to punish the kingdom for rejecting Japanese diplomatic overtures. The conflict in the government essentially pitted a group of foreign policy hardliners supporting an expedition to Korea, most of who had stayed behind in Japan to oversee the day to day operations of government, with officials returning from the Iwakura

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177 Tanaka, *Meiji Ishin*, 304-305.

178 Kondo Tetsuo, "Shokusan Kōgyō to Zairai Sangyō," in *Iwanami Kōza Nihon no Rekishi*, ed. Naoki Kōjirō, vol. 14, part 1, (Tōkyō: Iwanami Shoten, 1975), 229-230.

Embassy who believed any Korean adventure to be premature and foolhardy. The spat over Korean policy resulted in a victory for the Iwakura Embassy members and the mass resignation of most of the members of the caretaker government.

During the Korean controversy, the main economic policy concerns of the Iwakura Embassy group came into focus. Ōkubo Toshimichi, soon to become the most powerful leader of the Meiji government, pointed to the nation's economic worries as the most important reason for opposing military conflict with Korea. He explained the reasons for his opposition in a forceful seven point brief. It expressed two central economic concerns that would shape his commercial policy. Primary in Ōkubo's mind was Japan's persistent trade deficit because the rapid outflow of gold specie and domestic inflation were sapping the country of its strength. Any premature foreign adventures would merely exacerbate what was already a dire economic problem. Ōkubo also worried about the Japanese government's foreign debt. After the abolition of the domains in 1871 the Meiji government had assumed all the debts of the former *daimyō*, some of which were owed to foreigners. The Meiji government had also floated 3.4 million pounds worth of government bonds on the London market to fund the construction of Japan's first railroad.[179] Ōkubo believed that if the government did not promptly repay these loans, any dispute over foreign loans might be used by Britain as a pretext for the invasion and colonization of Japan.[180]

If Ōkubo had a clear definition of Japan's main economic challenges, the new commercial policy to solve these problems did not take shape until early in 1874. By this time Ōkubo had become one of the preeminent figures in the Meiji government due to the

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[179] Kiyama Minoru, *Kindai Nihon to Mitsui,* 26.

[180] Ibid., 27.

resignation of his chief rivals. With a firm grip on the machinery of the state he was now prepared to set the agenda for a new series of policy initiatives. He first sought to tackle the urgent issue of repaying the bonds issues in London. He, along with Minister of Finance Ōkuma Shigenobu submitted a memorandum, *A Request Concerning the Retirement of Foreign Loans with Export Goods* (*Yushutsu Bupin o motte Gaisai Shōkyaku no Gi ni tsuki Ukagai*). It advocated the adoption of a system very similar to the domain monopolies of the now bygone Tokugawa era. The Meiji government would collect, ship, and sell select Japanese goods directly to the London market and deposit the profits in a special account set up in the London branch of the Oriental Bank, an Anglo-Indian bank that had branch offices in Japan and did a good deal of business with the Japanese government.[181] The deposited profits would be applied to the repayment of the bond issue.[182] The Ministry of Home Affairs would collect and ship the goods and the Ministry of Finance would oversee sales and management of the profits through a specially created Bond Section (*Kokusairyō*) in the Ministry of Finance.

Ōkubo's plan was little more than a proposal to create a slightly modified form of domain monopoly at the national level. Again, the primary goal was to generate much needed hard cash for the state to stabilize its finances and ensure the repayment of state debts. Ōkubo also proposed the recruitment of a small number of merchants to implement and manage the actual sale of goods in keeping with the Tokugawa era custom of entrusting the management

[181] For details on the Oriental Bank and its operations in Japan see Tatewaki Kazuo's work on the Oriental Bank and the Meiji government. Tatewaki Kazuo, *Meiji seifu to Eikoku Tōyō Ginkō* (Tōkyō: Chūō Kōronsha, 1992).

[182] Kiyama, *Kindai Nihon to Mitsui*, 28.

of monopolies to a circle of well-connected merchants.[183] The only element that was missing was the creation of a monopsony system to procure exportable goods. The unequal treaties excluded this option. There was, however, a convenient way around this handicap. Ōkubo's plan envisioned the sale of goods produced in the state run enterprises which the Meiji government had recently set up, including raw silk produced in the government run Tomioka silk reeling factory. Since the Meiji state itself was now engaged in the production of goods it could claim property rights over whatever it produced in a manner completely in keeping with acceptable commercial and legal standards in the West. Western nations could not then accuse the Meiji government of engaging in monopolistic trade practices.[184]

Later in the same year Ōkubo and Ōkuma turned their attention to the issue of Japan's unfavorable balance of trade. Both men agreed that Japan's persistent trade deficits and the outflow of specie were draining the country of wealth.[185] The primary task of commercial policy was therefore to correct trade imbalances thereby halting the outflow of specie and stabilizing the (theoretically) convertible Japanese yen. The government first attempted to balance the nation's trade by restricting imports by ordering all government offices to obtain their supplies from domestic manufacturers whenever possible and putting all government purchases of foreign goods under the supervision of the Ministry of Finance.[186] Yet, such measures alone would prove insufficient to correct the balance of trade problem.

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[183] Ibid., 29.

[184] Ibid., 28.

[185] Kondo, "Shōkusan kōgyō to zairai sangyō," 232.

[186] Ibid.

Ōkubo issued a second memorandum entitled, *An Opinion Concerning the Opening of Direct Sales Enterprises Abroad* (*Kaigai Chokubai no Kigyō o Hiraku no Gi*) detailing the new orientation in commercial policy. Observing that Japan's industry and commerce would never prosper without finding a steady demand for Japanese goods abroad, Ōkubo argued that the expansion of foreign trade was vital for Japan's industries.[187] Unfortunately, the dominance of Japan's overseas trade by foreign merchants presented a major roadblock to developing new outlets for Japanese goods abroad. He argued that Japanese exports had the potential to expand dramatically if Japanese merchants put sufficient care and effort into selling directly to consumers overseas. The memorandum pointed to reports from Japan's vice consul in New York, Tomita Tetsunosuke, describing the potential for increasing tea and silk exports to the American market. Ōkubo also highlighted the large price differentials between the prices of the two commodities in the Yokohama and New York markets that Tomita reported.[188] Here was clear proof that trade imbalances were partially due to the unequal trading relationship between Japan and the Western countries. To address this problem Ōkubo stressed the need for Japanese merchants to set up shop in foreign markets and sell their wares directly to the customers in consuming countries. To accomplish this goal, Ōkubo proposed government financial backing for a small group of companies to promote Japanese exports and engage in direct trade.

Ultimately Ōkubo was able to enact only some of his grand designs for the promotion of Japanese exports and the balancing of the trade deficit. The government quickly enacted the proposal to establish an organization to sell Japanese goods on the London market, as two

[187] Ōkubo Toshimichi, "Kaigai chokubai no kigyō o hiraku no gi" in *Keizai kōsō*, ed. Nakarumra Masanori, Ishii Kanji and Kazuga Yutaka, vol. 8, *Nihon kindai shisō taikei* (Tōkyō: Iwanami Shoten, 2000), 40.

[188] Ibid., 42.

officials from the Ministry of Finance traveled to London to set up an office to receive and sell Japanese goods.[189] Beyond this single initiative, the government did not act on the rest of his proposals regarding direct trade, such as the creation of direct trading companies. Nevertheless, his proposal would serve as an inspiration for later advocates of direct trade who would take up the cause after Ōkubo's assassination in 1877.

Ōkubo's advocacy of "direct trade" marked an important milestone in openly criticizing the dominance of foreign merchants in Japan's overseas trade. He identified the foreign merchants as one of the main sources of Japan's economic distress because they took advantage of Japanese producers and merchants to reap outsize profits. In a fascinating twist, just as Yokoi and Yuri had sought government intervention to prevent regional merchants' exploitation of the domain monopoly system in Fukui, Ōkubo promoted government initiatives to wrest control of Japan's foreign trade from predatory foreign merchants.

Ōkubo's specific proposals built on previous precedents with some limited changes. Most of the key features of the domain mercantilism remained. The main goals of commercial policy were obtaining specie, propping up state finances, and stabilizing the currency. Reliance on a few merchants to implement key parts of the commercial policy and the buying and disposal of goods continued a practice established in the Tokugawa era. The one key difference was the absence of monopoly trade practices, because the unequal treaties prevented the Meiji state from utilizing its power to restrict trade in any goods. While the Meiji state could claim property rights as a justification for selling the goods produced in state run enterprises, this argument applied to a handful of commercially viable products. Instead a system of financial support and subsidies to select merchants became the key

[189] Kiyama, *Kindai Nihon to Mitsui Bussan*, 27-30.

feature of commercial policy, as indirect methods of support replaced monopoly trade practices

Conclusion

The new regime that came to power in 1868 faced daunting challenges. Not only was the new government determined to guard the nascent Japanese nation-state from further encroachment by foreign powers, but it also hoped to refashion Japan into a strong and wealthy polity capable of reclaiming lost sovereignty. These broad aims would become the underlying rationale for an array of energetic reforms of almost every aspect of society.

Before pursuing any of it larger aims, however, the young Meiji state had to ensure its own survival. The most immediate challenge to the new regime was generating revenue and ensuring the state had sufficient resources to realize its various modernizing ambitions. To accomplish this task the new government looked toward commercial policy as a way of increasing Japanese exports and generating revenue both indirectly, by strengthening the domestic tax base, and directly, by involving the state in commercial activity. In the process of crafting a coherent set of commercial policies, Japanese officials utilized time honored practices stretching back to the domain monopolies of the Tokugawa period that had evolved at the regional level specifically to achieve similar goals. Yet applying these "traditional" commercial policies on a national scale proved to be difficult. Neither Commercial Offices nor Trade and Exchange companies were adequate to the task of expanding Japan's export trade. These policies failed because the Meiji officials did not take into account changing trends in foreign demand, price fluctuations or ways to build effective links between Japanese producers and foreign markets.

Despite these inadequacies the continuity in commercial policy between the Tokugawa period and Meiji was important in several ways. For example, the Tokugawa era pattern of close collaboration between political authority and a favored circle of merchants continued in various forms after 1868. The reconstruction of Tokugawa era divisions between favored merchants with close connections to the state and a group of outsiders set the tone for later commercial policies which sought to provide direct state support for a small group of favored enterprises, a practice which would have mixed success. The Tokugawa era obsession with utilizing commercial policy as a method of propping up state finances would also be a central feature of Meiji era commercial policy. Meiji officials would continue to look at commercial policy, first and foremost, as a method of obtaining specie for the state. Ultimately fiscal and monetary concerns became the primary influences that determined the shape of commercial policy rather than a commitment to particular principles of economic development. The next chapter will examine how the state's fiscal and monetary concerns impacted the continuing evolution of the Meiji regime's commercial policies and the interactions between the state and the private sector.

CHAPTER 3:

National Champions and Model Entrepreneurs

1876 was a momentous year in the annals of Japanese commerce. In that year, two seemingly minor but important events occurred which were to have a major impact on the future development of Japan's foreign trade. That summer, Masuda Takashi, a top executive in the First Profit Company (*Senshū Kaisha*), received an unexpected invitation from Minomura Rizaemon, the head manager of the prestigious merchant house of Mitsui. Minoura asked Masuda to join Mitsui as chief executive of a new trading company that Mitsui planned to launch in the next few months. Minoura envisioned the new company as a mercantile venture which would be engaged in the purchase and sale of all manner of goods both within Japan and abroad. Minoura believed Masuda was one of the few men in Japan with the sufficient expertise to run the new business and pressed Masuda to agree to serve as the company's head.[190]

Masuda had no intention of working for Mitsui which was one of the main rivals of the First Profit Company, but the planned Mitsui venture had strong support from powerful men. Several government officials including the Minister of Finance, Ōkuma Shigenobu,

[190] John G. Roberts, Mitsui: three centuries of Japanese business, forward by Chitoshi Yanaga (New York: Weatherhill, 1973), 110.

urged Masuda to accept Minoura's offer.[191] Despite his reservations, Masuda eventually gave in to the pressure and agreed to join Mitsui. With the government's blessing Masuda's First Profit Company and Mitsui's various trading operations merged to create a new firm, the Mitsui Trading Company (*Mitsui Bussan*).

Under Masuda's guidance and with generous government support, the Mitsui Trading Company flourished and expanded rapidly. Following the direction of the Meiji government, the company established branch offices in London, Shanghai, and several other important centers of international commerce all within a few years of the company's founding. As the company grew it slowly began to displace foreign firms in the handling of important portions of Japan's import and export trade. Eventually the company would assume a commanding position in Japan's foreign trade. By 1940 almost half of all of Japan's imports and exports were handled by the Mitsui Trading Company.[192]

The same year the Mitsui Trading Company was founded, Arai Ryōichirō boarded the steamship *Oceanic* bound for the United States. Arai was a freshly minted graduate of one the first business schools established in Japan. He was headed for New York where he planned to work as an apprentice shopkeeper in a small store hawking tea and sundry goods imported from Japan to New Yorkers with a taste for "oriental" curiosities.

Arai's apprenticeship had been arranged by his elder brother Hoshino Chōtarō.[193] Hoshino was the struggling owner and operator of one of Japan's first mechanized silk

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[191] Kiyama Minoru, *Kindai Nihon to Mitsui Bussan: sōgō sōsha no kigen* (Kyōto: Mineruva Shobō: 2009), 183.

[192] Roberts, *Mitsui*, 4.

[193] Arai had been adopted by a family neighboring the Hoshinos who lacked a male heir and thus assumed a different surname than his older brother. See Haru Matsukata Reischauer, *Samurai and Silk: a Japanese and American heritage* (Cambridge: Harvard University Press, 1986), 170.

reeling factories. He had paid $250 dollars for Arai's passage to America and signed a contract with the shop's owner agreeing that Arai would serve as a salaried apprentice in the shop for several years in return for practical training in running a business.

Hoshino had sent his younger brother to New York as part of a last desperate gamble to save his business. He had entrusted Arai with a sample of raw silk from the family's silk reeling factory and ordered Arai to use the silk sample to convince New York silk brokers to place orders for raw silk directly with his factory. By dealing directly with New York's silk brokers Hoshino hoped to avoid doing business with merchant intermediaries in Japan who dominated the country's silk trade and with it a good chunk of the profits the trade generated. After suffering the indignity of being booted out of the offices of several silk brokers before even getting a chance to make a sales pitch, Arai managed to seal a contract for the delivery of raw silk with B. Richardson & Son.[194]

The historic deal marked the first direct sale of Japanese raw silk in a foreign market and signaled an initial step in the beginning of the direct trade movement. Arai's initial success opened up the floodgates for more direct orders to Hoshino's factory. Within a few years the two brothers' successful silk business transformed Arai, the humble apprentice shopkeeper, into a prominent member of New York's business community and allowed his elder brother, Hoshino, the struggling factory owner, to become the vice president of one of Japan's largest silk exporting companies and a leading spokesman for silk industry interests.

Both the Mitsui Trading Company and the Hoshino brothers' silk selling venture stand out as early successful direct trading ventures. For contemporaries, the two ventures served as inspiring examples of what was possible. By proving that Japanese firms and individual merchants could successfully sell goods abroad the Mitsui Trading Company and

[194] Reischauer, *Samurai and Silk*, 208.

Hoshino and Arai would become models a host of latter would-be direct trading ventures to emulate. In a longer term historical perspective, the two ventures were also important in the development of Japanese commerce. By establishing a foothold in foreign markets the two businesses blazed a trail for later followers who could benefit from connections established by the two pioneering firms.

To those that argue that Meiji Japan was a "developmental" state, the story of the Mitsui Trading Company and the Hoshino brothers present two ideal case studies which show the Japanese developmental state at work. The government created the Mitsui Trading Company through a brokered marriage of Mitsui's trading operations and the First Profit Trading Company and nurtured the new company through state contracts and subsidies; it prospered by serving as a commercial agent of the Meiji state. The Hoshino brothers also benefitted from state support. Prior to Arai's sale of silk in New York, Hoshino had relied on loans from the government to keep his silk filature open.

Yet why did the state provide such generous support for these two ventures? Even if government officials touted a general commitment to the goal of creating a rich nation, strong army (*fukoku kyōhei*), they could not afford to subsidize all business ventures. Nor, it turned out, did they have a clear strategy for selecting which enterprises to support. The story of the two businesses reveals that the motives that lay behind the Meiji government's decisions to support individual enterprises were complex and varied. Often it was various practical needs and concerns that informed the state's commercial policies which tended to be decided on an *ad hoc* basis. The Meiji state encouraged the creation of the Mitsui Trade Corporation and provided generous support to the company because it needed a mercantile firm that could serve as a national champion. The government which was largely inexperienced in commercial matters needed to draw on the expertise of the prestigious mercantile house to assist it in conducting its own commercial operations and in the management of the national economy. Only the scale of the house of Mitsui and the modern management techniques of the Mitsui Trading Company fit the bill. The government also hoped the Mitsui Trading Company would serve as a national champion in the international arena capable of competing with foreign mercantile firms.

In contrast, the Meiji state's support for Hoshino's silk filature was based on a very different set of motives. The government did not need Hoshino's economic expertise, nor was it seeking to encourage the creation of a national silk reeling company. Instead, Hoshino represented a model of how the Meiji state hoped a new breed of Japanese entrepreneur would behave. He boldly embraced new techniques and technologies in silk production, was willing to take on big risks, and aspired to venture abroad to sell his goods directly to foreign consumers. Hoshino therefore symbolized a model entrepreneur who the Meiji government hoped others would emulate. The success of Hoshino's venture was therefore essential in order to convince other entrepreneurs that Hoshino was a model worth emulation.

This difference was in part due to important differences between large-scale merchant capital and small and medium scale producers in indigenous industries. Mitsui was one of a handful of large highly organized mercantile concerns with which government bureaucrats could work with relative ease, because they needed only to issue directives or make requests to a small number of urban based managers. In contrast, the Hoshino brothers operated in an industry with a large number of small and medium sized firms that were almost impossible for the government to regulate or influence. Even if government officials could effectively communicate to rural entrepreneurs, authorities had no leverage to enforce its directives.

Therefore the government had to resort to leading by example in order to prompt entrepreneurs to adopt methods of business. The state's support for the Hoshino brothers was an attempt to create a role model which others in silk industry would emulate.

A comparison of the two ventures is also useful in revealing important differences in what direct trade meant to various entrepreneurs and the ways in which these differences would affect the later direct trade movement. The Mitsui Trading Company's involvement in direct trade ventures was a natural outgrowth of its business activities as a commercial agent of the Meiji state. The company first established offices overseas in response to officials' orders to promote Japanese exports, but was then able to use information gathered from its activity abroad to find and pursue business opportunities in foreign trade. Engaging in direct trade was merely one way in which the company sought to maximize profits and exploit business opportunities. It was a business strategy, but not a goal in itself.

This attitude toward direct trade stood in stark contrast to Hoshino's perspective. He, like many of his fellow entrepreneurs running small and medium scale businesses in Japan's indigenous industries, relied on a hierarchically organized network of merchant middlemen to ship his goods to Japan's treaty ports and sell them there. These merchant middlemen charged commissions which ate into the profits of struggling producers of tea and silk. Establishing direct trade links that would allow producers to sell their goods directly to end consumers of Japanese tea and silk promised both higher profits for producers and freedom from the middlemen that dominated the silk and tea trades. The concept of direct trade thus took on a meaning that went beyond a mere business strategy for maximizing profits to represent an ideal of re-organizing Japan's foreign trade to serve the interest of producers.

This motives behind the Meiji state's commercial policies were complex, as were the goals and aims of the entrepreneurs who served as instruments and beneficiaries of those policies. This complexity shows that far from having a coherent strategy in commercial policy, the Meiji state's actions were driven by a mix of practical concerns, lofty aspirations, and recognition of the limits of state power. This chapter will examine that complexity in the case of these two rare and notable commercial success stories of the 1870s.

The Mitsui Family and the Mitsui Trading Company

The house of Mitsui occupies a central place in the history of the modern Japanese economy. In part Mitsui's prominence rests in the sheer scale of the family's business ventures. Mitsui became one of imperial Japan's largest business concerns involved in almost every conceivable branch of economic activity from banking and mining to fisheries and silk production. Mitsui's trading arm, the Mitsui Trading Company (*Mitsui Bussan*) by itself could be counted as one of prewar Japan's largest corporations, a sprawling behemoth that by 1940 handled over a third of all Japan's foreign trade.[195] Mitsui is also one of Japan's oldest large scale enterprises with roots stretching back to the 17th century. Mitsui and the Mitsui Trading Company also merit special mention in any study of Japanese commercial policy because of the unique role the company played in the development of Japan's overseas trade. The Mitsui Trading Company was one of the first firms to establish branch offices overseas and was a pioneer in the expansion Japan's overseas trade. As a commission merchant business engaged in the buying and selling of goods both at home and abroad, the Mitsui

[195] Sei Yonekura and Sara McKinney, "Innovative Multinational Forms: Japan as a case study," in *Leviathans: multinational corporations and the new global history*, ed. Alfred Chandler and Bruce Mazlish (New York: Cambridge, 2005), 114.

Trading Company was also the first of a uniquely Japanese institution, the general trading company (*sōgō shōsha*).[196]

Mitsui has also been the subject of intense scrutiny in continuing historical debates over the nature of the relationship between the state and the private sector in modern Japan. In the early Meiji period, Mitsui was one of the most prominent members of a small circle of "political merchants" (*seishō*), a group of well connected crony capitalists who prospered from lucrative government contracts, generous subsidies, and other forms of state patronage. No historian has disputed this simple fact. What *is* disputed is the dynamics of Mitsui's intimate relationship with the Meiji state. Did Mitsui maintain close connections to key government officials because it was initially a weak capitalist enterprise incapable of surviving without government assistance? Or, conversely, was Mitsui in fact the senior partner in what amounted to a conspiratorial alliance of economic and governing elites? Or perhaps, as Takeda Haruhito argues, businesses like Mitsui tended to be closely tied to the state in the early Meiji period simply because in an underdeveloped agrarian economy working for the state offered the most lucrative opportunities.[197]

To understand how Mitsui came to be one of the most prominent merchant enterprises of the Meiji period it is necessary to briefly examine Mitsui's origins in the Tokugawa period. As a business, Mitsui's roots go back to the early years of the Tokugawa period when in 1616 the members of the Mitsui family started a modest *saké* and soy sauce brewing business in their hometown of Matsusaka, a town founded in what is today part of

[196] Kiyama, *Kindai Nihon to Mitsui Bussan*, 2.

[197] Takeda Haruhito, *Zaibatsu no jidai: Nihonkata kigyō no genryū o saguru* (Tokyō: Shinyosha, 1997), 20.

Mie prefecture.[198] Mitsui was at the forefront of a rising merchant class during the early years of the Tokugawa period when the changing political environment provided opportunities for ambitious businessmen. With the unification of Japan under Tokugawa rule and the introduction of restrictions on foreign trade, the great merchant families of the feudal era whose prosperity through depended heavily on overseas trade began to lose their grip on Japan's commerce.[199] In their place, a group of merchants from the economically advanced regions of Omi and Ise emerged. Acting as suppliers of handicraft products from Japan's proto-industrial core regions, the Omi and Ise merchants began branching out of their home territories utilizing newly constructed transportation networks between the three great urban markets of Japan, Edo, Ōsaka, and Kyōto to establish a commanding presence in long distance trading within Japan.[200] With roots in the Omi region, but residing in the Ise region the Mitsui family was, like many of its neighbors at the time, taking advantage of the peace to exploit new commercial opportunities.[201]

Mitsui's business empire began when the family opened up a clothing store, Echigoya, in the *shōgun*'s capital of Edo. In managing its store, the family introduced several innovations in business practice. The Mitsuis moved the headquarters of the business to Kyōto establish direct contact with fabric suppliers based in the city in order to buy in bulk while offering to sell fabric to consumers in any size they required. The Mitsuis also

[198] Roberts, *Mitsui*, 13-14.

[199] Nakanishi Satoru, "Kinsei, kindai no shōnin," in *Ryūtsū keizaishi*, ed. Sakurai Hideji and Nakanishi Satoru, vol. 12, *Shintaikei Nihonshi*, (Tōkyō: Yamakawa Shuppansha, 2002), 151-152.

[200] Ibid., 153-154.

[201] Roberts, *Mitsui*, 12.

eliminated complications involved in extending credit to customers by insisting that all sales be conducted on a strict cash only basis. With these innovations the Echigoya soon became the premier fabric retailer in Edo with branch shops in Kyōto and Ōsaka.[202] In order to remit the profits from the gold based economy of Edo to the silver coin based economy of the Kyōto region the family also added money changing to the growing list of family run enterprises.[203]

As the extended Mitsui family came to engage in a variety of businesses from selling cloth, to money lending, and to brewing *saké* and soy sauce, the family determined that the family businesses needed some sort of coherent structure to prevent family squabbles that might hurt the enterprise. Members decided to create a kind of early modern corporate conglomerate. Divided into distinct branch families, each one assumed a specific Mitsui business as its primary responsibility and received access to a share of Mitsui resources. All of the families agreed to remain loyal to the main family and obey the orders of the *Ōmotogata*, an organization that functioned much like a corporate board or holding company for the various Mitsui enterprises. A percentage of the profits from all Mitsui enterprises were pooled into the *Ōmotogata*. It then lent funds to the branch families to cover their operating costs from the common fund.[204] Each unit of Mitsui operated independently of the others, so that the rest of the family businesses were insulated if a single line of business went under. Pooling profits had the added advantage of enabling the Mitsuis to quickly mobilize capital to invest in promising new opportunities.

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[202] Ibid., 17-20.

[203] Nakanishi, “Kinsei, kindai no shōnin,”155.

[204] Roberts, *Mitsui*, 29.

Most importantly the family developed close contacts with the Tokugawa authorities. Its growing wealth, prominence and shrewd business acumen caught the attention of the *bakufu* authorities which appointed the family as the official purveyors of apparel and personal accessories to the Shogun in 1689. Later in 1691 Mitsui became one of the official money-changers for the Tokugawa family. From 1691 onward Mitsui maintained close ties with the Tokugawa regime by helping to manage the Tokugawa family's household wealth.

By the end of the seventeenth century Mitsui had became one of Japan's most important merchant families. Innovations in its original business of selling clothes had led to a thriving chain of stores in Japan's largest urban markets, the creation of the *Ōmotogata* gave the Mitsui family the financial resources for continued expansion of its businesses, and close connections to the Tokugawa regime ensured that the Mitsuis would never be lacking a rich customer and patron. The Mitsuis, together with, the Ono and Shimada merchant houses, became one member of the urban merchant triumvirate that dominated commerce in early modern Japan. By the dawn of the eighteenth century Mitsui was a firmly entrenched part of the Tokugawa regime.

The Meiji Restoration and Mitsui's Struggle for Survival

Under the long rule of the Tokugawa regime, Mitsui flourished. The dawning of Japan's modern era, however, was not so kind to the illustrious merchant house. If the Tokugawa regime had provided Mitsui with the ideal political and economic environment to grow and thrive, the decline of that regime and the dramatic changes of the Meiji era posed a serious threat to the established merchant house's survival. Mitsui along with the other prominent merchant houses of the Tokugawa era found itself under threat from political changes and a new breed of rural entrepreneurs who seized the opportunities the opening of Japan's ports offered for unrestricted foreign trade.

A primary threat to Mitsui's survival was its intimate relationship with the Tokugawa regime. As a wealthy merchant house with long experience working for the Tokugawa *shōguns*, Mitsui was one of the first sources the Tokugawa regime sought out whenever it needed additional funds in a time of crisis. In its final years the *bakufu* developed an almost insatiable need for money as it desperately attempted to maintain its control the country and implement modernizing reforms. Unable to raise sufficient tax revenues to cover its expenses, the Tokugawa shoguns resorted to implementing a series of crippling emergency levies on wealthy merchants. Between 1863 and 1866, Mitsui had to transfer a staggering sum of 3.5 million *ryō* to the *bakufu*.[205] Although these payments were technically loans, the Mitsui family knew that the government would most likely not be able to repay this amount. In its last throes of life, the regime that had once been an important source of revenue was now draining Mitsui's finances.

The future under the new imperial regime, the Meiji government, did not appear promising either. As one of the managers of the Tokugawa fortunes, Mitsui had long enjoyed easy access to capital from the *bakufu* treasury. The collapse of the regime cut off that important source of financing. The Mitsuis' close association with the *ancien régime* was also a political liability. In order to avoid ending up on the wrong side of history, Mitsui wasted little time in establishing relationships with the powerful groups and leaders who would form the backbone of the new regime. In 1866, when the long-term survival of the Tokugawa regime was beginning to be questioned, Mitsui hired Minomura Rizaemon, an independent businessman who was known for his uncanny ability to gain the trust and

[205] Roberts, *Mitsui* 68.

respect of powerful men, to serve as its manager. Though rumored to be illiterate, Minomura was a shrewd businessman who was also a skillful diplomat who managed the seemingly impossible task making Mitsui appear to be the natural ally of both sides in the Restoration conflict. [206]

The Mitsui clan utilized important contacts it had acquired through its business activities to establish a degree of rapport with anti-*bakufu* forces. Mitsui established a working relationship with the Satsuma domain through an agreement to provide exchange services for the domain's paper money, *ryūkyū tsūdama*.[207] Mitsui also quietly established a dialogue with anti-bakufu forces in the rebel domain of Chōshū. Links with important leaders of the anti-*bakufu* movement outside Chōshū and Satsuma were made with the help of Mutsu Munemistu, a longtime friend of the Mitsui family, who provided information about developments in rebel circles.[208] These efforts ensured that well before the fall of the Tokugawa *bakufu* Mitsui had already established contacts with the important players in the new regime and had built up a store of good will with the leaders of the nascent Meiji state.

A display of largess toward Japan's new rulers also helped ensure Mitsui would not fall victim to the upheavals of Restoration politics. As pro-imperial forces appeared more likely to emerge victorious from the Restoration struggle, Mitsui opened up its still sizable coffers to Japan's new rulers. After seizing power in Kyōto they desperately needed funds both to supply their military forces and extend control over the countryside. In 1868 when the Meiji government officials helpfully announced that wealthy merchants needed to purchase 3

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[206] Roberts, Mitsui, 65.

[207] Mitsui Bunko ed., *Mitsui jigyōshi*: *honpen,* vol. 2, (Tōkyō: Mitsui Bunko, 1980) 5-6.

[208] Ibid., 4.

million *ryō* worth of government "bonds," Mitsui in conjunction with the Ono and Shimada families led their compatriots in the Kyōto merchant community in contributing almost three fourths of the needed money.[209]

Mitsui also faced severe challenges to its economic survival due to changes in the domestic economy and the forced opening of Japan to foreign trade. As explained in Chapter 2, Japan's domains sought to shore up their finances by promoting local industry through the establishment of commercial offices run by local merchants.[210] These enterprises created competition for urban merchants like Mitsui. Rural merchants were beginning to muscle into the main urban markets of Japan and played an increasingly prominent role in domestic long distance trade, areas of economic activity where the great merchant houses like Mitsui had traditionally dominated.[211] More worryingly, these rural upstart merchants were assuming a dominant position in Japan's rapidly expanding foreign trade.[212] As tea and silk exports soared, rural merchants based in silk and tea producing regions began setting up shop in Yokohama and taking over the lucrative domestic tea and silk trades. Despite possessing extensive commercial networks and capital, Mitsui failed to play a large role in silk or tea exports. Employees of Mitsui's Yokohama shop, which was established to engage in foreign trade after the opening of the ports, found themselves jealously looking on as Nakaiya

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[209] Tanaka Akira, *Meiji ishin* (Tōkyō: Kōdansha, 2005), 176-177.

[210] Nakanishi, "Kinsei, kindai no shōnin," 170.

[211] Edward E. Pratt, *Japan's Proto-industrial Elite: the economic foundations of the gōnō* (Cambridge: Harvard University Press, 1999), 86-88.

[212] Nakanishi, "Kinsei, kindai no shōnin," 177.

Juheiei, previously a lowly rural merchant, handled the bulk of the silk trade.[213] Even the money lending business was suffering from high rates of default due to the turbulent economic conditions in the wake of the old regime's collapse. Mitsui's financial losses were large enough that the family had to take the unprecedented step of dipping into cash reserves held by the *Ōmotogata* to recapitalize its businesses.[214]

Solving these economic challenges was, however, a difficult challenge that simply neither money nor connections with the right people could solve. The firm's only choice was a painful restructuring of its business. Accordingly, the family abandoned less profitable enterprises. For example, it spun off its ailing clothing business, once the crown jewel of the Mitsui business empire, by selling it to a distant branch family who eventually transformed it into the Mitsukoshi department store chain.[215]

Facing a turbulent market, Mitsui sought to survive by transforming itself into a vital purveyor of services to the Meiji state. Mitsui redirected its entrepreneurial efforts to focus on new lines of business that would allow the firm to seize new opportunities offered by doing business in the service of the government. The firm sought to capitalize on its extensive business experience and national scope of operations to make the merchant house a vital tool in the management of the economy of the new nation-state.

Mitsui was able to do so because Japan's new rulers found that they needed the expertise and services Mitsui could provide particularly in managing the rickety currency and tax systems that the Tokugawa regime had bequeathed. In the wake of the Tokugawa

[213] Nishikawa Kakeomi, *Bakumatsu Meiji no kokusai shijo to Nihon: kiitō bōeki to Yokohama* (Tōkyō: Yuzankaku Shūppan, 1997), 30-31.

[214] Yasuoka Shigeaki, *Zaibatsu keieishi no kenkyū*, 218-219.

[215] Ibid., 234.

bakufu's collapse, Meiji leaders confronted the daunting task of trying to manage and reform a byzantine and fragmented system of taxation. After over two centuries of "centralized feudal" rule under the Tokugawa, tax rates and methods of collection varied widely across the country.[216] In many areas of the country taxes were still collected in kind, often rice, instead of cash. This practice made the transportation and storage of tax rice, and its conversion into money a major problem for the Meiji authorities.

Japan also lacked a unified monetary system. Throughout the Tokugawa period Japanese had used a complex array of gold, silver, and copper coinage, and the types of currency and coinage in common usage varied widely according to region.[217] Added to this mix of specie were a large number of paper notes issued by the various domains in the closing years of Tokugawa rule. As a result, by 1868, the first year of the Meiji era, a total of over sixteen hundred different kinds of paper notes, and a confusing array of copper, silver, and gold coinage were in circulation.[218]

The Meiji government desperately needed assistance in transforming the chaotic collection of local practices and currencies into a modern national tax and currency system. While a few officials in the new government possessed limited knowledge economic matters either through prior experience managing the finances of their home domains or through supervising one of the many domain trade monopolies that proliferated in the late Tokugawa period, these experiences were of limited utility in managing the national economy. The great merchant houses like Mitsui, on the other hand, had been deeply involved with managing the

[216] Fukaya Tokujirō, *Meiji seifu zaisei kiban no kakuritsu* (Tōkyō: Ocha no Mizu Shobō, 1995), 3.

[217] Suzuki Kozo, *Shihonshugi wa Edo de umareta* (Tōkyō: Nihon Keizai Shinbunsha, 2002), 26.

[218] Roberts, *Mitsui*, 95.

complex Tokugawa era tax and monetary systems in various regions for well over a century. With long experience as a money changer for the Tokugawa regime in charge of managing tax collection and state revenues, Mitsui was one of the few firms that could ensure the continued operation of the tax system as it existed. This capability combined with its extensive network of shops and agents across the nation make it one of the only organizations capable of handling the complex financial operations required to keep the new government running. Mitsui's solid reputation as a reliable business also made the Mitsui family an agent in which the Meiji state could place its confidence.

It is unsurprising then to find that Mitsui assumed an important role in the economic administration of the country. In return for its generous purchase of government "bonds" in 1868, Mitsui was among the select number of merchant houses appointed as one of the Meiji government's official exchange purveyors (*kawase kata*). This assignment put Mitsui in charge of holding and managing government funds.[219] This was essentially the same role Mitsui had performed for the Tokugawa regime. The post also had an additional benefit; as an exchange purveyor Mitsui could tap into the money it held in government accounts to engage in money lending and engaging in new lines of business.[220] Mitsui had once againi obtained privileged access to capital.

The important role Mitsui came to play in managing the tax system supplemented its position as one of the government's bankers. In order to obtain revenue, the Meiji government in its early years had to maintain most of the taxes levied by the shōgun and the domains during the Tokugawa period. As mentioned above, local authorities usually

[219] Mitsui Bunko ed., *Mitsui Jigyōshi: honpen*, vol. 2, 8-9.

[220] Fukaya, *Meiji seifu zaisei kiban no kakuritsu*, 63.

collected these taxes in rice and shipped it to central markets in Ōsaka or Edo to sell for cash.[221] The Meiji government, however, decided in 1873 to end this cumbersome method of tax collection and replace it with a unified tax system based on cash payments. To this end, the Meiji government created a uniform system of land taxes which were to be paid in cash. While this system removed the government's headache of having to ship rice to central markets to be auctioned for hard currency, the system placed the burden of converting agricultural commodities into cash squarely on the back of landowning farmers. The new tax system assumed that strong, functioning local rice markets would enable peasants to convert their rice into cash to pay their taxes.

In 1872 Mitsui and Ono joined with other rich merchants to offer themselves as intermediaries in the new tax collection system.[222] Under the proposed plan, merchants agreed to purchase tax rice from peasants in regional markets at the local market price, but instead of handing the seller cash for his rice, the merchant would issue a letter of credit for the total cash amount. The seller could then convey the letter of credit to tax authorities who would exchange the letters of credit for cash from Mitsui. Essentially, Mitsui proposed to function as a pipeline for cash between taxpayers and the government. In return Mitsui received ownership over the tax rice to sell.[223]

The system had several advantages for all involved. It allowed Mitsui to utilize the funds the government had entrusted to it to speculate in rice. Because Mitsui was one of the large merchant houses that served as the government's banker, the merchant house had

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[221] Suzuki Kozo, *Shihonshugi wa Edo de umareta*, 19.

[222] Fukaya, *Meiji seifu zaisei kiban no kakuritsu*, 43.

[223] Ibid., 44.

access to the sizable funds required to underwrite large scale purchases of rice across the country. Once the rice was in hand, Mitsui could take advantage of differentials in rice prices across the nation and transport and sell the rice where the prices were highest, gaining a profit. For the Meiji government the arrangement ensured the smooth functioning of the new tax system and simplified the collection of taxes by funneling individuals' payments through large merchant houses. Most peasants preferred the new system because it liberated them from the burdensome responsibility of shipping their own tax rice to the authorities and eliminated the annoying need for local authorities to inspect tax rice.[224]

Mitsui also rendered a vital service to government by serving as its chief commercial agent in international rice sales. The first major example of this new role came in 1872 with the sale of surplus tax rice to the Hong Kong and London markets.[225] The Meiji government arranged the sale in order to prevent a decline in domestic rice prices which threatened to undermine efforts to introduce a reformed tax system requiring cash payments.[226] Mitsui organized the sale on the government's behalf working with the assistance of the Walsh Hall Company, a foreign firm operating in Japan.[227] While Mitsui merely sold the rice on the government's behalf, the company received a sizable commission fee.[228] The sale also

[224] Ibid., 47.

[225] Unno Fukuju, "Jiki yushutsu no tenkai," in *Yokohama shishi*, ed. Yokohama-shi Sōmukyoku Shishi Henshūshitsu, vol. 3 part 1 (Yokohama: Yokohama-shi, 1958), 616.

[226] Omameuda, Minoru, *Okome no shoku no kindaishi* (Tōkyō: Yoshikawa Kobunkan, 2007), 21.

[227] Unno, "Jiki yushutsu no tenkai," 617.

[228] Ibid.

provided Mitsui with an invaluable early experience in trading in the international marketplace, a vital first step in helping Mitsui establish a presence in Japan's overseas trade.

By 1872 Mitsui emerged as a vital supporting agent in the economic administration of the Meiji state. The role Mitsui assumed for the new government was in some ways identical to the one Mitsui had performed for Tokugawa regime. Yet this mutually beneficial arrangement was headed for a shake-up. Debates within the government over a possible invasion of Korea, rising tensions with China, and increased concerns over domestic political stability in 1873 triggered a major shift in government policy.

Diplomatic tensions with China over the murder of Ryūkyūan fishermen who had intruded into the territory of aboriginal tribes living on the island of Taiwan and a heightened state of military alert caused by the 1873 crisis regarding Korea caused Meiji leaders to reassess the wisdom of entrusting large portions of government revenue in the hands of wealthy merchant houses. Rumors targeted Ono and Shimada, two of Mitsui's sister merchant houses that also served as official government exchange purveyors, with accusations that they had used government funds to invest in a series of risky ventures. Government officials began to doubt that they could promptly recover the money managed by its exchange purveyors in the event of war.[229]

At the same time widespread discontent over the privileges awarded to large merchant houses became a political liability for the Meiji regime. Wealthy peasants complained about the role of merchants like Mitsui in the rice trade. In some areas merchants had colluded with local authorities to force payment of taxes in kind to officials who then

[229] Ishii Kanji, *Nihon no sangyō kakumei: Nisshin, Nichirō sensō kara kangaeru* (Tōkyō: Asahi Shinbunsha, 1998), 29-30.

sold the rice to the merchants.[230] This practice prevented peasants from selling the rice on their own initiative when rice prices were high and paying their taxes in cash in order to pocket any surplus value that the high rice prices might create.[231]

The Meiji government's efforts to address these problems damaged the interests of Japan's prominent merchant houses. Fearing local unrest the government first banned the merchant houses from involvement in local rice markets with the result that Mitsui, Ono, and Shimada had to give up that lucrative trade.[232] The Meiji government then announced new capital requirements for merchant houses handling government accounts. Mitsui along with other firms were required to prove that it held sufficient collateral to repay all monies the government entrusted to them or return the money immediately.[233] In response, Mitsui and other merchant houses that had lent out government money began desperately calling in loans and scrambling to assess the value of their properties.

In the end, the government order caused the bankruptcy of Ono and Shimada. Neither family was able to come up with sufficient collateral or funds because each enterprise had committed substantial funds to risky investments. Mitsui barely escaped bankruptcy, as it claimed to have enough collateral to cover its holdings of government money. Although Mitsui had escaped the crisis, the merchant house still lost its easy access to capital in the

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[230]Fukaya, *Meiji seifu zaisei kiban no kakuritsu*, 45-47.

[231] Ibid., 48-49.

[232] Ibid., 51.

[233] Miyamoto Mataji, *Ono-gumi no kenkyū: zenkiteki shihon no kōbō katei*, vol. 4 (Kyotō: Ōhara Shinseisha, 1970), 678-679.

form of government funds. The government soon announced it would hold its money in its own vaults rather than loaning the funds out to merchants.[234]

These developments signaled a major shift in the government's economic policies. The government began to distance itself from reliance on merchant houses like Mitsui to manage its economic affairs and began to take a more direct role in the economic management of the state by building new public institutions to serve the functions merchants had previously filled. At the same time a renewed dedication to building up the national economy led the government to employ merchants as instruments of state policy in foreign economic relations

Economically, the trauma of 1873 was a blessing in disguise for Mitsui. Although other large merchant families such as Sumitomo and Konoike also survived, they were smaller in scale and more limited in the scope of their operations. Mitsui was the only one of the truly great merchant houses of the Tokugawa era to remain standing and therefore stood out as the most appropriate partner for the government in new commercial ventures. With its main rivals eliminated, Mitsui was in a much stronger position than before.

Creating National Champions: Ōkubo Toshimichi and Mitsui

After 1873 a new approach in economic policy stressing the protection and nurture of a select group of enterprises which would serve as national champions in strategic sectors emerged. This new policy began with efforts to promote the growth of the shipping industry. In a famous memorandum Ōkubo Toshimichi, widely regarded as the most powerful government official after 1873, urged the Meiji government to subsidize promising private firms in the shipping industry rather than continuing support for the state run firm, the Japan

[234] Fukaya, *Meiji Seifu zaisei kiban no kakuritsu*, 67.

Mail Steamship Company (*Nihon Yubin Jyōkisen Kaisha).*[235] Acting on Ōkubo's recommendation, the Steamship Company merged with a private firm, Mitsubishi, owned by Iwasaki Yatarō. This government brokered merger resulted in the creation of a new national champion in shipping, the Mail Steamship Mitsubishi Company (*Yubin Kisen Mitsubishi Kaisha*).[236] The new company received ships and equipment by the government free of charge along with a sizable annual subsidy of 25,000 yen in exchange for maintaining regular service to Shanghai, in addition to domestic coastal shipping.[237]

Ōkubo's focus on shipping stemmed from deeper concerns about the state of Japan's foreign trade. He saw the increasing import of manufactured goods as a threat to the future development of Japanese industry.[238] Inspired by what he saw as the positive role that Britain's Navigation Acts, a series of mercantile era British laws which required all goods imported into to the British Isles to be carried exclusively on British ships, had played in the development of British industry, Ōkubo hoped that the creation of a strong domestic shipping firm might stimulate the development of Japan's own export industries and check the influx of foreign imported goods.[239]

Ōkubo's policy recommendations for the shipping industry deeply affected the general tone for the nation's commercial policy. His insistence that state sponsorship and

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[235] William Wray, *Mitsubishi and the N.Y.K., 1875-1914: Business Strategy in the Japanese Shipping Industry* (Cambridge: Harvard University Press, 1984), 65.
[236] Ibid., 79.

[237]Ochiai Kō, *Ōkubo Toshimichi: kokken no michi wa keizai kara* (Tōkyō: Nihon Keizai Hyōronsha, 2008), 190-191.

[238] Ibid., 181-182.

[239] Ōkubo Toshimichi, "Ōkubo Toshimichi no Shokusan Kōgyō ni kansuru Iken," in *Keizai kōsō*, ed. Nakamura Masanori, Ishii Kanji and Kazuka Yutaka, vol. 8, *Nihon kindai shisō taikei* (Tōkyō: Iwanami Shoten, 2000), 18.

support for existing private industries was, in principle, preferable to creating state-owned enterprises, ensured that the state would always seek to rely on private industry to implement commercial policy, rather than directly intervening in commercial matters itself. Ōkubo's idea of supporting a few private firms also meant that commercial policy would focus on the selection and nurturing of a small number of "national champion" firms that could compete in international markets.

Ōkubo also hoped to take a similar approach in creating a trading company to serve as the commercial agent for the government and assist the government in retiring its foreign debt. As previously mentioned, the Meiji regime had sold a total of 3.4 million pounds worth of bonds on the London market to fund the building of the nation's first railroad and retire debts the domains had incurred.[240] Facing high interest payments on Japan's debt and with 370,000 pounds worth of bonds set to mature in June 1875, Ōkubo became anxious about making those payments.[241] Back in 1873 he had predicted that the British would use even the slightest complication in repaying Japan's debts would be as a pretext for intervening in Japan's internal affairs.[242] Opposed to the idea of paying back the debts in specie as a drain of precious resources, he urged repaying the bonds through the sale of Japanese goods abroad.[243]

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[240]Ishii, *Nihon no sangyō kakumei*, 34.

[241] Ōkubo Toshimichi, "Yushutsu buppin wo motte gaisai shōkyaku no gi ni tsuki ukagai" in *Ōkubo Toshimichi Monjo* vol. 6 (Tōkyō: Tōkyō Daigaku Shuppankai, 1927; reprint, Tōkyō Daigaku Shuppankai, 1968), 462-463.

[242] Kiyama, *Kindai Nihon to Mitsui Bussan*, 26.

[243] Ōkubo Toshimichi, "Yushutsu buppin wo motte gaisai shōkyaku no gi tsuki ukagai" 462-463.

The problem with this idea was the logistics. Most of Japan's foreign trade was firmly controlled by foreign merchants who were likely to claim the bulk of the profits from the sale of Japanese goods for themselves. To repay Japan's foreign debt and expand Japanese exports abroad Ōkubo proposed a policy similar to what he had recommended for the shipping industry. He suggested finding "one or two merchants" and giving the selected merchants subsidies in return for opening up an export business in Yokohama which would maintain ties to foreign mercantile houses and sell Japanese goods directly to foreign markets.[244]

Ōkubo's proposal, of course raised the whole question of which merchants the Meiji government would select as the officially sanctioned trading company. Mitsui was a strong candidate. After the collapse of Ono and Shimada, Mitsui became Japan's most prominent merchant house almost by default. Its prior experience in managing the Meiji government's sale of surplus rice abroad also gave the firm a legitimate claim to some expertise in foreign trade. These were not, however, the only factors that led to the creation of the Mitsui Trading Company (*Mitsui Bussan*). Fortuitous timing and connections with the right people helped create the Mitsui Trading Company.

As briefly mentioned above, this firm resulted from a merger between Mitsui's trading arm, the *Kokusan-kata*, and the First Profits Company *Senshū Kaisha*, a company founded by Inoue Kaoru. Inoue was a high ranking government official who served as Japan's *de facto* Minister of Finance from roughly 1871 until May of 1873 when he resigned

[244] Ōkuma Shigenobu, "Kaigai chokubai no kigyō wo hiraku no gi" in *Keizai kōsō*, ed. Nakamura Masanori, Ishii Kanji and Kazuka Yutaka. vol. 8, *Nihon kindai shisō taikei* (Tōkyō: Iwanami Shoten, 2000), 41-42.

from the government in protest over budgetary policy.[245] During his tenure at the Ministry of Finance, Inoue's duties brought him into frequent contact with Japan's most prominent businessmen. Inoue developed especially strong ties with Mitsui after it became the official agent for the government mint in charge of retiring old currency for the new yen.[246] The intimate relationship between the wealthy merchant house and the Inoue sparked suspicions about corruption at high levels in the Meiji government. Political rival Saigo Takamori famously dismissed Inoue as "Mitsui's clerk," suggesting Inoue was little more Mitsui's representative in the government.[247]

After resigning his government post in 1873, Inoue decided to try his hand at business and founded a small trading company, the First Profit Company (*Senhū Kaisha*). He successfully utilized the connections he formed in his political career to secure lucrative business from the government. The First Profit Company received several government contracts to import weapons and other supplies for the military.[248] The company also did a bustling business dealing in tax rice, in addition to selling coal and metals produced in government owned mines.[249] The day-to-day operation of the company was handled by Masuda Takashi, a protégée of Inoue in the Ministry of Finance who resigned along with his

[245] Kamiyama Tsuneo, "Inoue zaisei kara Ōkubo Zaisei e no tankan: junbikin o chushin ni" in *Meiji zenki no Nihon keizai: shihonshugi e no michi*, ed. Takamura Naosuke (Tōkyō: Nihon Keizai Hyōronsha, 2004), 15 & 16-17.

[246] Roberts, *Mitsui*, 95-96.

[247] Ibid., 96.

[248] Mitsui Bunko, *Mitsui jigyōshi*: *honpen*, vol. 2, 220.

[249] Roberts, *Mitsui*, 108.

mentor. With Inoue's connections and Masuda's careful management, the company prospered.

In 1876, however, Inoue decided to rejoin the government, as his old rivals were now out of power. Inoue's decision did not, however, bode well for the First Profit Company. Many observers thought Inoue was already too close to merchant interests. Inoue could ill afford to show any favoritism toward the company even though a certain amount of government patronage seemed vital for the continued health of the business. Inoue and Masuda had either to find a way of winding down the company or ensuring the business could survive independent of Inoue's patronage.

To aid the survival of the First Profit Company and to foster the development of Japan's overseas trade, the Meiji government encouraged a merger between the First Profit Company and Mitsui's trading business to create a new trading company which would serve as a national champion trading firm. According to Masuda Takashi's account, Minister of Finance Ōkuma Shigenobu acted as an intermediary. Ōkuma first approached Mitsui's manager, Minomura Rizaemon, and urged him to start an import and export business. Ōkuma then asked Masuda to join Mitsui as the manager of the new venture.[250] After further consultations with Inoue, Minomura decided to go ahead with the merger and agreed to create a new company within the Mitsui group which would operate as a trading company managed by the former employees of the First Profit Company with Masuda serving its head.[251] In 1876 Mitsui's trading arm, the *Kokusankata*, merged with the First Profit Company to form the Mitsui Trading Company (*Mitsui Bussan*).

[250] Nagai Minoru ed., *Jijo Masuda Takashi-o den* (Tōkyō: Chuō Kōronsha, 1989), 117.

[251] Ibid., 118.

Judging by the lack of enthusiasm for the merger on the part of the management of both Mitsui and the First Profit Company, one can deduce that the government was the driving force behind the creation of the Mitsui Trading Company. Mitsui's attitude was lukewarm. Declining to invest any of its capital in Mitsui Trading, the Mitsui family announced that the new company would sink or swim on its own.[252] Masuda, the First Profit Company's *de facto* manager, was also ambivalent about the merger. He did not believe he would be able to command the loyalty of Mitsui employees and had doubted that the new company would be successful.[253] As a result, Masuda demanded complete managerial autonomy for the Mitsui Trading Company.[254] His initial hostility towards Mitsui was evident in statements in his memoirs that Mitsui's *Kokusankata* "played absolutely no role in the foundation of the Mitsui Trading Company" even though much of the *Kokusankata*'s domestic business carried over to Mitsui Trading.[255]

Commercial Agent of the Japanese Government: Mitsui and the Meiji Regime

Thanks to support from the Meiji government, however, the Mitsui Trading Company needed little support from the Mitsui group itself. Now that the government had created a national champion trading firm, Meiji leaders were prepared to provide strong support to

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[252] Kazuya Makoto, *Gōsho no Meiji: Mitsui ke no kagyō saihen katei no bunseki* (Nagoya: Nagoya Daigaku Shuppankai, 2002), 83.

[253] Kiyama, *Kindai Nihon to Mitsui Bussan*, 81-83.

[254] Nagai ed., *Jiji Masuda Takashi-o den*, 118-119 and Mitsui Bunko ed., *Mitsui Jigyōshi*: *honpen*, vol. 2, 223-224.

[255] Nagai ed. *Jiji Masuda Takashi-o den*, 120.

ensure the venture's success. In return, Mitsui was to act as an official commercial agent of the Meiji state charged with implementing key elements of national commercial policy.

The cooperative relationship between Mitsui Bussan and the government was readily apparent in Mitsui's expansion abroad. Between 1877 and1880, the years immediately after the company's founding, the Mitsui Trading Company opened branch offices in Shanghai, Hong Kong, Paris, New York, London, Lyon, and Milan in rapid succession. This period of rapid expansion roughly corresponds with the years the Meiji government pursued rapid inflation fueled growth and aggressively promoted Japanese exports. After 1880, the government adopted a tighter monetary policy and a shift toward a "go slow" approach toward expanding the nation's export trade. The Mitsui Trading Company's growth reflected the shift in policy. After a feverish period of expansion, the company did not open another foreign branch office until 1886.[256] In other words, the Mitsui Trading Company's early growth depended on government backing.

The company's first and ultimately most important foreign branch office resulted from a government initiative. In 1876 the Chinese government requested a 10 million yen loan from the Japanese government. Though willing to respond to the request, the Meiji leadership sought to avoid doing anything that might antagonize the Western powers. Extending a government loan directly to China might raise suspicions about Japanese intentions in China. Instead, the Meiji government consulted with the head of the First National Bank of Japan (*Dai Ichi Kokuritsu Ginkō*), Shibusawa Eiichi, about the issue.[257]

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[256] Kiyama, *Kindai Nihon to Mitsui Bussan*, 74.

[257] Mitsui Bunko, *Mitsui Jigyōshi*: *honpen*, vol. 2, 276.

Shibusawa recommended a consortium of the First National Bank and Mitsui extend the loan with the understanding part of the money be used by the Chinese to purchase goods from Japan.[258] The government ordered Shibusawa and Masuda Takashi to travel to Shanghai to work out the details of the possible loan with the Chinese authorities.[259]

Believing the loan would provide an opportunity to open up trade to China, Shibusawa and Masuda immediately began making plans for the opening of a joint branch office in Shanghai. Together the two companies lobbied the government for a 250,000 yen loan repayable in 10 years to fund the creation of a branch office in the city. They ended up receiving two smaller loans amounting to 10,000 yen and 75,000 yen to fund the opening of commercial offices in Shanghai and Hong Kong respectively.[260]Although negotiations with the Chinese authorities failed to reach any agreement and the loan deal never came to fruition, Mitsui was still able to open its first branch office in Shanghai in 1878.

A direct government order established Mitsui's second branch office in Paris. In 1878 the Meiji government decided to participate in the Paris Exhibition which the French government hosted to celebrate France's revival after the nation's crushing defeat in the Franco-Prussian War. The Meiji government ordered Mitsui to open a branch office in Paris to handle the Japanese exhibition display and serve as a sales agent for the Japanese goods displayed there. Masuda initially objected to the order, arguing that a Paris branch office would be too expensive for the company to maintain. To convince Masuda to cooperate, the Meiji government granted Mitsui exclusive rights to sell high quality raw silk from the

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[258]Ibid.

[259] Ibid., 276-277.

[260] Ibid., 278-279.

government run Tomioka filature and offered the company a 300,000 yen interest free loan to obtain the necessary foreign currency to conduct trading operations. Masuda agreed to the conditions, and the Mitsui Trading Company opened up a Paris branch office immediately after the exhibition.[261]

The Meiji government also encouraged Mitsui Trading's expansion into London. Ensuring that Japan would have some commercial foothold in the world's most important financial market was a high priority for the Meiji leaders. Still worried about paying off Japan's foreign loans, government officials thought that the quickest and easiest way to do so would be to pay off the debts by increasing exports to Britain. After 1876 Mitsui Trading took over the small import and export business that the Ministry of Finance had created in London several years beforehand.[262] The company worked closely with the government to manage the shipment and sale of Japanese products in London, primarily rice, to help retire Japanese bonds.[263]

Beyond simply paying off the bonds, the presence of a Japanese firm in London promised to be extremely useful for the Meiji government. By using Mitsui's services to obtain foreign currency and import goods, Japanese officials could avoid having to pay high fees to foreign mercantile firms. A direct link between Tokyo and London also promised to undermine foreign domination of Japan's trade by allowing Japanese firms to access the London financial discount market. For the Mitsui Trading Company, a presence in London

[261] Kiyama, *Kindai Nihon to Mitsui Bussan*, 76.

[262] For details see Chapter 2.

[263] Kiyama, *Kindai Nihon to Mitsui Bussan*., 77.

opened up a portal to an important European market and gave the firm a foothold in an important center of world commerce.

Mitsui also established offices in New York, Lyon, and Milan, all at the government's request. The New York office provided foreign currency exchange services for Japanese businessmen seeking to repatriate profits earned by selling goods on the New York market. Consular officials had been performing these duties for Japanese merchants in the area, but the duties were transferred to Mitsui's branch office. The branch offices in Lyon and Milan encouraged the export of silkworm eggs to the French and Italian markets where, due to occasional outbreaks of silkworm blight, demand was strong. The Lyon and Milan offices also served as information gathering centers which would report movements in the Italian and French silk markets.[264]

During the first few years of Mitsui's life, the company served as a general commercial agent for the government which expanded largely at official's request. The firm, however, was not a helpless pawn of the government. Masuda was able to extract concessions from the government and the company would never have acquiesced to government demands if there was no potential to profit from those ventures. Yet the relationship demonstrated the growing interdependence between political merchants and the government. The Mitsui Trading Company willingly followed government suggestions because doing so was a relatively inexpensive way to expand. The government increasingly looked to the Mitsui Trade Company to aid it in the implementation of national trade policy. This mutually dependent relationship between the Mitsui Trading Company and the government can best be seen in the case of Japanese coal exports.

[264] Ibid., 77-78.

It is oddly appropriate that coal, the dirty mineral fuel that powered the steamships that brought Western traders to the Far East, which also served as primary motor for the growth of Japan's premier international trading company. Although not widely known for being richly endowed with natural resources, Japan was nevertheless an important source of coal for ships travelling in East Asian waters. Rich coal deposits in Kyūshū and Hokkaidō provided a cheap source of fuel for Western shipping. Realizing the commercial potential of these coal deposits, foreign firms attempted to buy mining rights in Japan only to be rebuffed by the Meiji government which effectively banned all foreign investment in the country in 1873.[265] Instead the Meiji government itself set out to develop Japan's coal industry. Although officials could easily set up modern coal mining operations in Japan, marketing the coal produced in government owned mines proved a different issue altogether.

According to Masuda Takashi, the Meiji government first approached the Mitsui Trading Company about selling government produced coal in early 1876. Itō Hirobumi, then the head of the Ministry of Industry (Kōbushō) and later to become Japan's first prime minister, proposed to make the Mitsui Trade Company the exclusive sales agent for coal from the government run *Miike* coal mine in Kyūshū.[266] Not one to pass up an opportunity, Masuda soon agreed to make the Mitsui Trading Company the sales agent for government coal in return for receiving a low fixed price on the purchase of coal from the *Miike* mine. Mitsui shipped the coal to the nearby port city of Nagasaki for sale to foreign shippers.[267]

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[265] Kōbushō, "Kōzan shintokusho" in *Keizai Kōsō*, ed. Nakamura Masanori, Ishii Kanji and Kazuka Yutaka, vol. 8, *Nihon kindai shisō taikei* (Tōkyō: Iwanami Shoten, 2000), 13-15.

[266] Nagai ed. *Jiji Masuda Takashi-o den*, 121.

[267] Ibid.

The Mitsui Trading Company's coal business got off to a good start and by 1877 the company was rapidly expanding.[268] Masuda was soon contemplating a new deal with the government to expand his company's coal business abroad. During his time in Shanghai when he was still attempting to negotiate a Japanese loan for the Chinese government, he hit upon the idea of shipping coal to Shanghai.[269] Smelling an opportunity for profit, Masuda appealed to two top officials, Ōkuma Shigenobu, the Minister of Finance, and Inoue Karoru, the Mitsui family's trusted advisor and friend in government, asking for a renegotiation of his company's contract with the government. Citing the development of coal mines in China which might soon compete with Japanese coal, the petition argued that the immediate and aggressive expansion of Japanese coal exports to China was essential to the survival of Japan's coal mining industry. To accomplish this expansion, Mitsui proposed a scheme that included a sizable, long-term government loan to fund the company's sales business in China. The government was also to provide transport of coal from the Miike mines to the nearest domestic port facilities for shipment abroad and provide Mitsui a commission fee for its services in selling government coal. Mitsui would repay the loan gradually by using profits gained from the sale of coal; any profits left over from coal sales after making regular loan payments would go into a general fund to cover any losses from dips in the price of coal.[270]

The plan appealed to the Meiji government for several reasons. Coal exports promised to help plug Japan's persistent trade deficits and bring in much needed hard currency. An exclusive contract also helped to keep the government operated mine minimally

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[268] Kazuya Makoto, *Gōsho no Meiji*, 151.

[269] Nagai ed. *Jiji Masuda Takashi-o den*, 127.

[270] Kazuya, *Gōsho no Meiji,* 152.

profitable and ensure that it would not become a fiscal burden. Having a private company plan logistics and assume the risks in arranging for the sale of Miike coal also relieved public officials of the unwelcome task of having to manage such matters themselves. The government agreed to Masuda's proposal and promised to provide the Mitsui Trading Company with coal for the Miike mine at the low cost of 1 yen 50 sen per ton.[271] In addition, the Meiji government would provide the company a 2.5% commission fee for all sales and split the profits from all sales. A government loan of 12,500 yen enabled Mitsui to purchase land in Shanghai to store coal shipments and an additional 12,000 yen in loans went toward the purchase of cargo ships to transport coal to Shanghai. Mitsui gained the use of a government owned ship for the transport of coal.[272]

Backed by generous government support, Mitsui's trade in coal soon became a key source of revenue for the company. In 1877 coal exports accounted for a tiny amount of 4,834 yen out of a total income of 294,000 yen. By 1881 coal trading accounted for slightly less than one sixth of the company's profits (64, 357 yen out of a total of 355, 746 yen).[273] The contract between the government and the Mitsui Trading Company gave the firm a steady and reliable source of income in a turbulent marketplace. Thus the coal trade played a key role in maintaining the company's bottom line. More importantly, however, coal played a vital role in giving Mitsui Bussan a foothold in the Chinese market. Without a steady profit from coal exports, the company's Shanghai office might have suffered the fate of other Mitsui branch offices which folded in the early 1880s. With steady profits, the Shanghai

[271]Ibid.

[272] Mitsui Bunko, *Mitsui jigyōshi*: *honpen*, vol. 2, 282.

[273] Kazuya, *Gōsho no Meiji*, 120.

office could continue to operate and provide information on developments and future opportunities in the Chinese market.

Mitsui: merchant capital and foreign trade

The experiences of Mitsui and the Mitsui Trading Company in the first decade of the Meiji era revealed a great deal about commercial policy and the relationship between merchant capital and the state in Meiji Japan. Mitsui and the Meiji state became intimately intertwined, because both Mitsui and the Meiji government needed one another. The Meiji government needed the mercantile expertise of the house of Mitsui and its commercial network to help manage tax collection and assist in the economic management of the nation. Later, the Meiji government also looked to Mitsui to serve as the commercial agent of the state, assisting government officials in repayment of debts and other overseas transactions. In the process, the Meiji government hoped to transform Mitsui into a national champion which would replace foreign firms as a major force in Japan's overseas trade.

For its part, Mitsui saw close ties to the government as a way to survive and thrive in an uncertain economic environment. Mitsui sought out a close relationship to the Meiji government because working as the government's commercial agent offered stable profits at a time when other lines of Mitsui's business were confronting increasing competitive pressures as the result of economic liberalization. Mitsui was willing to create a trading arm and actively engage in overseas commerce because doing so was necessary to maintain good relations with its prime customer, the Meiji state, and also because engaging in foreign trade--especially when such activity was heavily subsidized by the state, as in the case of Mitsui's coal exports--presented the possibility of profits and growth. Mitsui became an instrument of the state because doing so promised to be lucrative.

Although the Mitsui Trading Company would eventually become a powerful mercantile firm that would one day replace foreign firms as a dominant force in Japan's overseas trade, ironically the company did not play a leading role in the direct trade movement. The Mitsui Trading Company was not founded as a direct trading company, nor did it ever declare the promotion of direct trade to be a central aim of the company. Direct trade for the Mitsui Trading Company was never anything more than a business strategy. If shipping and selling goods directly in foreign markets promised to be lucrative, the Mitsui Trading Company would pursue direct trade. If the risks seemed to outweigh the rewards, the Mitsui Company was happy to operate within the confines of the domestic Japanese market.

The establishment of foreign branch offices and Mitsui's involvement in the coal trade are prime examples of the firm's approach to direct trade as a business strategy. Mitsui opened almost all of its foreign branches as a result of direct orders from the Meiji government only after extracting concessions from the officials to ensure the foreign branches would prove profitable. Mitsui's trade in coal was an opportunistic effort to engage in direct trade for profit. When the Mitsui Trading Company's manager, Masuda Takashi, saw promise in coal exports to China, he successfully managed to talk the government into giving his company a sweetheart deal, it would give the company access to cheap government produced coal which would provide a relatively risk free profit stream for the firm. This pragmatic attitude toward trade would differ markedly from that of producers in Japan's indigenous industries who wanted to restructure the entire export system in Japan.

Rural Producers and the Silk Trade: Hoshino Chōtarō and Arai Ryōichirō

Mercantile enterprises like Mitsui were an important part of the Meiji economy, but such enterprises were by no means representative of Japanese business as a whole. Consisting of a small number of well connected "insider" firms whose profits derived from their ability to secure lucrative work from the government, the Meiji era firms like Mitsui were an important but nevertheless tiny minority. At the dawn of the Meiji era, the overwhelming majority of Japanese businesses were small and medium sized firms most of which were located in rural Japan and managed by local elites. Despite their smaller size and location, these rural entrepreneurs were to play a crucial role in Japan's economy. They produced the silk, tea, and other agricultural commodities that formed the backbone of Japan's export trade and propelled the nation's economic growth.

These rural enterprises differed from their larger mercantile cousins in several important ways. Compared to political merchants, rural entrepreneurs had a much more tenuous and ambivalent relationship with the state. The new regime swept away Tokugawa era restrictions that had stifled rural entrepreneurial activity and enacted new policies to encourage rural industry.[274] At the same time, the true concern of the Meiji leaders was always the development of modern industries.[275] The role of rural industry in their minds was to provide a taxable economic surplus to subsidize state projects in the construction of a modern manufacturing economy. The Meiji state was therefore less willing to grant the type of generous state support it showed to firms like Mitsui.

[274] Edward E. Pratt, *Japan's Protoindustrial Elite*, 33.

[275]Ibid., 37.

Rural entrepreneurs also had a different relationship to the market. During the Tokugawa period most rural merchants and producers lay at the bottom rung of distribution chains controlled by wholesaler merchants (*ton'ya*) like Mitsui based in Japan's major urban markets of Edo, Ōsaka, and Kyōto. Although the urban wholesalers' dominance eroded as rural merchants began to bring products from their home territories directly to the large urban markets, most rural producers and merchants still largely depended on urban based merchants as a source of capital and for arranging the sale of their goods.[276] After the opening of Japan to unrestricted commerce, a small group of Yokohama based wholesalers, known as export merchants (*urikomishō* or *urikomi ton'ya*), eventually came to dominate the silk and tea trades. Rural entrepreneurs were also more exposed to the vagaries of the world market. Because they were active in the export trade where the unequal treaties effectively banned intervention by the Japanese government, rural entrepreneurs could only receive indirect support from the Meiji state. Hence rural entrepreneurs were more independent of the state.

One of the most successful small scale entrepreneurs in the early Meiji period was the silk trading business of Hoshino Chōtarō and his brother Arai Ryōichirō. The two brothers' enterprise was very different from Mitsui. Having no direct ties to high government officials, they received little in the way of special favors from the government, and had to rely on their own wits and initiative to survive. Like the Mitsui Trading Company, Hoshino and his younger brother were some of the first Japanese to directly engage in foreign trade, yet their story reveals a very different picture of the business-government relationship in the Meiji period.

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[276] Pratt, *Japan's Protoindustrial Elite*, 90.

Rural Elites in Crisis: the Hoshino family and the end of the Tokugawa *bakufu*

The Hoshinos were a family of "wealthy farmers" (*gōnō*) from Mizunuma, a village located north of Edo in a region that was under the direct rule of the Tokugawa *bakufu*. The family rose from relatively humble origins in the beginning of the Tokugawa era to become one of the wealthiest and most powerful peasant households in their immediate region. Like many other wealthy peasant households of the early modern period, the Hoshino family's fortune derived from a wide variety of entrepreneurial activities. Years of successful farming allowed the family to acquire large land holdings and branch out from agriculture to become landlords, moneylenders, and pawnbrokers.[277] The Hoshinos also became involved in the production of raw silk, which was a vital side industry for peasant households in the area.[278] By enlisting the labor of the tenants living on their land and utilizing a putting-out system, the Hoshinos manufactured silk thread which they then sold to silk cloth weavers.[279]

Although still technically commoners the family had a close relationship with Tokugawa *bakufu* authorities and gained a level of social prestige roughly equivalent to that of members of the *samurai* elite. In 1667 the Hoshinos were made hereditary headmen of their village by the Tokugawa *bakufu*.[280] A series of other important official appointments from the *bakufu* soon followed, including an order making the Hoshinos supervisors of the

[277] Reischauer, *Samurai and Silk*, 162.

[278] Ibid., 157.

[279] Ibid., 162.

[280] Ibid., 161.

Ashio copper mine.[281] In 1816 the head of the Hoshino household was awarded the privilege of use of a surname and the right to carry a sword, privileges normally reserved for *samurai*.[282] These new privileges made the Hoshino household hereditary magistrates in charge of tax collection and maintenance of law and order of the area surrounding Mizunuma.[283] Like the Mitsuis the Hoshinos were very much part of the old regime, albeit, a much less prominent component of that ruling system.

Despite their wealth and status, however, members of the Hoshino family faced a myriad of challenges in the nineteenth century. The connections with the *bakufu* that brought the family prestige and social status proved to have serious hidden economic costs as the Tokugawa regime spiraled into terminal decline. As the *bakufu*'s finances spun out of control, it compelled the Hoshino family to contribute financial and other resources to the *bakufu* with increasing frequency. In the 1830s, the government ordered the head of the Hoshino household, together with another wealthy farmer from the region, to donate a large amount of lumber to Edo Castle for repairs after a devastating fire. Procuring the lumber and transporting it to Edo cost the two men over 5,000 ryō, a considerable sum.[284] The outbreak of the Tempō famine in the same decade dealt the family another powerful blow. To quell

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[281] Tomizawa Kazuhiro, *Kiito jikiyushutsu shōreihō no kenkyū: Hoshino Chōtarō to dōhō seitei undō no tenkai* (Tōkyō: Nihon Keizai Hyōronsha, 2002), 31.

[282] Ibid., 32.

[283] Reischauer. *Samurai and Silk*, 165.

[284] Ibid., 165-166.

unrest among its tenants and other local peasants the Hoshinos forgave many debts owed to them and reduced the rents they charged their tenants.[285]

The near fatal blow to the family finances came during the Restoration struggle in 1868. The head of the Hoshino household was held hostage by rebel troops who suspected him of providing financial and moral support for pro-Tokugawa forces.[286] Securing his release may have required the family to pay a hefty ransom of over 2,000 *ryō*.[287] This was a significant sum for even for a wealthy family of local notables like the Hoshinos .The collapse of the Tokugawa regime shortly thereafter was a further setback, as the family had to write off loans extended to local *bakufu* officials.[288] Family finances became so tenuous that the Hoshinos themselves borrowed from others to stay afloat.[289] For a brief time, the family relied on the income of their eldest son, Hoshino Chōtarō, who became the chief accountant for the new local government in 1869. After only a year, however, he resigned his post to assume the headship of the Hoshino household from his ageing father. The family expected Chōtarō to concentrate his full energies on helping the family to get back on its feet.[290]

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[285] Tomizawa Kazuhiro, *Kiito jikiyushutsu shōreihō no kenkyū,* 32.

[286]Reischauer. *Samurai and Silk*, 173-174.

[287] Tomizawa Kazuhiro, *Kiito jikiyushutsu shōreihō no kenkyū*, 32.

[288] Ibid.

[289] Reischauer, *Samurai and Silk*, 168.

[290] Ibid., 175.

Hoshino Chotarō and the Early Meiji Silk Industry

As the newly installed head of the household, Hoshino Chōtarō's biggest challenge was to find a way to revive the family fortunes. Family members agreed that the first step to revive their fortunes was to divide responsibility for their various entrepreneurial activities. Chōtarō would dedicate his full energies to farming while his younger brother, Shūjirō, would manage *saké* brewing, money lending and other family businesses.[291] After dedicating himself exclusively to agriculture for a few years, however, Chōtarō decided that raw silk production offered a better chance to restore the family's former prosperity. Given his family's history and the context of the times, Chōtarō's decision made perfect sense. The Hoshinos had long experience in the silk trade. They had been producing raw silk for decades, and the silk of their region was famous for its high quality. More importantly, the silk industry was expanding rapidly at the time, thanks to Japan's booming export trade in raw silk.

Hoshino Chōtarō may have also drawn inspiration from new developments in Japan's silk industry after the Meiji Restoration. When Japan's ports were opened to foreign trade, raw silk production was still a handicraft industry. All raw silk was reeled by hand either in peasant households as part of a putting out system or in small rural establishments. As raw silk exports began to increase, foreign silk buyers sought to improve the quality of Japanese silk by disseminating knowledge of Western silk reeling technology to producers. *Daimyō* and merchants in silk producing regions also began to consider adopting Western mechanized silk reeling technology as a way of improving the quality of locally produced silk. The *daimyō* of Maebashi, a domain located nearby Hoshino Chōtarō's home in

[291] Tomizawa Kazuhiro, *Kiito jikiyushutsu shōreihō no kenkyū*, 34.

Mizunuma, carried out the first successful experiments with mechanized silk reeling. With the assistance of a Swiss silk reeling expert, Hayami Kensō, a retainer of Maebashi, built a small mechanized filature in the domain. [292] Although Hayami's filature turned only a modest profit, it proved that mechanized reeling could produce a superior product capable of fetching a handsome price from Western buyers. Chōtarō determined that his family should set up its own mechanized silk filature.[293]

To acquire the necessary technical knowledge to build his own silk filature, Hoshino traveled to Maebashi to see the new filature and consult with Hayami Kensō. For the next several months Hoshino worked under Hayami as an apprentice in the filature in order to study and familiarize himself with the new silk reeling technology.[294] He was not the only person to do so. As soon as news of the Maebashi experiment spread, a number of merchants and retainers from other domains traveled to Maebashi to inspect the factory.[295]

After several months in Maebashi, Hoshino's next step was to build his own mechanized filature back in Mizunuma. His main challenge was to find the necessary financing. Hoshino first borrowed some 1,000 yen from Hayami Kensō who was now

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[292] David Wittner, "The Mechanization of Japan's Silk Industry and the Quest for Progress and Civilization," in *Building a Modern Japan: science, technology, and medicine in the Meiji era and beyond*, ed. Morris Low (New York: Palgrave Macmillan, 2005), 142.

[293] Sonoda Osamu, *Chiho sangyō no shisō to undō* (Kyōto: Mineruva Shobō, 1980), 236.

[294] Tomizawa Kazuhiro, *Kiito jikiyushutsu shōreihō no kenkyū*, 35.

[295] David Wittner, "The Mechanization of Japan's Silk Industry and the Quest for Progress and Civilization," 143.

serving as both an investor and advisor.[296] Then in November 1874 he began to lobby the local prefectural authorities for a loan. In a letter to one official, Kawase Hideji, Hoshino argued that silk production was a pillar of the regional economy but that the quality of local raw silk suffered because of outdated hand reeling methods. Hoshino promised that his business would serve as a model which other entrepreneurs would seek to emulate, thus helping to improve the quality of locally produced silk by encouraging the diffusion of mechanized silk reeling.[297] He requested a 3,000 yen loan to help pay for the construction costs of a silk filature.

The local government was hesitant to issue a loan. Officials had concerns about the viability of Hoshino's proposals and feared the political fallout that might occur if they extended loans to a business that proved unsuccessful.[298] Nevertheless, the government eventually agreed to loan Hoshino 3,000 yen in 1874, after Hoshino had already invested some 6,000 yen in the construction of his water powered silk reeling factory in Mizunuma and had already opened the filature for business.[299]

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[296] All of Hoshino Chōtarō's personal correspondence cited in this chapter can be found in *Nichibei Bōeki Shiryō*, vol. 1, *shiryōhen* 1. All following citations will indicate only the writer and recipient of the correspondence, date, and page number in *Nichibei Bōeki Shiryō* in which the correspondence can be found. Hoshino Chōtarō to Hayami Kensō, November 15, 1874, in *Nichibei Bōeki Shiryō,* ed. Katō Ryu, Sakada Yasuo, and Akitani Norio, vol. 1, *shiryōhen* part 1 (Tōkyō: Kondo Shuppansha, 1987), 44.

[297]Hoshino Chōtarō to Kumatani Kenrei, November 23, 1874, 44-45.

[298] Hoshino Chōtarō to Kumatani Kenrei April, 187, 51.

[299] Hoshino Chōtarō to Kumatani Kenrei August, 1875, 56.

While he received significant support from local authorities, Hoshino also bet a significant portion of his family's diminished fortune on the success of his silk factory.[300] Indeed, he had built one of the best factories money could buy. When his factory opened in 1874, its 32 silk reeling machines made it the biggest silk filature in the prefecture.[301] At the same time Hoshino had underestimated the complexities of the business. Hoshino faced great difficulty in securing the necessary female labor. In a society in which the idea of factory work was still novel, convincing local women to leave their homes to work in the factory proved extremely difficult and Hoshino was forced to scour the country for workers. He eventually recruited women from the remote northern island of Hokkaidō by offering them higher than average wages. In addition to the difficulties in securing labor, the new silk reeling machinery did not operate as Hoshino wished. Because several technical bugs in the reeling machinery had to be fixed before full scale production could begin, costly delays in production resulted.[302]

Government loans and the Model Entrepreneur

Delays and complications did nothing to improve Hoshino's financial situation. By the middle of 1875, Hoshino was once again petitioning the government for a loan to keep his silk filature in business. This time, Hoshino requested a 5,000 yen loan to operate his silk

[300] Tomizawa Kazuhiro, *Kiito jikiyushutsu shōreihō no kenkyū,* 36.

[301] Ibid.

[302] Osamu, *Chihō sangyō shisō no undō*, 236.

filature until his business started generating profits.[303] This time prefectural officials forwarded the request to Ministry of the Interior. There Ōkubo Toshimichi approved the release of 5,000 yen as a loan.[304]

Ōkubo approved the loan, because he believed that supporting Hoshino's business would contribute to the improvement of the quality of local silks. In a letter to the nominal head of the Meiji government, Prince Sanjō Sanetomi, Ōkubo noted the importance of silk as one of the, "unique products of our country," (*honpō koyū no meisan*) and argued the loan to Hoshino's factory would help encourage the production of high quality silks.[305] It appears that Ōkubo accepted Hoshino's argument that his factory would present a positive example for silk producers in the region which would encourage the diffusion of superior raw silk production techniques. Much as the model factories the Meiji government was constructing to facilitate technology transfer of advanced production techniques and inspire private industry to adopt new innovations, Hoshino was to serve as the government's model entrepreneur.

Ōkubo wished not only to build an industrial economy by importing Western techniques of mechanized production, but he also wanted to create a new kind of Japanese entrepreneur. This desire is clear in his writings on economic policy. In a memorandum addressed to Prince Sanjō in 1874, Ōkubo argued that in terms of geography and natural resources, Japan was almost identical to Britain, but lacked Britain's economic might and dynamism only because "…the spirit of our people is weak," (*wagakokujin kishō usujaku*

[303] Ōkubo Toshimichi to Sanjō Sanetomi, August 4, 1875 in *Nichibei Bōeki Shiryō*, ed. Katō Ryu, Sakada Yasuo and Akitani Norio, vol. 1 s*hiryōhen* 1 (Tōkyō: Kondo Shuppansha, 1987), 65.

[304] Ibid.

[305] Ibid.

naru).[306] In other writings on direct trade Ōkubo was particularly critical of Japan's entrepreneurs who he saw as obsessed with short term profits, risk averse and fundamentally unable to compete with foreign business.[307]Ōkubo hoped for the eventual emergence of an entrepreneurial class similar to the one he believed existed in Britain which was ready to assume any risk and journey to the farthest corners of the globe in pursuit of profit.

While there is only circumstantial evidence to suggest that Ōkubo saw in Hoshino the ideal adventurous entrepreneur that he hoped would emerge, the generous support the central government gave to Hoshino suggests it hoped that Hoshino would serve as a positive role model for modern Japanese businessmen. Ōkubo clearly believed that Hoshino's factory would play a vital role in encouraging quality improvements in local silk manufacture. The failure of one of Japan's first mechanized silk reeling factories would send the message that investing in modern production techniques was too risky. Therefore Hoshino's venture had to succeed in order to ensure other silk producers would be willing to set up their own mechanized filatures.

Selling Silk: the market structure of the early Meiji silk industry

While securing financing and getting his filature up and running presented significant difficulties, the real challenge for Hoshino proved to be disposing of the raw silk he produced. The booming demand for silk on the world market did not always translate into profits for silk producers. They were prevented from capturing the full value of the fruits of their labor

[306] Ōkubo Toshimichi, "Ōkubo Toshimichi no shokusan kōgyō iken," in *Keizai kōzō*, ed. Nakamura Masanori, Ishii Kanji, and Kasuga Yutaka, vol. 8, *Nihon kindai shisō taikei* (Tōkyō: Iwasaki Shoten, 2000), 18.

[307] Ōkubo Toshimichi, "Ōkubo Toshimichi no jikiyutsutsu kaisha setsuritsu no kengi," in *Keizai kōzō*, ed. Nakamura Masanori, Ishii Kanji, and Kasuga Yutaka, vol. 8, *Nihon kindai shisō taikei* (Tōkyō: Iwasaki Shoten, 2000), 80-81.

by a hierarchically organized distribution system that was full of middlemen and dominated by foreign merchant houses.

The production and merchandizing of silk in the 1870s consisted of several different layers. At the bottom were the silkworm cultivators in small farm households that engaged in sericulture to supplement household income. Sericulture was a convenient side business for farm families in that it was labor intensive and only required a minimal amount of capital and land. Because the work of tending silkworms did not require a great deal of physical strength, women along with older and younger members of the household could help.[308] The low barriers to participation in sericulture meant that small producers were predominant. In 1899 an estimated 1.35 million rural households (1 out of every 4) in Japan raised silkworms.[309] The prevalence of numerous small producers meant that individual farm households possessed little bargaining power when selling silk cocoons. The large number of producers also made any sort of collective action or regulation of the silk industry at this level difficult.

Silk reelers occupied the next rung of the silk industry. They turned the silk cocoons into silk thread. This process involved boiling the cocoons to loosen the silk strands and then putting the strands through a reeling machine to make uniform thread. Most silk reeling occurred in individual peasant households either as part of a putting out system organized by a local silk merchant who provided the raw material or on an independent basis with a household using silkworm cocoons that it raised. The use of small hand operated reels

[308] Giovanni Federico, *An Economic History of the Silk Industry, 1830-1930* (New York: Cambridge University Press, 1997), 4.

[309] Yamamoto Moritarō, *Nihon shihonshugi no bunseki: Nihon shihonshugi ni okeru seisan katei haaku* (Tōkyō: Iwanami Shoten, 1977), 73.

(*dokuri, tembiki, zaguri*) was the norm.[310] The appearance of mechanized factories in 1870s began to change the nature of reeling. By then farm households were starting to focus on just selling cocoons directly to the agents of the factories which then processed the cocoons to produce raw silk.[311]

Mechanization of silk reeling, however, caused new problems. The main headache for silk reelers was mobilizing the necessary capital to purchase their raw materials. Purchasing cocoons accounted for roughly 80% of the total costs of production.[312] Because of the short life cycle of the silk worm and the seasonal nature of cocoon production, the reelers had to cram all their purchases of cocoons into two relatively brief periods during the months of May and June and again in July through September. The short time frame for securing raw materials meant that reelers had to obtain huge amounts of capital in a short period of time. Because most reelers did not possess large reserves of capital, they needed outside sources of funding in the form of loans during the critical cocoon purchasing seasons. [313] Hence those who could provide these loans were able to exercise a powerful influence over the output of silk.

Two different types of merchants acted as the financiers of the silk trade. At the local level were silk dealers (*ninushi*) who purchased raw silk from reelers and sold it in

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310 Reischauer, *Samurai and Silk*, 214.

311 Nakabayashi Masaki, "Genryō mayu no ryūtsu to chihō shijō," in *Shōhin ryūtsu no kindaishi*, ed. Nakanishi Satoru and Nakamura Naofumi (Tōkyō: Nihon Keizai Hyōronsha, 2003), 249.

312 Nakabayashi Masaki, *Kindai shihonshugi no soshiki: seikeigyō ni okeru torihiki no tōchi to seisan kōzō* (Tōkyō: Tokyō Daigaku Shuppankai, 2003), 333.

313 Ibid.

Yokohama, the port city that became the center of Japan's silk export trade.[314] In areas where the putting-out system or small scale silk reeling was still predominant, silk dealers provided loans for reelers to buy silkworm eggs or purchase cocoons.[315] Mechanized silk filatures tended to handle the purchase of raw materials themselves, but up until the latter 1880s when the spread of rail transport and telegraphic communication links made them largely redundant in the silk trade, silk dealers still played an important role as middle men linking rural silk producers with silk merchants in Yokohama.

Above these shippers were the Yokohama export merchants (*urikomishō*). They collected silk from regional silk producers and silk merchants and sold it to foreign mercantile houses that purchased silk for export. For the domestic producers the Yokohama export merchants served a vital role by financing the production of silk. They loaned large amounts of capital to either local silk merchants or even directly to mechanized silk reelers in the various regions of Japan for their purchases of cocoons.[316] In return for providing loans, the export merchants demanded exclusive rights to sell silk from individual reelers or shippers.[317] As early as 1873 roughly 80% of the silk export trade was carried out through the export merchants.[318] The export merchants worked on a commission basis. After selling the silk, the commission merchant would then subtract the amount of the original loan along with

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[314] Pratt, *Japan's Protoindustiral Elite*, 93.

[315] Ibid., 95.

[316] Nakabayashi, *Kindai shihonshugi no soshiki*, 341.

[317] Ibid., 345.

[318] Unno Fukuji, *Meiji no bōeki: kyoryūchi bōeki to shōken kaifuku*, (Tōkyō: Hanawa Shobō, 1967) 36.

a commission fee and send whatever profits remained from the sale to the reeler or shipper.[319]

Foreign mercantile houses based in Yokohama, however dominated the silk industry. They purchased silk from the export merchants, shipped it abroad (usually back to their home markets) and sold it to consumers in the West. In other words, foreign merchants served as the final intermediaries between Western markets and Japan. Backed by large capital reserves of foreign banks and enjoying the support of Western commercial networks, foreigners exerted the most influence on the silk trade. Since no Japanese entrepreneur or firm sold raw silk directly to Western markets, foreign merchants effectively had a chokehold on exports. Only the ban in the unequal treaties on foreign economic activity in Japan's interior prevented total foreign domination of Japan's silk sector and made the existence of the Yokohama export merchants possible.[320]

Foreign merchant houses frequently used their market power to their own advantage. The most common complaints from Japanese silk merchants and producers leveled against foreign merchants pertained to disputes over the quality of silk. All foreign mercantile establishments required that Japanese merchants deliver raw silk stocks to their warehouses for inspection before finalizing any sale.[321] In part this practice stemmed from legitimate concerns about the quality of Japanese silk. More often than not, however, foreign merchants would use the inspection as an excuse to delay the final sale until they could gain information

[319]Ibid., 40-41.

[320] Ibid., 23-25.

[321] Taniyama Hideji, "Meiji shoki Yokohama kyoryūchi no kiito Torihiki ni okeru seido to sono keisei: 'rengō kiito niazukarijo jikken' no keizai-teki igi," *Shakai Keizai Shigaku*. 74, no. 2 (2008) : 39-40.

about the movements of silk markets in Europe and America. If prices in consumer markets proved to be too low, foreign merchants would send the silk back to export merchants with the excuse that the silk did not meet necessary quality standards.[322] Such abuses strengthened arguments in Japan for the need to establish stronger domestic control over the silk industry.

The structure of the silk trade was also a major cause of concern for Japan's elite. The low value added nature of silk exports and the failure of Japanese industry to gain control of the distribution of the product signaled deeper weaknesses in Japan's economy in the eyes of the nation's leaders and intellectuals. For critics, the operation of the silk trade symbolized everything that was wrong with the state of Japan's trade in the treaty port of Yokohama and in the activities of the foreign trading houses and their Japanese co-conspirators, the Yokohama export merchants.

Yet the Western powers frustrated Japanese attempts to regulate the silk industry. In 1873 a government order to submit all silk to inspection by government officials met swift and strong opposition from Western diplomats.[323] Japanese leaders hoped that a government certification of the quality of silk shipments would allay the concerns of Western traders and deny them a convenient pretext to abrogate contracts at will. The Western powers claimed, however, that the inspection system acted as a barrier to the unrestricted commerce guaranteed by the unequal treaties. The dispute ended with a return to the status quo.[324] After

[322] Ibid.

[323] Unno Fukuji, *Meiji no bōeki*, 30-31.

[324] Ibid., 33-35.

the 1873 experiment, the Meiji government essentially abandoned any further attempts to establish control over the silk industry.

Hoshino Chōtarō's story exemplifies many of the difficulties domestic silk producers faced in the hierarchically organized silk trading system dominated by Yokohama export merchants and foreign trading houses. Once silk production was well underway at his factory in Mizunuma, he began seeking a profitable outlet for this raw silk. He entrusted his first shipment of raw silk to a local silk dealer who ended up selling the silk at a loss to an export merchant in Yokohama. The dealer informed Hoshino that while the quality of factory's silk earned high praise, the factory was not producing enough volume to make sales profitable.[325] Shocked by his failure to turn a profit and determined to keep his business afloat, Hoshino tried selling his silk directly to foreign merchants in Yokohama in order to eliminate the high commission fees shippers and the Yokohama export merchants usually demanded from him. He eventually managed to find an English merchant willing to give him a good price for his silk, but Hoshino was dismayed to discover that he still ended up selling at a loss after he subtracted the costs of transporting the silk to Yokohama from his gross profits.[326]

These initial losses were no small matter for the Hoshino family. The Mizunuma silk factory's operating costs were close to 4,000 yen per year, double the total income the Hoshino family earned from all its other business activities.[327] As a producer of raw silk, Hoshino had reason to be dissatisfied with the hierarchical nature of the silk trade. The

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[325] Reischauer, *Samurai and Silk*, 185.

[326] Ibid.

[327] Tomizawa Kazuhiro, *Kiito jikiyushutsu shōreihō no kenkyū,* 36.

commission fees charged by local merchants and the Yokohama based export merchants cut into his potential profits, robbing him of the desperately needed cash that might keep his business afloat. Because he earned only a fraction of the true value that his raw silk fetched, Hoshino struggled to keep his business afloat by seeking funds from relatives, lobbying the government for low interest industrial loans, and accepting several high interest loans from local banks.[328]

With debts piling up and the promise of a profitable operating year still out of sight, Hoshino caught wind of reports of a wide gap between domestic raw silk prices in Japan and the prices in the growing silk market of New York. Confident that the quality of his factory produced silk would be highly attractive to New York buyers, Hoshino seized on the idea of selling his silk directly to on the New York market. By bypassing the export merchants and foreign trading houses in Yokohama and selling directly to buyers in the West, Hoshino could, in theory, capitalize on the large price differential, capture more profits for his wares and save his filature from bankruptcy.

Hoshino looked to his younger brother, Arai Ryōichirō, to aid in his plans. Hoshino has already begun to groom his younger sibling for a career in international business. Hoshino not only paid for Arai's schooling in English, but also encouraged his brother to learn as much about Western business methods as possible. Hoshino had high hopes that his brother would be an asset in negotiations with foreign merchants. Now Hoshino began to entertain a bolder vision for Arai's future in marketing the family's silk in New York City. Yet there was no easy way for Hoshino to avoid the Yokohama traders and export his silk directly to foreign markets. He lacked contacts and the necessary knowledge to expand abroad.

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[328]Ibid.

Luckily for Hoshino fortune would soon come to his aid. A broad movement arose in Japan in the mid-1870s that reflected dissatisfaction with the unequal treaties and a popular desire for treaty revision and equality with the Western powers. This movement was not only concerned with improving Japan's legal status through abolishing extraterritoriality but also sought to reclaim Japan's "commercial rights" (*shōken*). In addition, the dire economic circumstances in the wake of the collapse of the houses of Ono and Shimada made trade and economic issues become a subject of increasing concern among Japanese intellectuals. Popular agitation for a more muscular foreign policy and the revision of the unequal treaties also drew attention to economic issues. Economic nationalists wanted to sweep away the unequal treaties because they prevented Japan from raising tariffs to protect domestic industries. At the same time, advocates of economic protection were wary of re-negotiating the unequal treaties because doing so might require Japan to abolish restrictions on foreign travel and investment in Japan's interior and allow for "mixed residence" (*naichi zakkyo*). In 1875 a group of prominent figures in the Tōkyō business community banded together to fund the creation of a new commercial academy, the Short Term Commercial School (*Shōhō Kōshujo*) in Tōkyō. It opened as the first step in a plan to create a business college that would educate a new breed of Japanese entrepreneur well versed in Western business techniques and thus equipped to challenge foreign merchant dominance of Japan's international trade. The idea for founding a commercial school was originally hatched by Minister of Education Mori Arinori who reportedly struck on the idea after a visit to Bryant, Stratton and Whitney Business College in Newark, New Jersey in 1872. Mori was so impressed with the director of the school, William C. Whitney, that Mori immediately offered Whitney a generous five year contract to set up a similar school in Japan.

Unfortunately, Mori had overstepped the authority of his post. He had not bothered to obtain prior approval for his plan from the government and the Council of State refused to fund the school. Bereft of public funds, Mori issued an appeal to wealthy citizens in Tōkyō to donate to the school.[329] It promised to give students practical instruction in Western business methods, knowledge that would be invaluable to any aspiring trader. Hoshino quickly had his younger brother enroll so that he could study accounting and basic economics.[330]

The same year Satō Momotarō, an ambitious young man who had left Japan to study in the United States and had opened up a small shop in New York selling Japanese sundry goods, made a widely publicized return to Japan. Satō announced that he had returned to Japan with the express aim of finding recruits to work as apprentice shopkeepers in his New York store. He consulted with Fukuzawa Yukichi, a prominent journalist and intellectual who helped create the commercial school, to identify potential recruits from the school. Fukuzawa referred Satō to Hayami Kensō, Hoshino's mentor in the silk business. Hayami told Satō about Hoshino and his desire to start exporting silk directly to foreign markets. A conference between Satō, Hayami, and Hoshino a few days later sealed a bargain. Satō agreed to take Hoshino's younger brother Arai Ryōichirō as an apprentice in his shop so that Arai could gain practical business experience in America. Hoshino, however, had more ambitious plans for his younger brother. [331] Hoshino entrusted Arai with a skein of silk from the Mizunuma factory so that in his spare time he could take the sample of silk to New

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[329] Reischauer, *Samurai and Silk*, 186.

[330] Ibid.

[331] Ibid., 192-193.

York's silk merchants and convince them to place a direct order for raw silk to Hoshino's factory.

When Arai in early 1876 departed for America along with Satō and 4 other young men Hoshino had finally begun to make progress in his plans to establish direct links to foreign markets. Soon after his arrival in New York, Arai began visiting New York silk merchants to find an interested buyer of Hoshino's silk. Although initially unsuccessful, by May Arai had finally made a sale. He signed a contract with a prominent New York silk merchant for the delivery of raw silk directly from the Mizunuma factory to New York. Arai had contracted to sell the silk for $6.50 per pound, but between the time the contract was signed and the time the goods were ready for shipment some months later, the price of silk had risen dramatically due to news of a new silkworm blight outbreak in Europe. Hoshino begged his younger brother to re-negotiate the contract, but Arai refused and delivered the silk shipment at the originally agreed upon price. Hoshino ended up swallowing a $2,000 loss.[332] The real value of the deal, however, did not lie in the temporary monetary losses it incurred or gains it might have wrought. Through his solid commitment to keep to his word, Arai gained considerable recognition in New York as a reputable businessman and square dealer. This reputation helped ensure that many orders would come in the future. In the coming months Hoshino's factory was busy filling orders for New York buyers and within a short time the Hoshino brother's business was finally beginning to prosper.

Conclusion

If the experience of the Mitsui TradingCompany and the Hoshino brothers in 1870s demonstrates anything it is the fact that the motives that informed the Meiji state's

[332] Ibid., 208-210.

commercial policies were more diverse than is typically recognized. While it is undeniable that the Meiji oligarchs were determined to create a rich nation and a strong army, this vague commitment to national self-strengthening did not mandate specific commercial policies in the 1870s. Instead, commercial policies resulted from a mix of practical needs, officials' desire to encourage economic development through the creation of national champions and an ideal entrepreneurial class, and varying state capacity to organize different segments of the private sector.

The Mitsui Trading Company illustrated how one type of business-state relationship shaped commercial policy. As a large and prestigious mercantile firm with a nation-wide network of agents and a long history of experience in long distance commerce, Mitsui offered the state indispensable help in managing the national economy. Size and experience also made Mitsui a natural choice to serve as the government's commercial agent when the government needed to engage in overseas commercial transactions and made the firm an obvious candidate for the establishment of a national champion trading firm.

The case of the Hoshino brothers presents a very different case. Silk production was still largely a small scale handicraft industry with numerous firms and individuals, all operating independently. Regulation of the industry was difficult if not impossible. Government officials not only faced difficulties in attempting to communicate state directives to the industry, they could not be certain that those directives would be respected even if silk producers did receive them. No potential "national champion" stood out in this sector.

Instead the Meiji government hoped to encourage change in silk production by setting examples that they hoped would be sufficiently attractive to encourage emulation. The government's model silk filature in Tomioka and the venture of the Hoshino brothers in Mizunuma were examples Officials hoped that the Hoshino brothers would become models of successful, modern silk producers willing to embrace new methods and challenge foreign dominance of overseas trade.

If the motives informing the state's commercial policies were complex, the motives of entrepreneurs in becoming willing instruments of state policy also varied considerably. Mitsui and its trading arm, the Mitsui Trading Company, forged a close relationship to the state and followed government directives to establish foreign branches largely because the firm had decided serving as the commercial agent of the state provided the best chance to survive and prosper during a period of turbulent economic change. For Mitsui direct trade was merely a business strategy to be pursued if it held out the promise of profits, not an end to be pursued in itself.

For the Hoshino brothers direct trade was, in a sense, also a business strategy, but it was also much more. Indeed the Hoshino brothers initially seized on the idea of shipping and selling their silk directly in the New York market as a way of capturing a larger share of the profits generated by silk sales and saving their business. Yet for Hoshino Chōtarō, who had experienced great frustrations in dealing with the network of merchant middlemen who dominated Japan's silk trade, direct trade promised to give him complete independence of merchant middlemen and make him master of his own fate. Thus direct trade was not merely a business strategy but an end to be pursed. Only through direct trade could Hoshino escape the dominance of the merchant class.

This difference between the interests of merchant capital and productive capital in the direct trade movement would later become a reason for the movement's failure.

Yet in the mid-1870s a clear conflict of interests between merchants and producers had yet to emerge. Direct trade was vague idea with that the government only partially sought to realize through a series of *ad hoc* policies. There was no clear theory of direct trade, no comprehensive system of policies to promote trade, and no public direct trade movement. It would take an economic crisis and an intellectual debate over the nature of foreign trade beginning in 1877 to change that circumstance. The crisis and the debate it sparked is the subject of the next chapter.

CHAPTER 4:

Taming the Paper Tiger: the inflation crisis of the 1870s, direct trade, and the debate over commerce

In 1875 and 1876 interest in direct trade gradually increased among Japan's bureaucrats and businessmen. Yet despite the proclamations of Ōkubo Toshimichi about the need to promote direct trade and a few *ad hoc* policies initiated to assist individual firms and businessmen in selling their goods abroad, there was no organized direct trade *movement*. Direct trade was little more than a phrase which expressed vague aspirations about the future shape of Japan's commercial relations with the outside world. There were no overall strategy for promoting direct trade and no groups advocating direct trade. The idea of direct trade had yet to capture the popular imagination and become a subject of public interest.

This situation would start to change in 1877. In that year a major rebellion against the Meiji regime broke out in the Southwest region of the country. Although the uprising was short-lived, the rebellion plunged the country into an economic crisis. Quelling the rebellion required emergency military spending of daunting proportions which the Meiji government financed through a combination of massive loans and printing millions of yen of inconvertible paper currency. Government debt skyrocketed and the sudden injection of large sums of cash into the economy triggered inflation. By 1878 the declining value of paper money bit into the real incomes of government officials and urban dwellers and triggered discontent. Japan's elites agreed on the need to halt inflation and reorder government finances.

Many informed observers firmly believed that the inflation was caused by the recurring foreign trade deficits Japan had experienced almost every year since 1868 and that a correct understanding of the relationship between foreign trade deficits and inflation was vital to solving the nation's economic problems. Yet journalists, intellectuals, and government officials held conflicting views of about the nature of this relationship. These differences of opinion were based on radically different ideas of the nature of international trade, its impact on Japan, and the relationship between trade and money. In the midst of debates over these issues a coherent theory of direct trade emerged that equated Japan's future prosperity and survival as an independent nation-state with direct trade and the recovery of Japan's "commercial rights."

This chapter will examine the formation of an ideology and coherent program of direct trade during the debate over inflation and foreign trade deficits that were later to form the basis of a popular movement. To truly understand the viewpoint shared by advocates of direct trade it is also necessary to examine both the ideas of direct trade ideologues themselves and competing interpretations of the relationship between foreign trade deficits and inflation. Analyzing the ideas of journalists, bureaucrats and businessmen regarding the question of trade deficits and inflation, this chapter identifies three distinct theories or schools of thought regarding foreign trade.

The first school is what one can term industrial reformers. They believed that inflation stemmed from Japan's relative industrial underdevelopment. They argued that

Japan's trade deficits caused inflation and that these trade deficits arose because Japan traded low-value raw materials for high-value manufactures from the West. In order to balance the nation's trade and halt inflation, Japan needed to thoroughly reform its industrial structure and apply industrial policy to nurture modern productive enterprise.

Commercial nationalists, the second school, shared the same central assumptions about the causes of inflation as industrial reformers, but differed considerably in their view of the solution to Japan's economic problems. Commercial nationalists believed that foreign trade deficits were the main cause of inflation but they argued that trade deficits resulted from Western merchants' dominance over Japan's foreign trade which robbed Japan of the full profits generated by its export trade. The solution to ending inflation lay in breaking the foreign chokehold over Japan's international trade through the promotion of direct trade.

Economic liberals represented the third school of thought that presented a radically different view of the inflation problem. They argued that foreign trade deficits were the result of an inflationary monetary policy which raised the domestic price of goods and encouraged imports. Halting inflation simply required the government to shrink the money supply. Then, Japan's trade would naturally come into balance. Economic liberals did, however, share some of the concerns of commercial nationalists, as they also argued that Japan's had to transform itself into a great commercial nation.

By examining the debate between the three different theories of foreign trade and its relationship to inflation, this chapter will present a view of the economic debates of the latter 1870s that is very different from that given in previous studies. The debate over inflation in the 1870s is well worn territory, but most studies of the debate have argued that the fundamental source of conflict was a disagreement over fiscal and monetary policy between two opposing camps, one advocating so-called "positive" (*sekkyokuteki*), economic policies the other calling for "negative" (*shōkyokuteki*) economic policies.[333] In this scenario, "positive policies" suggested expansionary monetary policies designed to spur economic development. Advocates of positive policies argued that the government could use a plentiful paper currency to subsidize export-oriented industry and invest in the nation's transportation infrastructure to bolster trade. In contrast, "negative polices" emphasized the need for tight monetary policy and low levels of government spending to prevent inflation and promote healthy economic growth.[334]

There are three main problems with this interpretation. First, as most historians readily admit, the positions and ideas espoused by participants in debates in the 1870s do not readily fit into a simple narrative of a conflict between supporters of positive and negative policies. As will soon be clear, even the positions of Ōkuma Shigenobu and Matsukata Masayoshi, the two men in the government frequently portrayed as the chief advocates of positive and negative policies respectively, do not fit comfortably into either camp. Second, to argue that the key economic issues in the 1870s were government spending and monetary policy overlooks another subject of fierce controversy in the 1870s, the issue of foreign trade.

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[333] The conflict between advocates of "positive" and "negative" economic policies is a common motif utilized in a wide range of political and economic histories of Imperial Japan. The terms have been used to explain everything from conflict between the "rich nation, strong army" policies favored by Japan's government and the fiscally conservative polices of Japan's political parties in the 1890s to the ideological disputes between mainstream political parties in the 1930s. Despite, or perhaps because of, the pervasive use of the terms there is little clear consensus as to what constitutes positive or negative policies. A somewhat inaccurate but serviceable working definition might be found in Mark Metzler suggestion that positive and negative economic policies should be understood as respectively as "Keynesian" and "monetarist" policies. Banno Junji, *Meiji kenpō taisei no kakuritsu: fukoku kyōhei to mikan kyūyō* (Tōkyō: Tōkyō Daigaku Shuppankai, 1971), 1-3 and Mark Metzler, *Lever of Empire: the international gold standard and the crisis of liberalism in pre-war Japan* (Berkeley: University of California Press, 2006), 67.

[334] Representative examples of this approach are Kamiyama's monograph on Japanese bond policy and Muroyama's work on fiscal policy and military expenditure in the Meiji era. Kamiyama Tsuneo, *Meiji keizai seisakushi no kenkyū* (Tōkyō: Hanawa Shobō, 1995) and Muroyama Yoshimasa, *Kindai Nihon no gunji to zaisei: kaigun kakuchō o meguru seisaku kessei katei* (Tōkyō: Tōkyō Daigaku Shuppankai, 1984).

Too often historians have forgotten that the two key issues of the 1870s were inflation *and* the foreign trade deficit. Finally, even if one could safely assume that the real conflict in the 1870s was a battle between advocates of positive and negative economic policies, one still needs to explain the underlying economic logic that informed both policy stances. To understand the conflicting worldviews that informed competing ideological camps in the economic debate one must examine ideas about foreign trade and Japan's place in the world economy at the time.

The economic crisis of the late 1870s was a formative moment in Japan's economic history and in the development of Meiji economic thought. Studies that examine the impact of the experience of inflation and foreign trade deficits on Japanese fiscal and monetary policy in that period have done much to broaden our understanding of Meiji economic development, but these scholars tell only part of the story. An equally crucial debate took place between competing ideas about foreign trade and Japan's place in the world economy. This latter controversy produced the direct trade movement.

Trade Deficits and Inflation

As noted above, the years between 1877 and 1881 were a time of economic crisis for the Meiji government. Rampant inflation was undermining the value of paper currency and gold and silver specie, which was supposed to back the paper money, was scarce. Between 1877 and 1881 average prices of a range of goods roughly doubled.[335] This surge included a rapid rise in the price of rice, a vital necessity for most of Japan's population. A single *koku* of rice (roughly 150 kilograms) which traded for 6 yen in 1878 was selling for 11 yen three

335 Teranishi Jūrō, "Matsukata defure no makuro keizaigaku-teki bunseki" in *Matsukata zaisei to shōkusan kōgyō seisaku* ed. Umemura Mataji and Nakamura Takafusa (Tōkyō: Kokusai Rengō Daigaku, 1983), 158-160.

years later.[336] With rising prices confidence in the value of paper currency steadily declined and the gap between the value of paper and silver widened. Although a one yen note was supposed to have a value equivalent to a one yen silver coin, by 1880 it required 1 yen 69 *sen* to purchase a single yen of silver.[337] The price of silver itself was declining relative to gold on international markets which also helped push up the price of imported goods.[338]

The inflation in rice prices was a boon to farmers but posed serious economic and political problems for the state, as revenues fell in real terms. The land tax reforms introduced in 1873 requiring land owners to pay their taxes in cash instead of rice seemed like a brilliant innovation at the time, but in the inflationary era of the late 1870s they became a burden, because the amount of cash payments were based on fixed assessments of the value of land which were not adjusted for inflation.[339] Inflation also threatened the livelihood of Japan's urban population and all those living on a fixed income.

Most historians have traced the beginnings of the inflationary crisis back to the start of the Meiji government in 1868.[340]Like most revolutionary regimes, it frequently resorted to printing money to fund its activities and in the process unwittingly encouraged inflationary tendencies in the economy. Especially during its first few years when it lacked a solid tax

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[336] Ishii Kanji, *Nihon no sangyō kakumei: Nisshin, Nichirō sensō kara kangaeru* (Tōkyō: Asahi Sinbunsha, 1998), 50.

[337] Inoue Kaoru Kō Denki Hensankai ed., *Seigai Inoue kō den,* vol. 3 (Tōkyō: Naigai Shoseki Kabushiki Kaisha, 1933; reprint Tōkyō: Hara Shobō, 1968), 140.

[338] Ishii Kanji, *Nihon no sangyō kakumei*, 50.

[339] Ibid.

[340] Muroyama's account of the inflation problem in the late 1870s is representative of such works. Muroyama Yoishimasa, *Mataukata zaisei kenkyū: futaiten no seisaku kōdō to keizai kiki kokufuku no jissō* (Kyōto: Mineruva Shobō, 2004), 31-51.

base the government relied on printing bills to fund its activities. Its first currency, known as Council of State bills (*Dajōkansatsu*) were theoretically exchangeable for gold coin, but mass printing of the bills coupled with merchant resistance to the new currency made them effectively inconvertible.[341] Naturally, the value of the Council of State bills quickly declined. Despite its failure to establish the Council of State bills as a stable currency, the Meiji government would continue to resort to printing money whenever it failed to find other methods of funding its activities.

A prime example of this policy was the Southwest War in 1877. The government had to make unexpected and large expenditures to mobilize military forces to defeat the rebellion Officials ended up printing over 40 million yen of new inconvertible notes to cover its expenses.[342] This amount was nearly equal to its total tax revenues of 52 million yen that year.[343] The additional currency also helped push the domestic money supply up from its 1876 total of 124 million yen to 189 million yen by 1878.[344]

The Meiji government also assumed large debts in carrying out its most important programs of economic reconstruction and internal reform. The Meiji government, however, was not particularly profligate. In fact, Meiji leaders could boast modest budget surpluses in most years.[345] Officials had used debt to construct rail lines and model factories early on

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[341] Mitsui Bunko, *Mitsui jigyōshi*, *honpen*, vol. 2 (Tōkyō: Mitsui Bunko, 1980), 17-18.

[342] Mark Metzler, *Lever of Empire*, 24.

[343] Inoue Kaoru Kō Denki Hensankai, *Seigai Inoue-kō den,* vol. 3, 140.

[344] Teranishi Jūrō, "Matsukata defure no makuro keizaigaku-teki bunseki," 158.

[345] Naikaku Tōkeikyoku, *Nihon teikoku tōkei nenkan,* vol. 1, ed. Tōkeikyoku (Tōkyō: Naikaku Tōkeikyoku, 1882; reprint, Tōkyō: Nihon Tōkei Kyōkai, 1968), 559-560.

before a reliable system of taxation existed. In general, though, the Meiji government attempted to live well within its means.

The Meiji government incurred its largest debts in liquidating various Tokugawa era obligations of the *bakufu* and the various domains. The government's single largest bond issue in 1876 was a 174 million yen mass distribution of bonds to *samurai* households in return for ending the feudal era stipends that either the *bakufu* or domains had paid. The 1876 bonds also amounted to the instantaneous creation of massive amounts of capital that greatly increased the money supply.

Japan's banking system in the 1870s played an enabling role in fueling inflation. The National Bank Ordinance in 1872 established a banking system modeled along American lines. The American national bank system, which developed during the Civil War in the early 1860s, consisted of a group of nationally chartered banks each of which were authorized to issue banknotes equal to the amount of government bonds the bank purchased.[346] This system contrasted with European central banks where paper currency was backed by gold or silver specie. In effect, the American system replaced gold and silver coin with government debt as the ultimate guarantor of the value of paper currency and the basis of the U.S. financial system. Itō Hirobumi the primary architect of the National Bank Ordinance believed the American banking system presented, "an ingenious method without compare in the world" (*bankoku muhi no ryōhō*).[347] Because his compatriots were less certain, initially the Japanese national banks were required to hold reserves consisting of both bonds and a significant

[346] Stephen Minh, *A Nation of Counterfeiters: capitalists, con men, and the making of the United States* (Cambridge: Harvard University Press, 2007) 330.

[347] Itō Hirobumi, "Itō Hirobumi no kahei, shihei, kōsai hakkō hōhō ni kansuru kengi," in *Keizai kōzō* ed. Nakamura Masanori, Ishii Kanji and Kasuga Yutaka, vol. 8 *Nihon kindai shisō yaikei* (Tōkyō: Iwanami Shoten, 2000), 9.

amount of specie.[348] However, the requirement to hold specie in reserve to guarantee the value of banknotes was removed by a revision of the ordinance in 1876 (*Kaisei Kokuritsu Ginkō Jōrei*), partly at the request of the national banks themselves but also in the hopes that the revision would encourage the *samurai* recipients of government bonds to use them as capital in founding banks.

The revision of the law did in fact result in an explosion in the growth of the Japanese banking industry. Prior to 1876 there were only four national banks, but by the end of 1879 153 banks held national charters.[349] The practical effect of this frantic scramble to found banks was however, a proliferation of banknotes as the new banks quickly converted the government bonds they held in reserve into paper currency.

The Meiji state might have handled this situation if trade deficits were not draining Japan of specie that theoretically backed government issued paper currency. The beginning of the Meiji era coincided with the emergence of a persistent imbalance in Japan's foreign trade. By some estimations, Japan enjoyed trade surpluses from the opening of its ports to unrestricted foreign trade up until 1867.[350] The Meiji regime would not be so fortunate. Poor rice harvests in the first years of the Meiji era required the government to import large quantities of rice to feed Japan's populace with the result that imports far outstripped

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[348] Nakamura Naomi, *Ōkuma zaisei no kenkyū* (Tōkyō: Kōkura Shobō, 1968), 36-39.

[349] Ibid., 50-56.

[350] Masao Baba and Masahiro Tatemono, "Foreign Trade and Economic Growth in Japan: 1858-1937," in Michael Smitka ed., *Japan's Econommic History 1600-1960,* vol. 5, *Japan's economic ascent: international trade, growth and postwar reconstruction* (New York: Garland Publishing, 1998), 5.

earnings from exports. Each following year imports outpaced exports by a wide margin except for 1876 when Japan enjoyed a modest trade surplus.[351]

One of the main concerns with Japan's trade deficit was that it led to the outflow of gold and silver which the government desperately needed to back domestic currency and stabilize the monetary system. Domestic inflation caused intense worries for Meiji leaders. Shrinking specie reserves, high levels of government debt and decreased real revenues and purchasing power convinced the oligarchs that they had to stem inflation and stabilize the currency. Economic instability was also a serious political liability for the regime. Several opposition figures accused the government of economic mismanagement and pointed to domestic inflation as proof positive of the autocratic government's ineptness. Thus, between 1878 and 1881 a sense of urgency arose to rein in inflation.

Inflation and Industrial Reform: Ōkuma Shigenobu and Godai Tomoatsu

One of the central figures in the debate about the inflation was Minister of Finance Ōkuma Shigenobu. He was one of a group of able young officials that rose to prominence soon after the Meiji Restoration and who would continue to dominate the nation's politics until the second decade of the twentieth century. After the assassination of Ōkubo Toshimichi in 1878 Ōkuma became the main architect of all of the Meiji regime's fiscal and economic policies until his unceremonious ouster from the government in 1881. His ideas and policy recommendations set the agenda for the debate within the government.

Throughout the debates over monetary policy in the latter 1870s, Ōkuma maintained that Japan's persistent foreign trade deficit had caused the collapse in the value of paper

[351] Masao Baba and Masahiro Tatemono, "Foreign Trade and Economic Growth in Japan: 1858-1937," 7.

currency and domestic inflation.[352] Because Japan continually imported more than it exported, Ōkuma argued, the Japanese had to cover the resulting deficits by exporting silver specie. This outflow of silver reduced domestic supply. The lack of silver to back paper currency reduced the value of the latter.[353] The decreasing value of paper currency also undermined public confidence in paper money and discouraged the circulation of capital needed to maintain a healthy level of economic activity.[354]

Even after the Southwest War, when rising prices for goods suggested that inflationary pressures might be the product of something more than just trade deficits, Ōkuma staunchly maintained that foreign trade was the primary cause of the nation's currency problems.[355] Ōkuma thoroughly rejected the arguments of his critics who proclaimed that it was an excess supply of paper currency engendered by the government's reckless printing of money and not trade deficits that fuelled inflation. He countered that increasing commercial activity and the land tax reforms which required Japan's subjects to pay their taxes in cash rather than rice had increased the need for paper currency among Japan's populace.[356] He also offered calculations which demonstrated that the ratio of money in circulation relative to total population in Japan was only a fraction of what it was in

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[352] Maruyama, *Matsukata zaisei kenkyū*, 27.

[353] Ōkuma Shigenobu, "Shūnyū shishutsu no genryū wo kiyomashi rizai kaikei no konpon o tatsuru no gi," in *Ōkuma Monjo*, ed. Waseda Daigaku Shakai Kagaku Kenkyūjo, vol. 3 (Tōkyō: Waseda Daigaku Shakai Kagaku Kenkyūjo, 1960), 104.-105.

[354] Ibid.

[355] Ōkuma Shigenobu, "Zaisei yonken o kyokosen koto o kou no gi," in *Ōkuma Monjo*, ed. Waseda Daigaku Shakai Kagaku Kenkyūjo, vol. 3 (Tokyo: Waseda Daigaku Shakai Kagaku Kenkyūjo, 1960), 350.

[356] Ibid., 354.

Western countries. There was an average of 30 Mexican silver dollars of currency in circulation per every man, woman, and child in America and Britain compared to a paltry 4 yen[357] for each person in Japan.[358] Ōkuma admitted this comparison of ratios was a crude one, but he pointed to Japan's low ratio as proof that the nation could not be suffering from an oversupply of paper currency.

Ōkuma's arguments enjoyed wide support in Japan. Godai Tomoatsu, a former government official turned entrepreneur and head of the Ōsaka Chamber of Commerce (*Shōhōkaisho*), presented a nearly identical analysis of Japan's economic problems in a petition to the government urging it to adopt protectionist economic policies.[359] Like Ōkuma, Godai argued that trade deficits were draining the country of specie and driving the decline in the value of paper currency. The use of silver specie was almost unheard of in the domestic market where paper currency now fulfilled the role of medium of exchange. The high price of silver could therefore only result from the unusually high demand for silver to pay for imported goods.[360]

If trade deficits and the accompanying outflow of specie were the root causes of Japan's economic troubles, the next big question confronting Ōkuma was discerning the causes of trade deficits and devising ways of balancing Japan's trade. He assumed that a

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357 The weight and purity chosen for the gold yen coin was carefully calculated to give the yen a nearly equal value to that of the Mexican silver dollar. For information on the gold yen see Mark Metzler, *Lever of Empire*, 22.

358 Ōkuma Shigenobu, "Zaisei yonken o kyokosen koto o kou no gi,"353-354.

359 Godai Tomoatsu, "Zaisei kyūji ikensho," in *Keizai kōzō*, ed. Nakamura Masanori, Ishii Kanji and Kasuga Yutaka, vol. 8 *Nihon kindai shisō taikei* (Tōkyō: Iwanami Shoten, 2000), 312.

360 Godai Tomoatsu, "Beinōron" in *Godai Tomoatau denki shiryō*, ed. Nihon Keieishi Kenkyūjo, vol. 4 (Tōkyō: Tōyō Keizai Shinpō, 1974), 160.

structural imbalance caused Japan's trade deficits. He noted that Japan exported primarily low-value primary commodities and simple semi-finished goods while it imported high-value finished goods from the economically advanced Western economies.[361] Because Japan was trading lower value goods for higher value products, expenditure on imports would always outstrip income from exports and drain the nation of wealth. In other words, because of Japan's relative underdevelopment, it was impossible to for the nation to obtain a net benefit when engaging in trade with more economically advanced countries.

The solution to the trade deficit problem therefore lay in escaping the trap of economic backwardness by transforming the nation into a major industrial and commercial power. This effort would require a radical change in the nation's industrial structure. Only when Japan established advanced manufacturing industries and began producing and exporting high-value added products would the nation be able to truly benefit from foreign trade. Transforming Japan's industrial structure required the introduction of industrial policies that provided protection and government support to encourage the growth of advanced sectors in the economy.

A close ally of Ōkuma's, scholar and journalist Fukuzawa Yukichi, stated the point more succinctly in an 1875 article written in opposition to opening up Japan's interior to foreign merchants. Fukuzawa argued that the exchange of primary commodities for manufactured goods not only robbed Japan of any possible gains that might come from exporting manufactures, but also threatened to strip Japan of any manufacturing industry with a constant inflow of foreign manufactured goods and transform the Japanese into a nation of unskilled manual laborers who had "fallen into the hellish world of toil" (*rikiyaku*

[361] Ōkuma Shigenobu, "Shūnyū shishutsu no genryū o kiyomashi rizai kaikei no konpon o tatsuru no gi," 104.

no kukai ni ochiiru).[362] Unless Japan developed, protected and promoted its domestic industries the nation would be reduced to a permanent state of poverty and economic backwardness in which it could aspire to nothing more than being an economic appendage to more wealthy industrial nations.

The solution to Japan's inflation problem therefore lay in protecting Japan's industries from foreign competition and encouraging the development of more advanced industry. Ōkuma believed the best way to achieve this goal was through protective tariffs. He constantly stressed that the fundamental solution to balancing the nation's trade and eliminating inflation could only be achieved through raising tariff rates.[363] Tariffs would block imports of foreign manufactures and encourage the development of domestic industry. They also had the added attraction of providing revenue for the government.[364] The main problem with this idea, as Ōkuma admitted, was that the unequal treaties that Japan had signed with the Western powers banned import tariffs above 5 percent *ad valorum*. Raising tariffs would require renegotiating these treaties, an unlikely possibility in the near future.[365] In the meantime, Ōkuma proposed a series of other measures to reduce imports and promote domestic industry.[366]

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[362] Fukuzawa Yukichi, "Gaikokujin no naichi zakkyo yurusu bekarazaru no ron," *Fukuzawa Yukichi Zenshū*, ed. in Keiō Gijuku Daigaku, vol. 19 (Tōkyō: Iwanami Shoten, 1962), 518.

[363] Ōkuma, "Shūnyū shishutsu no genryū wo kiyomashi rizai kaikei no konpon o tatsuru no gi," 105.

[364] Ibid., 103-104.

[365] Ibid., 105.

[366] Ibid., 104-105 & 107-108.

To reduce imports, Ōkuma suggested the Ministry of Finance work closely with domestic industry in attempting to encourage import substitution. The ministry was to scrutinize all purchases of foreign made equipment. If similar goods were produced domestically, the ministry would place orders with domestic firms to supply the government; if no similar goods were available the ministry was to consult with private industry to see if domestic production was viable.[367] The government was to encourage and help fund companies which undertook to supply the government with goods that were technically difficult to produce. Throughout, Ōkuma advocated policies which would block imports, protect Japanese industry, and help the nation upgrade its industrial structure so that it could exploit the full benefits of participation in world trade.

Promoting Japanese industry was another way to help balance Japan's trade that Ōkuma enthusiastically embraced. Arguing that Japan's entrepreneurs were hesitant to invest capital in new ventures, Ōkuma proposed the government issue bonds to gather private capital and use the money to promote coastal shipping, build new rail lines, and otherwise improve domestic transport networks. These measures would lower transport costs for business and help promote exports abroad.[368]

Ōkuma's ideas resonated with at least some businessmen. Similar proposals appear in a petition issued by the Ōsaka Commercial Chamber (*Shōhō Kaigijo*). The document authored by Godai and mentioned above urged the government to subsidize several key industries such as textiles, sugar cultivation, and kerosene oil production as a method to

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[367] Ibid., 107-108.

[368] Ibid., 110-111.

reduce imports and encourage the growth of more advanced manufacturing sectors.[369] Godai proposed that the government purchase and lend spinning machines to domestic companies at low rates to encourage the growth of a modern textile industry. He argued that similar subsidies should encourage oil exploration and the cultivation of sugar to supply the domestic sugar refining industry.[370] The measures recommended by the Ōsaka Commercial Chamber had the same basic goal of eliminating trade deficits through blocking imports and upgrading Japan's industrial structure.

Several scholars examining developments in the economic thought of the Meiji period have viewed the calls for tariff protection and policies to nurture the development of infant industries voiced by Ōkuma and others as influenced primarily by Friedrich List's ideas of political economy. List was a nineteenth century German economist who is most famous for his rejection of laissez-faire economic doctrines and his advocacy of protectionism. Scholars seeing similarities between the protectionist sentiment of the industrial reformers and Friedrich List's ideas suggest that Meiji leaders fully embraced protectionism and rejected laissez-faire doctrines of economic liberalism.[371] While this conclusion oversimplifies the ideas and policies of the Meiji oligarchs, the adjective "Listian" seems to fit Ōkuma and Godai's economic proposals well. Like List both men embraced the idea that international trade did not necessarily benefit all participants equally and that lesser developed nations might actually suffer from engaging in international trade. Like List, both

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[369] Godai, "Zaisei kyūji ikensho," 315.

[370] Ibid., 316-317.

[371] An example of such arguments can be found in the work of John H. Sagers. See John H. Sagers, *The Origins of Japanese Wealth and Power: reconciling Confucianism with capitalism, 1830-1885* (New York: Palgrave Macmillan, 2006), 108.

Ōkuma and Godai proposed tariffs and state support for domestic industry to spur industrialization and help "catch up" with the more advanced West.[372]

Yet if both men advocated a "Listian" program of industrial development, it was only a "program" in the vaguest sense of the word. Ōkuma never clearly identified the specific industries the government should seek to promote or protect. In a similar fashion the Ōsaka Chamber of Commerce proposal for subsidizing industry was mainly concerned with keeping out imports. Their plans amounted to a series of *ad hoc* policies designed to promote the development of specific industries, rather than an organized scheme of overall economic development. Still the proposals were important because they set forth the principles of protecting domestic industries and promoting new ones in order to balance the trade deficit. Favoring the creation of mechanized manufacturing, the industrial reformers had little interest in developing indigenous industries and the agricultural sector.

Commercial Nationalism: Maeda Masana's theory of inflation and direct trade

Because industrial reformers believed that Japan's trade deficits were the result of Japan's relative economic backwardness, they saw the solution to Japan's problems primarily in economic modernization and the reform of the domestic industry. Once Japan gained a level of economic development equal to the West, Japan could enjoy the full benefits of trade. Industrial policy would solve the problem of trade deficits and inflation. Although Ōkuma and other industrial reformers were interested in expanding Japan's exports, commercial policy was not their primary concern.

[372] A short version of List's argument for utilizing tariffs to encourage the growth of domestic industry can be found in Friedrich List, *The Natural System of Political Economy*, trans. and ed. W. O. Henderson. (Totowa: Frank Cass and Company, 1983), 33 & 46-48.

Commercial nationalists had a different perspective. They argued that the trade deficits were the result of foreign merchant domination of Japan's trade. In order to eliminate trade deficits and solve the nation's economic ills, Japan had to break free of foreign influence, sell its own goods in foreign markets, and reclaim its "commercial rights." The commercial nationalists were not necessarily opponents of industrial reformers; in fact, the commercial nationalists found much common ground with the industrial reformers and their views complemented those of the industrial reformers in many ways. Yet by identifying the source of Japan's economic ills as commercial in nature, the commercial nationalists suggested that the solution to Japan's problems also had to be found in commercial policy. Economic modernization and industrial structure mattered less than promoting direct trade and reclaiming the nation's economic sovereignty.

The most important theorist of the commercial nationalist school, so to speak, was Maeda Masana, a young official in the Ministry of Finance who some consider the "ideologue of Ōkuma's export promotion policies."[373] Maeda was born in 1850, the youngest son of an impoverished lower class samurai household eking out a living in the rural periphery of the Satsuma domain.[374] When Maeda was nine years old, his father found work for him as an apprentice to a local scholar of Dutch Studies, Yagi Shōhei. Maeda attended to household duties and assisted Yagi in his work in return for room, board, and education in Chinese and Western learning.[375] Maeda's apprenticeship had the added advantage of familiarizing him with the realities of trade and mercantile activity. As one of the domain's

[373] Unno Fukuju, *Meiji no bōeki; kyorūchi bōeki to shōken kaifuku undō*, (Tōkyō: Hanawa Shobō, 1967), 73.

[374] Soda Osamu, *Maeda Masana* (Tōkyō: Furukawa Kōbunkan, 1973), 1 & 5.

[375] Ibid., 7.

top specialists in Dutch Studies, Yagi helped manage the domain's growing illicit trade with Western merchants occurring through Satsuma's vassal state, the Ryūkyū kingdom. Maeda gained his first practical lessons in the workings of international trade by assisting his mentor who entrusted to him the more mundane aspects of dealing with contracts, shipping invoices and other paperwork involved in Satsuma's dealings with Western traders.[376]

These experiences fostered Maeda's intense fascination with the West and in 1865 when the domain announced a plan to send a mission to Europe he immediately applied to join.[377] To his great disappointment, his application failed, but as compensation the domain awarded him a scholarship to study Western languages in Nagasaki, the center of the *bakufu*'s trade with the Netherlands and a center of Dutch studies.[378] The time in Nagasaki proved to be a turning point for Maeda because there he made acquaintances with many of the men who were to become powerful figures in the new Meiji government after 1868. The most important of these contacts was a fellow Satsuma samurai Godai Tomoatsu who had led the Satsuma mission to Europe and had returned to Japan in 1866 to assume duties as Satsuma's representative in Nagasaki.[379]

Maeda's connections helped him realize his dreams of reaching the West. In order to scrounge up the large sums of money needed to finance study abroad, Maeda, one of his brothers, and a friend seized on the idea of compiling an English-Japanese dictionary. When

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[376] Ibid., 8. Summary information on Satsuma's illicit trade with the West can be found in Robert J. Hellyer, *Defining Engagement: Japan and Global Contexts, 1640-1886* (Cambridge: Harvard University Press, 2009), 162-168.

[377] Sagers, *Origins of Japanese Wealth and Power*, 128.

[378] Sydney Crawcour, "Kogyo Iken: Maeda Masana and his view of Meiji economic development," in *Journal of Japanese Studies* 23, no. 1 (winter 1997): 71.

[379] Soda Osamu, *Maeda Masana*, 15-16.

the three friends completed the dictionary, the famous *Satsuma Dictionary* (*Satsuma Jishō*), Maeda used personal connections to convince the new Meiji government to purchase all the available copies. He also gained crucial support from Ōkubo Toshimichi and Ōkuma Shigenobu who arranged for Maeda to become a government supported student and receive a stipend to help finance study abroad in France.[380]

With government sponsorship in hand, Maeda departed for France in 1869 where he would remain for roughly eight years. Little is known about how Maeda's studies in France impacted his later economic thought, although this ignorance has not prevented some researchers from making some bold assumptions. From 1871 Maeda studied under the direction of Eugene Tisserand, an expert in agricultural economics who served a brief stint as Vice-Minister of Agriculture in the French government in 1874.[381] Sydney Crawcour describes Tisserand as a "thoroughgoing dirigiste" and speculates that it is "reasonable" to think that Tisserand introduced Maeda to the works of German protectionist economist Friedrich List.[382] In a similar vein, John Sagers speaks of Tisserand and Maeda as sharing "common economic nationalist views."[383] Soda Osamu, who wrote the most recent biography of Maeda, argues that Tisserand advocated protectionist policies for agriculture and possessed a vision of economic development which placed emphasis on the harmony of

[380] Ibid., 31-32.

[381] Ibid., 49-50.

[382] Crawcour, "Kogyo Iken," 71 & 103-104.

[383] Sagers, *The Origin of Japanese Wealth and Power*, 130.

interests between agriculture, industry, and commerce.[384]None of these conclusions are based on any examination of Tisserand's works.[385]

Instead of instilling Maeda with any particular economic ideology, Tisserand's real influence may have been to teach Maeda an approach to the analysis of economic problems. Most of Tisserand's major works deal with issues of rural economy. The two works he published shortly before Maeda's arrival in France, *Études économiques sur le Danemark, le Holstein et le Slesvig* and *Étudie sur l'économic Rurale de l'Alsace* are both careful studies of regional rural economies beginning with detailed analyses of climate and population and ending in an examination of livestock species.[386] Tisserand appears to have been more interested in the detailed workings of the rural economy with a focus on the problems and challenges faced by the agricultural small producer rather than grand economic debates regarding free trade versus protection. Considering that Maeda would spend several years in the 1880s compiling a massive survey of the Japanese economy, region by region, and was a tireless advocate for rural industry, one can conclude that if Maeda did learn anything of lasting value from his mentor in France it was probably a habit of intense investigation of local economies and a concern for the plight of the small producer in the countryside.

Maeda's career as a civil servant began upon his return to Japan in 1877, just in time to enter the fray of the debate over inflation and economic policy. Maeda entered the

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[384] Soda, *Maeda Masana*, 50 & 52.

[385] Soda gleans his information on Tisserand from an encyclopedia entry in *Grand Larousse Encyclopedique.* Crawcour and Sager rely entirely on Soda's biography of Maeda as a source of information but otherwise provide no substantiating evidence for their own claims.

[386] Eugène Tisserand, *Études économiques sur le Danemark, le Holstein et le Slesvig* (Paris: V. Masson, 1865) and Eugène Tisserand and Leon Lefebure, *Étudie sur l'économic Rurale de l'Alsace* (Paris, V, Berger-Levrault et Fils, Libraires-Editeurs, 1869).

Industrial Promotion Bureau of the Ministry of the Interior (*Naimushō Kangyōryō*) where he was assigned the tasks of overseeing Japan's preparations for the 1878 Paris Exhibition and assisting the Mitsui Trading Company in setting up a branch office in Lyon, the center of France's silk industry.[387] The Paris Exhibition of 1878 was a world fair held to celebrate France's recovery from its defeat in the Franco-Prussian War. Japan's participation in the celebrations had commercial motives.[388] Japanese officials hoped that a display at the fair would generate interest in Japanese products and promote Japanese exports.[389]

Maeda's task in France was twofold. He had to help coordinate the collection and shipment of over 45,000 products gathered from various regions in Japan for exhibition.[390] Maeda's second project was to assist the economic fact finding mission that traveled to France in conjunction with Japan's participation in the exhibition. A number of government officials under the leadership of Matsukata Masayoshi, who would later replace Ōkuma as Minister of Finance, arrived to gather information on economic conditions in Europe.[391] Maeda served as a translator in conversations between Mastukata and France's Minister of Finance, Leon Say. These conversations would eventually lead to an investigation of

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[387] Soda, *Maeda Masana*, 55.

[388] Ibid., 50.

[389] Richard Smethurst, *From Foot Soldier to Finance Minister: Takahashi Korekiyo, Japan's Keynes* (Cambridge: Harvard University Press, 2007), 84.

[390] Soda, *Maeda Masana*, 64.

[391] Muroyama Yoshimasa, *Matsukata Masayoshi: ware ni kisakuaru ni arazu tada shōjki aru nomi* (Kyōto: Mineruva Shobō, 2005), 119.

Belgium's banking system which would provide the model for the creation of the Bank of Japan in 1882.[392]

After Maeda returned to Japan and entered the Commerce Bureau (*Shōmukyoku*) of the Ministry of Finance in 1879, he threw his full energies into developing his own analysis and solution to Japan's inflation problem.[393] It was Maeda, rather than Ōkuma, who developed the most sophisticated analysis of the root causes of Japan's persistent trade deficits and proposed an ambitious and comprehensive solution to Japan's trade problems through an aggressive program of promoting exports. He outlined these ideas in a series of writings beginning with *A Summary Opinion on Direct Trade* (*Chokusetsu Bōeki Iken Ippan*), a pamphlet which was originally written in 1879 but was not published until 1881.[394] Two official documents that Maeda wrote in 1880 or 1881 refined and expanded upon the ideas expounded in this pamphlet: *A Theory of Direct Trade* (*Chokutestu Bōekiron*) and *An Opinion on Direct Trade* (*Chokusetu Bōeki Ikensho*).[395]

The point of departure for Maeda's analysis of Japan's economic ills was Ōkuma's theory of trade deficits as a cause of inflation. Maeda agreed that the nation's persistent trade deficits caused a constant outflow of specie which was undermining the value of the paper

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[392] Ibid, 64-65. Smethurst, *From Foot Soldier to Finance Minister*, 87, and Muroshita, *Matsukata Masayoshi*, 121-122.

[393] Ibid., 68.

[394] Maeda Masana, *Chokusetsu bōeki iken ippan* (Tōkyō: Hakukensha, 1881).

[395] These latter two works were discovered among the personal papers of Godai Tomoatsu. Of the two documents, *A Theory of Direct Trade* was almost undoubtedly authored by Maeda. Godai's own notes on the document indicate that it was a copy of Maeda's writings. The authorship of *An Opinion on Direct Trade* is uncertain but the editors of Godai's papers speculate it was authored by Maeda. More information on the question of authorship can be found in "Kaisetsu" in *Godai Tomoatsu denki shiryō*, ed. Nihon Keieishi Kenkyūjo, vol. 2 (Tōkyō: Tōyō Keizai Shinposha, 1972), 101.

currency.[396] Yet Maeda took his analysis one step further by claiming that the reason Japan suffered from continual trade deficits derived from fundamental problems in the nation's commerce. Trade deficits existed because the nation's producers were being ruthlessly exploited by the powerful foreign merchants who dominated Japan's overseas trade.[397] Through their superior knowledge of world markets and ability to tap large reserves of capital from their home countries, foreign merchants were able to manipulate the market for Japan's export products in their favor and capture the lion's share of the revenues generated by Japan's foreign trade.[398] How else could one explain the fact that the volume of Japan's foreign trade was rapidly increasing while domestic industry only became ever more impoverished?[399]

In Maeda's eyes, the key element of foreign merchant houses' power was their ability to dictate the price of export goods in the treaty ports. Japan's main exports were produced by a myriad of unorganized small-scale producers. Because these producers lacked any independent access to foreign markets, they depended on a handful of foreign merchant houses in the treaty ports as customers. This dependence allowed the foreign merchants to use their market power as buyers to encourage fierce price competition between the producers and keep the sale price of Japanese goods in the treaty ports low.[400]

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[396] Maeda, *Chokusetsu bōeki iken ippan*, 1-2.

[397] Ibid.

[398] Ibid., 37-38.

[399] Ibid., 20

[400] Ibid., 18.

Maeda warned that the pressure the foreigners put on prices had a devastating effect on Japanese industry. As market prices were pushed downward, producers attempted to reduce their costs and maintain profitability by cutting corners in the production process and putting out shoddy goods. Expectations of declining prices also encouraged panic selling, dumping and fraud as producers attempted to dispose of their goods as quickly as possible while market prices were still relatively favorable.[401] Yet such actions merely worked to further disadvantage the producer. The decline in the quality of Japanese goods due to excessive price competition undermined the reputation of Japanese goods in foreign markets. The loss of foreign confidence would result in lower demand for Japanese goods which could only be overcome by further lowering prices. This development would merely perpetuate the cycle of lower prices, more cheaply made products, and a decline in consumer trust until foreign demand for Japanese goods collapsed and all of Japan's export industries were thoroughly and completely devastated.[402]

In short, foreign merchants were robbing Japan's producers of the profits they might rightfully obtain for their goods if they were able to sell them directly to consumers in foreign markets. Realizing that Japanese goods fetched higher prices in foreign markets than in the treaty ports, Maeda believed that the prices that Japanese goods gained abroad represented their "true price" (*seika*).[403] The difference between the two prices proved to him that foreign capitalists were victimizing Japanese producers. For a merchant to buy goods cheaply in one market and sell dear in another market was a legitimate way of business if

[401] Ibid., 18-19.

[402] Ibid.

[403] Maeda makes reference to the "true price" (*seika*) or "just price" (*seito no atai*) which would be gained through establishing direct trading links with the West. Maeda Masana, *Chokusetsu bōeki iken ippan*, 2 & 18.

buying and selling between producers and merchants were transactions conducted among equals. For Maeda, however, the unequal treaties imposed on Japan and the monopolistic hold foreign traders had over the nation's trade had relegated Japanese entrepreneurs to a position of inferiority and helpless dependence.[404]

The idea that Japan's trade was suffering due to the exploitation of foreigners struck a deep cord with nationalist sentiment. Many government officials and intellectuals were wary of international trade and suspected the West of using trade as a weapon of domination. While the Western powers publicly espoused principles of equality among nations and the need to adhere to international law, many Japanese believed this rhetoric was merely a flimsy façade hiding brutal realities of how Western governments bullied weaker nations. The real principle of international relations as practiced by the West was the law of the jungle where the, "weak become food for the strong" (*jyakuniku kyōshoku*).[405] International trade was, for these Japanese skeptics, merely one vital part of the larger struggle between nations for survival and supremacy. Even though Western powers utilized commerce as a tool to extend their domination over weaker nations, the latter could employ it as a weapon to regain their independence and ensure national survival. In other words, if commerce was a form of war by other means, Japan's trade deficits indicated that Japan was losing the battle.

In *A Theory of Direct Trade*, Maeda argued that commerce was the basis of national strength and supremacy. "The secret [behind] relations between the nations is nothing more than the expansion or contraction of trading rights (*bōeki kenri*)," declared Maeda.[406] If a

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[404] Maeda, "Chokusetsu bōekiron," 109.

[405] Matsuda Kōichirō, *Edo no chishiki kara Meiji no seiji e* (Tōkyō: Perikansha, 2008).

[406] Ibid, 115.

nation's "trade rights" expanded it would become wealthy and powerful and would gain the ability to determine its own destiny.[407]

Maeda was not alone in his view. In debates over the inflation question Prince Iwakura Tomomi, a key figure in the government, linked the economic competition for trade with the struggle for political dominance in a similar way. He observed, "…many nations compete for greatness and fight for strength…but the deciding factor between strength and weakness is not necessarily the result of combat, but the result of the wealth or poverty of trade. If [a nation's] trade is plentiful, that nation will be prosperous and powerful. If [a nation's] trade is small, that country will be weak. This world is one great battlefield of trade."[408] It was therefore vital that the government do everything it could to promote the nation's trade.[409]

The belief that commerce was an integral part of a Darwinian struggle for survival between nations also pervaded Fukuzawa Yukichi's essay, "Opposing Foreign Residence in Japan" (*Gaikokujin no naichi zakkyo yurusu bekarazaru no ron*). Written in 1875 in response to rumors that Japan was about to revise the unequal treaties to allow foreigners unrestricted access to Japan's interior, Fukuzawa voiced his opposition by arguing that unrestricted access to the domestic market would allow foreigners to dominate Japan's economy even more. In justifying this position, Fukuzawa declared that international trade was "the struggle over profits between different peoples," (*naigai no jinmin ri wo arasou no koto*) and that

[407] Ibid.

[408] Quoted in Ota Koma, *Iwakura kō jikki gekan* (Tōkyō: Hara Shobō, 1968), 633.

[409] Ibid., 633-634.

"trading ports are the site of these struggles."[410] In the struggle, so to speak, of foreign trade, Fukuzawa noted there were many alarming signs that Japan was losing. Fukuzawa declared, "If we observe trade since the opening of the ports, all too often we see our country suffering losses while foreigners profit. Thus, when debating the overall effect of the growth of our nation's trade up until today, it is clear that trade is decreasing our national wealth."[411]

If commerce was an extension of the struggle for survival and supremacy among nations, it followed that the implications of losing the war of commerce were nothing less than loss of independence, colonial subjugation, and the extinction of the nation itself. In *A Theory of Direct Trade* Maeda argued that establishing control over another nation's trade was always the first step for the Western powers in bringing weaker nations under their colonial control.[412] Britain had subjugated the Indian sub-continent, not through the use of brute military power, but through the work of the British East India Company which allowed the British to monopolize India's trade and control the flow of Indian gold and silver.[413] Other Western ventures that extended trade contributed to Western control over commerce which added to the wealth and power of the West.[414] Maeda mused that Japan had only maintained its independence from Western interlopers until now largely because of the wise

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410 Fukuzawa Yukichi, "Gaikokujin no naichi zakkyo yurusu bekarazaru no ron," 518.

411 Ibid.

412 Maeda, "Chokusetsu bōekiron," 107.

413 Ibid., 111.

414 Ibid., 112 & 115.

decision made by Japan's Tokugawa rulers to strictly limit foreign trade for several centuries.[415]

Unfortunately, Japan had now ceded control over its commerce to the foreign merchants in the treaty ports. According to Maeda, Japan's relationship with the West had become similar to the relationship of the Ryūkyū Islands to the Satsuma domain in Tokugawa times, when the Ryūkyū islands became a *de facto* colony of that domain. Although the Ryūkyū islands produced tradable goods, such as sugar, the Ryūkūans had failed to profit from their trade with Japan because they had to conduct all of their trade through Sastuma merchants who monopolized the profits.[416] With its trade currently in the firm grip of foreign traders, Maeda queried, was Japan's position really any different from the colonized nations of Asia like India?[417]

Maeda's concerns about the state of Japanese commerce struck a chord with other observers. Fukuzawa compared the position of Japanese entrepreneurs in relation to foreign merchants in slightly different but no less stark terms. In a speech at the opening of a commercial school in Tōkyō, he compared the relationship between Japan's merchants and their foreign counterparts to that of the relationship between a shopkeeper of a general store (*man'ya*) in rural Japan and urban wholesale merchants (*ton'ya*).[418] According to Fukuzawa, the typical rural shopkeeper sold all manner of items from umbrellas to porcelain which he

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[415] Ibid., 107.

[416] Ibid., 111.

[417] Ibid., 107

[418] Fukuzawa Yukichi, "Shōgakko wo tatsuru no shui" in *Fukuzawa Yukichi Zenshū*, ed. Keiō Gijuku Daigaku, vol. 20 (Tōkyō: Iwanami Shoten, 1962), 124.

purchased from urban merchants without any knowledge of the origins of the products or their actual wholesale prices. The rural shopkeeper's ignorance allowed the urban merchant to exploit him by concealing the true nature of the goods he bought and overcharging the hapless rural merchant for them. The situation of Japan's merchants in the world marketplace was in a way similar, proclaimed Fukuzawa. Japan's merchants were too ready to trade with foreign merchants at whatever price the foreigners dictated without inquiring about the true value of the goods in question or what price they sold for in other countries.

In fact, Fukuzawa suggested, the situation of Japanese merchants in the world market was even worse than that of the rural shopkeeper. At least a few rural shopkeepers possessed the business acumen to travel to the major cities and investigate prices and the sources of the goods they bought to ensure that they were not being cheated. In contrast, Japan's merchants had been content to sit idly in the treaty ports happy with the meager profits they obtained by helping foreigners bleed the nation dry. A new generation of Japanese entrepreneurs had to venture out into the world and make direct contact with Western consumers and producers.[419]

To Maeda and Fukuzawa, loss of control over the nation's foreign trade meant the loss of an integral part of national sovereignty. The only way to cure Japan's economic ills and save the nation from utter destruction was to recover Japan's "commercial rights" (*shōken*) or control over its own trade. [420] In the formulation used by Maeda and other nationalists, the phrase "commercial rights" indicated the control every truly independent nation should be able to exercise over its own commercial affairs. Although never precisely defined, the idea of recovering Japan's commercial rights was a powerful political rallying

[419] Ibid.

[420] Unno, *Meiji no bōeki*, 85.

cry in that it expressed the economic aspects of a more general desire among the Japanese to gain equality and respect from the West. Maeda believed that for Japan to regain commercial rights, the nation must participate in the international economy on an equal footing with the West.

For Maeda, achieving this goal meant promoting "direct trade" (*jiki yushutsu*). Japanese merchants and producers would have to venture abroad and start selling their goods directly to consumers in foreign markets.[421] In essence the entire system of trade in the treaty ports, which relied on foreign merchants, would have to be replaced by direct commercial ties in which Japanese merchants themselves exported and sold Japanese products abroad. Through direct trade the nation could recapture the profits from its export trade that had been monopolized by foreign middlemen and a new foundation of national wealth and prosperity could emerge.[422]

As noted above, Maeda was not alone in calling for the recovery of the nation's commercial rights and implement direct trade. What made Maeda unique was that he was the only one to propose a comprehensive system to achieve those precise goals. He crafted an ambitious plan involving a system of banks, trading companies, and producer cooperatives which would work hand-in-hand to transform the nation into a well oiled export machine and great commercial power. The basic elements of Maeda's vision remained constant from its initial formulation in *Some Summary Opinions on Direct Trade* in 1879 and the intricately

[421] Maeda, *Chokusetsu bōeki iken ippan*, 15 and Maeda, "Chokusetsu bōek ikensho," 109.

[422] Ibid.

detailed proposals of *An Opinion on Direct Trade* which he drafted by 1881.[423] There was, however, a shift in the details of Maeda's proposals. His vision for Japanese trade quickly evolved from a grassroots call-to-arms which exhorted rural small producers to form local cooperatives and advocated government support for indigenous industry to a highly structured system of export promotion which the Meiji state would supervise and manage.

Maeda continually stressed three essential elements of his system to promote exports. First, a designated bank had to fund Japan's foreign trade. In 1879 Maeda called for the creation of an "Imperial Bank" (*Teikoku Ginkō*) to finance Japan's overseas commerce.[424] He proposed that the Meiji government provide10 million *yen*--a figure equal to roughly one sixth of the government's annual budget at the time- to capitalize the financial entity. The bank would support trade in two ways. It would issue advance loans to the producers of export goods to fund the manufacture or cultivation of export goods and provide money to cover the shipping costs of goods from their point of production to the treaty ports. The bank would also provide loans to specially designated trading companies to cover the costs involved in the shipping, handling, and sale of Japanese goods abroad.[425] Later, Maeda would call for the Yokohama Specie Bank to play the role of Japan's central trade bank, but

[423] "Chokusetsu bōeki ikensho" includes references to both the Yokohama Specie Bank (Yokohama Shōkin Ginkō) founded in 1880 and the special fund administered by the bank to promote exports (*gōyō gaikoku nikawase seido*) which was approved by the Meiji government in November of the same year. Information on the founding of the Yokohama Specie Bank can be found in "Ginkō no setsuritsu to sono seikaku," in *Yokohama shishi*, ed. Yokohama-shi Sōmukyoku Shishi Henshūshitsu. vol. 3 part 1(Yokohama: Yokohama-shi, 1963), 511 & 538.

[424] Maeda, *Chokusetsu bōeki iken ippan*, 6-7.

[425] Ibid., 7-8.

otherwise the basic outlines of his original plan, including the idea of providing 10 million yen in government funds, remained unaltered.[426]

The idea of a trade bank was absolutely essential to Maeda's direct trade vision, not only because it would provide much needed credit to Japanese producers and exporters but also because it could utilize artificially low interest rates to promote the recovery of the nation's commercial sovereignty. If the bank used the 10 million yen in government provided capital to issue special low-interest loans to Japanese exporters, it would reduce their borrowing costs dramatically. Unburdened by the need to repay loans at the higher interest rates their foreign competitors had to pay, Japanese merchants could afford to offer domestic suppliers a better price for their goods and still turn a profit on sales abroad. Because domestic producers would scramble to sell their goods to Japanese firms, Japanese merchants would gain access to the cream-of-the-crop of Japanese export goods. Meanwhile foreign firms which could not afford to offer higher prices would be stuck with whatever scraps remained.[427] Thus command of Japan's trade would naturally shift from foreigners to Japanese firms. In order to keep domestic merchants' borrowing costs low, Maeda stressed that in return for a large infusion of public funds from the government, the bank must issue loans at favorable, below market interest rates.[428]

Once the government had created the Yokohama Specie Bank, Maeda insisted that it use public funds to support Japanese commerce. Since he believed direct trade ventures would not prove to be very profitable in their initial stages, he feared the bank would have

[426]Maeda "Chokusetsu bōeki ikensho," 129-130.

[427] Ibid. 127-128.

[428] Ibid.,

little incentive to provide credit to exporters. Therefore Maeda recommended a complete restructuring of the Yokohama Specie Bank. He suggested either creating a new unit within the bank supervised by a government official to manage the 10 million *yen* government fund or transforming the Specie Bank into a central bank like the Bank of England or the Bank of France which were both privately owned but were tightly regulated and financially backed by their respective governments.[429]

Similarly, the government needed to make sure that the recipients of the low interest loans used them exclusively for direct trade and not other purposes. With silver prices skyrocketing, there was a real risk that borrowers might use the loans to speculate in silver rather than export goods. The only way to prevent such abuses was to create a system of licensed companies that would receive loans in return for accepting strict supervision. Therefore specially sanctioned trading companies were the second vital element of Maeda's proposed system.

These firms would operate under special charters. In return for access to low interest loans from the Yokohama Specie Bank, a government appointed supervisor (*bōeki kanrikan*) there would possess the right to inspect the account books of the trading companies at any time and change the terms of any loans the trade companies might receive. All of them were to operate under the authority of the Ministry of Finance's Commercial Bureau according to procedures outlined by official directives. The government was to have the power to suspend the operations of any of the trading companies if they violated government orders.[430] Trading companies that received loans from the Yokohama Specie Bank would have to repay them

[429] Ibid., 135.

[430] "Chokusetsu bōeki ikensho," 136.

promptly in specie to the nearest branch of the bank. This measure aimed to prevent trade company executives from engaging in speculation or in any business other than exporting Japanese goods.

Working as intermediaries, trading companies were to stand between the Yokohama Specie Bank and the producers of export goods. All producers of export goods applying for special subsidized bank loans to ship their goods to the treaty ports had to present their goods for examination by the trading companies. They had to report their findings to the Yokohama Specie Bank. Any producer whose goods did not meet the approval of the trading company's inspectors would not qualify for loans for shipping his goods.[431]

The companies were also expected to aid domestic producers and the Specie bank through issuing regular reports to producers regarding economic conditions in foreign markets and providing information on the preferences of foreign consumers. Maeda also demanded that representatives of the trading companies working abroad issue immediate reports about sudden fluctuations in the prices in foreign markets and respond immediately to requests by government officials to provide commercial intelligence. The companies were also supposed to advise the bank on its lending policies and issue regular reports about the domestic demand for loans.

The third central element in Maeda's vision for a direct export system was supporting the producers of export goods. Maeda stressed the need for producers to band together and form cooperative associations. By pooling scarce capital and acting collectively, producers could end the cycle of self-destructive competition between one another.[432] Assisting each

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[431] Ibid., 138.

[432] Maeda, *Chokusetsu bōeki iken ippan*, 58.

other in improving the quality of their goods might increase their market price. The vicious cycle of competition on price and underselling that depressed the price of Japanese goods would then become a virtuous cycle in which producers helped one another to produce better quality goods which fetched higher prices abroad, helped expand foreign demand for Japanese goods, and enriched both producers and the nation in the process.

To encourage producers to form companies or cooperatives, Maeda forbade awarding subsidized loans to individual businessmen.[433] The companies formed by producers were to sell their goods either to the designated trading companies or directly to foreign markets.[434] To sell their goods to anyone else would mean forfeiting subsidized loans.[435] Anyone could create a company, but organizers had to be able to post a minimum amount of capital either in the form of cash or land deeds which would be held by the industrial promotion section of their local government.[436] Only then could a company or cooperative obtain a license qualifying them to receive low interest bank loans from the Yokohama Specie Bank. They had to offer their goods for inspection by trading companies, but in return trading companies were to give producers technical advice on how to improve the quality of their products.[437]

Maeda viewed as crucial a system of cooperative companies to promote traditional handicraft production. He hoped that Industrial Promotion Companies (*Kankōkaisha*) would encourage and improve the production of handicraft goods in regions with strong established

[433] "Chokusetsu bōeki ikensho," 130.

[434] Ibid., 141-142.

[435] Ibid., 127.

[436] Ibid., 142-143.

[437] Ibid., 138.

traditions of handicraft production.[438] The companies were to mobilize local craftsmen in the production of goods by giving them advance loans to produce goods. The loans would have generous terms with no collateral required from borrowers. The Industrial Promotion Companies were also to provide technical assistance to individual craftsmen in improving the quality of their goods.[439]

Finding Maeda's place in the pantheon of Meiji economic thought is a difficult task. Scholars like Sydney Crawcour, Mark Metzler, John Sagers, and Richard Smethurst have tended to emphasize Maeda's similarities with other protectionists in deeming Maeda to be a fervent advocate of dirigisme policies and economic protectionism, a staunch nationalist, and a true believer of "Listian" economic doctrines.[440] After examining Maeda's proposals to promote direct trade, one can conclude that these interpretations seem, on the surface at least, to have considerable merit. Yet, although Maeda did share many of the same concerns as other exponents of protectionism and economic nationalism, his economic vision differed from that of his fellow travelers. To label him simply as protectionist and/or a nationalist obscures the specific stance he took on the economic challenges facing Japan. By advocating the importance of commerce, Maeda was articulating a strategy for economic development that fundamentally differed from advocates of tariff protection and industrial restructuring.

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[438]Ibid., 143-144.

[439] Ibid., 144.

[440] Mark Metzler has observed a "congruence" between Friedrich List's ideas and Maeda's economic thought and places Maeda in firmly in the protectionist camp. Mark Metzler, "The Cosmopolitanism of National Economics: Friedrich List in a Japanese Mirror," in *Global History: interactions between the universal and the local*, ed. A. G. Hopkins (New York: Palgrave Macmillan, 2006), 112. Similarly, Sagers notes echoes of "Listian" arguments in Maeda's thought and he identifies Maeda as an economic nationalist. Sagers, *Origins of Japanese Wealth and Power*, 129-131. Smethurst deems Maeda to be a, "conservative nationalistic modernizer." .Smethurst, *From Foot Soldier to Finance Minister*, 80 & 84. All of these authors take the meaning of the categories they employ to describe Maeda to be largely self-evident and do not attempt to define either protectionism or nationalism.

With its emphasis on indigenous industry and small producers, Maeda's nationalist economics also had strong populist overtones which informed an interpretation of the national welfare that conflicted with the statist oriented nationalism of industrial reformers.

Maeda was undoubtedly an ally of protectionism and a firm nationalist on economic issues. In *A Summary Opinion on Direct Trade*, he urged the Meiji government to "protect" (*hogo*) domestic industries and emphasized the need for robust government support for Japanese industry to ensure the survival of domestic producers and successful economic development.[441]Along with other protectionists, he voiced strong opposition to doctrines of laissez-faire liberalism and argued that only the power of the state could rescue Japan's economy from the certain ruin which would occur if trends were left to run their course.[442] As a nationalist, Maeda's primary concern was with the larger interests of the nation which he believed were in conflict with the short term interests of the individual. He called on individual businessmen to sacrifice short term profits for the greater long term interests of the nation and to cease competing against one another so they could fight the "enemy," the foreign merchants.[443]

At the same time, Maeda departed from industrial reformers and other advocates of protectionism in important ways. His strategy for closing the trade gap and ending inflation focused exclusively on the reform of Japan's commerce and maximizing the profitability of Japan's indigenous industries, not industrial reform. Maeda did not share the industrial reformers' anxieties over Japan's industrial structure. Protective tariffs, subsidies for infant

[441] Maeda, Chokusetsu bōekiron, 112.

[442] Maeda "Chokusetsu bōeki iken ippan," 47.

[443] Maeda, "Chokusetsu bōekiron," 110.

industries, and the creation of state owned enterprises, all issues which animated other protectionists and nationalists, were of no concern to him. Instead, Maeda believed that the nation's indigenous industries were sufficient to deliver national wealth and prosperity, provided that Japanese merchants and producers would fetch a good price on international markets and prevent foreigners from monopolizing the profits gained from the sale of Japanese goods. To achieve that goal, the Japanese had to establish a position of equality in the international economy by changing the way in which Japan's goods were traded. Maeda did not oppose the idea of industrial reform, but he believed that only reform of the conduct of the nation's overseas commerce would allow Japan to truly benefit from the fruits of its own industries.

Maeda also differed from other more statist articulations of nationalist and protectionist economics in that his nationalism had a strong populist flavor. In portraying Japan's overseas trade as a struggle between domestic small-scale producers and wealthy foreign merchants, Maeda identified indigenous industries and agriculture as the main protagonists in a nationalist struggle for economic independence. It was rural common folk--the small scale silk producers, tea cultivators, and craftsmen making traditional goods like lacquer ware and porcelain--who desperately needed government support to fend off the menace of foreign merchants who were attempting to feast "on their bones."[444] Ultimately only collective action, "from below" with aid from the state, could rescue the nation from its economic trap.

Maeda's focus on the reform of the nation's commerce and his unabashed support of the country's rural indigenous industries shows that protectionism and economic nationalism in Meiji Japan were not simple matters of raising tariffs and excluding foreign goods.

[444] Maeda, "Chokusetu bōekiron," 108.

Beneath a common set of anxieties and anti-foreign sentiment, tensions existed between industrial reformers and commercial nationalists over the answers to several important questions. Were Japan's problems a matter of the country's economic structure and peripheral position in the world economy, or was the nation the victim of exploitation in an international economic system that was inherently unfair? How would Japan achieve wealth and prosperity and how was the national good to be defined? What role would indigenous industry and the less "advanced" sectors of the economy play in the economy?

The Monetary Solution: Taguchi Ukichi's liberal answer to inflation

The variants of protectionism and economic nationalism represented by Ōkuma Shigenobu and Maeda Masana were not, however, the only responses to the problem of domestic inflation and trade deficits. Nor did everyone subscribe to the theory that trade deficits were the primary cause of inflation. A small but significant minority concluded that inflation was the result of loose monetary policy and the rampant printing of paper currency and that trade deficits were merely a symptom, not a cause of domestic inflation. This group of dissenters, primarily made up of adherents of economic liberalism, argued the answer to Japan's economic problems lay in reducing the amount of currency in circulation and restoring full convertibility. In other words, the solution to inflation and trade deficits lay in better monetary policy, not trade policy. This conviction did not mean, however, that economic liberals viewed trade as unimportant. On the contrary economic liberals sought to prove that protectionist and nationalist economics rested on a fundamentally mistaken understanding of international trade.

The dissenting position drew inspiration from nineteenth century economic liberalism and its theories of international trade. Whereas the nationalists posited a world where control of trade translated into wealth and dominance and believed that Western nations used commercial policies as tools of colonial domination, dissenters studied the writings of Western liberals and came to see trade and commercial activity as something operating according to its own laws and logic. States could not manipulate these laws. They set forth that an excess of currency and high prices attracted imports and generated trade deficits. The answer to Japan's inflation and trade problems was therefore to reduce the amount of currency in circulation to allow the normal function of market mechanisms to balance Japan's foreign trade.

The most prominent member of the dissenting camp and a fierce critic of Ōkuma's policies was Taguchi Ukichi. As a young man, he had resigned a minor post at the Ministry of Finance to take up a new career as editor and publisher of *The Tōkyō Economic Journal* (*Tōkyō Keizai Zasshi*), Meiji Japan's premier business and economic journal. Taguchi's articulate and uncompromising opposition to Ōkuma's fiscal policies and his economic works catapulted him to national recognition as the pre-eminent voice of economic liberalism in Meiji Japan and a respected commentator on economic matters.

Unlike Ōkuma and Maeda who were part of the new ruling elite that came from the domains in Japan's southwest which triumphed in the Meiji Restoration, Taguchi belonged to the losing side in the conflict. Born in the capital of Edo in 1855, he was the eldest son of a family which had for generations served as personal retainers of the Tokugawa shoguns.[445] He spent his childhood training to serve the *shogun*. In his early teens he received

[445] Matsunoo Hiroshi, *Taguchi Ukichi to Keizaigaku Kyōkai: keimō jidai no keizaigaku* (Tōkyō: Nihon Keizai Hyōronsha, 1996), 14.

preliminary military training in Edo Castle where it was expected he would start his career as a lower level guardsman.[446]

The fall of the Tokugawa *bakufu* put a premature end to the teenage Taguchi's career as a retainer to the shogun and delivered a devastating blow to his family. Without a lord to serve the family lost its stipend from the *bakufu* which was the sole source of income. Stripped of the means to make a living, Taguchi, his mother, and older sister moved to Yokohama where they survived by opening a small shop where they sold charcoal, firewood, and tobacco.[447] After a few years spent scraping by and moving from place to place, Taguchi's family found a measure of economic stability in Shizuoka where Taguchi's brother-in-law found employment serving the Tokugawa family, which still retained some wealth if not political power.[448] Taguchi returned to Tōkyō to pursue the study of Western languages, but had difficulty finding the funds to continue his education. In 1872 he was on the verge of abandoning his studies for financial reasons when the Ministry of Finance announced it was recruiting prospective students for a newly created Translation Bureau (*Honyaku Kyoku*) in the ministry. The brainchild of Inoue Kaoru and Shibusawa Eiichi, two top officials in the ministry, the Translation Bureau was to serve as an exclusive academy to create a new breed of official thoroughly trained in Western economic practice. The bureau promised prospective students training in Western languages, math, and accounting, and,

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[446] Ibid., 14-15.

[447] Taguchi Chikashi, *Taguchi Ukichi* (Tōkyō: Furukawa Kōbunkan, 2000), 28.

[448]Ibid., 37-38.

most importantly for a near penniless Taguchi, a generous stipend for students. After applying and passing an entrance exam, he entered the section as an "advanced" student.[449]

Taguchi's time as a student in the Translation Bureau proved to be just as short-lived as his career as a castle guardsman. As a result of a conflict over government spending that preceded the Korean controversy of 1873, Inoue and Shibusawa, the creators of the Translation Bureau, resigned from the Ministry of Finance. The ministry's new boss, Ōkuma, who replaced Inoue as the head of the ministry, wasted little time in deeming the bureau a wasteful extravagance and ordered it abolished. The bulk of the section's students were immediately transferred to lower level posts within the ministry. Taguchi ended up in the Currency Bureau (*Shiheiryō*) where he spent his time translating foreign works on banking.[450] By an accident of fate, Taguchi the student found himself becoming a petty bureaucrat serving the government that overthrew his former masters.

This turn of events was not necessarily an unwelcome one for Taguchi. A job in the ministry brought him the economic stability he had lacked, but the ambitious young man soon found reason to be dissatisfied with his new position. Taguchi discovered his new workplace was rife with personal conflicts between lower-level civil servants in the Ministry, many of whom, like Taguchi, were from families that had served as the financial and economic technocrats in the Tokugawa regime and high level officials who were predominantly from Satsuma and Chōshū, the two domains that had overthrown the Tokugawa.[451] By his own account Taguchi particularly disliked his boss, Tokunō Ryōsuke

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[449]Ibid., 51-52.

[450] Matsunoo, *Taguchi Ukichi to Keizaigaku Kyōkai*, 20.

[451] Taguchi, *Taguchi Ukichi*, 65.

who hailed from Satuma. On several occasions violent arguments between them over issues of monetary policy made Taguchi seriously consider resigning his post.[452]

Taguchi's dissatisfaction was not, however, due solely to old pre-Restoration era loyalties. His reading of foreign economic texts led him to doubt the wisdom of Ōkuma's monetary policies. Taguchi was convinced that Japan's economic woes and the outflow of specie were primarily caused by a loose monetary policy and not Japan's negative balance of trade as Ōkuma and his supporters argued. Excess printing of paper currency and inflationary fiscal policies were the main culprits behind domestic inflation. [453] The main problem with Taguchi's revelations on the weighty matter of state monetary policy was no one was listening. As a lower level bureaucrat who did not get along with his superior, Taguchi's opinions meant little to his colleagues in the Ministry of Finance.

Taguchi sought an outlet for his views in journalism. In 1875 he began writing a series of editorials on economic matters for the major metropolitan newspapers in Tōkyō under various pseudonyms. Ironically, his first article appeared in the pages of the *Yubin Hochi Shinbun*, a paper which supported Ōkuma's policies.[454] Taguchi's three part editorial identified the excessive supply of paper currency in circulation as the cause of domestic inflation.[455]Over the next two years, Taguchi elaborated his own solution for the inflation problem in a second series of editorials in the *Tōkyō Yokohama Mainichi Shinbun*. He called

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[452] Matsunoo, *Taguchi Ukichi to Keizaigaku Kyōkai*, 20.

[453] Ibid., 21.

[454] Ibid.

[455] Ibid., 22-23.

for a reduction in the money supply and the restoration of full convertibility with silver.[456] In his view, if the government reigned in inflation and tightened the money supply, the inflow and outflow of specie would eventually reach a harmonious equilibrium and Japan's trade would come into balance.[457]

Taguchi's public criticism of the policies of his superiors put him in an awkward position within the Ministry. If they discovered his moonlighting career as an editorialist, his career might reach a dead end. Yet the articles opened a new career path to Taguchi as a writer and journalist. Since his entry in the Ministry of Finance, he had begun work on a treatise outlining his own economic philosophy and was trying to save enough money to have it published. He also started working on a history of the opening of Japan's ports, which he hoped would prove popular enough not only to earn him fame as an author, but also a significant sum in royalties as well.[458]In 1878 he finally managed to have both works published: *A Short History of Japan's Opening* (*Nihon Kaika Shoshi*), and *A Theory of the Japanese Economy: Free Trade* (*Nihon Keizairon: Jiyū Kōeki*). He soon resigned his post at the ministry.[459]

Taguchi's first major work on economics, *A Theory of the Japanese Economy*, provided a definitive statement of the basic economic philosophy that informed all of his later writings. Taguchi wrote the book as an academic work, rather than a political polemic,

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[456] Ibid., 23-24.

[457] Ibid., 21-22.

[458] Ibid., 45-46.

[459] Taguchi, *Taguchi Ukichi*, 84.

but the views that he expounded clearly conflicted with Ōkuma's understanding of international trade and the causes of inflation in Japan.

The foundation of Taguchi's economic philosophy was the belief that humans are "economic men" or rational self-interested beings who act to fulfill their own wants and needs.[460] Taguchi did not, however, state this belief in exactly these terms. In *A Theory of the Japanese Econom*y he defined economics as the study of the laws that govern "human phenomena," (*jini no genshō*).[461]To explain what this phrase meant, Taguchi took his readers back to a time before the appearance of human beings when the world existed in a state of nature. This world was governed by the laws of nature which Taguchi defined in terms of a Darwinian law of survival of the fittest. As plants and animals struggled for survival, some prospered and some died out. The end result was a "natural distribution" (*tensei no haibun*) of species and resources across the world.[462] The appearance of human beings upset this natural order. Humans transformed nature to meet their needs beginning with the re-ordering of physical environments to create usable farmland and changing the natural balance of life by favoring some plants and animals while exterminating others deemed as pests.[463]

The result of this human transformation was a, "human distribution" (*jinsei no haibun*). Taguchi defined the new world order of human distribution as one in which

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[460] *Taguchi Ukichi to Tōkyō Keizai Zasshi*, 28.

[461] Taguchi Ukichi, *Nihon keizairon: jiyū kōeki* (Tōkyō: Keizai Zasshisha, 1878; reprint, Taguchi Ukichi Kankōkai ed., *Teiken Taguchi Ukichi Zenshū*, vol. 3 Tōkyō: Teiken Taguchi Ukichi Kankōkai, 1928), 13.

[462] Ibid., 4.

[463] Ibid., 4-5.

"phenomena are distributed in accordance to the dictates of human nature."[464] Taguchi understood the essential part of human nature which determined the shape of the world to be economic demand.[465] Jumping ahead a few eons, Taguchi explained that readers could easily grasp the logic of his views simply by looking at their towns and villages. *Saké* shops were more common than clothiers, because people demanded *saké* more than they did clothes. Similarly rice stores were more numerous than the *saké* shops because people hungered for rice more than they thirsted for alcohol.[466] By the act of identifying human nature as a bundle of demands, Taguchi reduced the essence of all human activity down to self-seeking efforts to fulfill individual desires and wants.

Yet if demands to fulfill desires were the driving force behind all human action, actually meeting these demands required a process of negotiation, otherwise known as trade. Self-subsistence was, according to Taguchi, a woefully inefficient way to meet one's demands. Human nature had therefore impelled humans to find a more effective way to meet their needs by exploiting the efficiencies in production gained through the division of labor.[467] Because no one produced all that one demanded, everyone was forced to exchange the product of one's labor with others. Trade was nothing more than the flow of goods between economic actors driven by the laws of supply and demand.[468] Mass demand (*shūju*) determined the proportion of people who would engage in producing a given good and the

[464] Ibid., 5.

[465] Ibid., 6.

[466] Ibid., 4-5.

[467] Ibid.

[468] Ibid.

proportion of people engaged in the production of a good determined whether the good was plentiful or scarce.[469]

A third vital foundational element in Taguchi's economics is the role of price. If human demand was the fundamental driving force behind economic activity and the division of labor necessitated a flow of goods governed by the law of supply and demand, it was price that controlled the relationship between supply and demand. Taguchi observed that price served the same function as a "regulator" on a steam engine.[470] When supply was scarce the price of a good would rise, reducing demand. Conversely, when a good was plentiful, the price would drop increasing demand. High prices encouraged production of a good and increased supply, while low prices discouraged production and decreased supply. In short, Taguchi posited the economy as a fundamentally self-regulating system governed by demand, supply, and price in which economic actors responded to price signals.

Taguchi's basic assumptions about the nature of economics served as the foundations of a vision of international trade that fundamentally opposed the ideas of industrial reformers and commercial nationalists. The idea that Japan had fallen victim to the malevolent machinations of foreign merchants was for him utter nonsense. To Taguchi, who believed the world to be populated by rational, self interested individuals, trade could never be anything but beneficial to all who engaged in it.[471] Trade would not occur in his view unless both parties profited from the exchange of goods. If one party in an exchange failed to profit, that party would promptly stop trading. The demands of self-interest ensured that the exploitation

[469] Ibid., 8.

[470] Ibid., 12.

[471]Ibid., 17.

of one group by another would not occur since anyone engaged in an unprofitable line of business would quickly switch to a more profitable one.[472] Nor did it make any sense for foreigners to try to exploit Japan. Foreign merchant houses in Yokohama exporting Japanese products shared the same economic interests as the Japanese themselves. The self-interest of the foreign merchants in Yokohama dictated that they strive to expand the market for Japanese silks and teas abroad and ensure that Japanese producers made only top quality goods that could fetch a high price. Foreign merchants were therefore natural allies of Japan's producers.

Protectionists who argued that the nation's wealth was draining away because Japan exchanged mostly lower value primary commodities for Western manufactured goods were also mistaken. Protectionists pointed to the net outflow of specie as proof Japan was becoming impoverished by trade, but this argument betrayed a faulty understanding of the nature of wealth in Taguchi's view. National wealth was not measured by how much specie was lying in bank vaults, but instead was the total sum of profits earned by the nation's people.[473] None could deny that exports of silk and tea were still reaping profits for Japanese merchants and producers and, as a result, contributed to increasing the overall national prosperity. The export of specie which protectionists saw as a loss of wealth could actually enrich a nation if it provided consumers with goods that were produced more cheaply and efficiently abroad.[474] To claim that foreign trade was making Japan impoverished was to

[472] Ibid., 12.

[473] Ibid., 19.

[474] Ibid., 65-66.

adopt an extremely narrow and mistaken view of wealth which held gold and silver as the sole source of value.

Taguchi was not blind to the fact that imports and foreign competition posed a serious danger to the survival of some of Japan's domestic industries but he believed some of these industries were destined to disappear. It was all part of a normal process of economic transition. The opening of Japan's ports had changed Japan's economy fundamentally. Now that Japan was linked to the world economy the fate of its industries was determined by shifts in supply and demand in international markets more than anything else.[475] The end of the Tokugawa regime and the modernizing policies of the Meiji government had also changed the nature of domestic demand as goods common in the Tokugawa period became obsolete or consumer preferences changed. Efforts to try and save traditional industries were misguided. Japan was undergoing a period of change and economic restructuring, industries to meet the needs of a new era were emerging and the industries that had produced the goods of the past were dying out.[476] This was part of a natural process that mirrored changes in Japanese society and the economic environment in which the Japanese economy operated. To try to arrest the process of change was both counter-productive and doomed to fail.

Similarly, protective policies to encourage the growth of "infant" industries were ineffective and harmful. Awarding tariff protection or subsidies for a certain industry would certainly be a boon to the industry in question. Yet this policy would do nothing to increase the nation's wealth. Tariffs and subsidies only served to encourage entrepreneurs to divert capital that might have otherwise flowed toward profitable businesses into economic activity

[475] Ibid., 59-60.

[476] Ibid., 55.

that depended on government aid to turn a profit.[477] Moreover, protective policies were self-defeating since they artificially increased profits in an industry. The higher profits would encourage new entrepreneurs to enter into the fray, increasing competition and driving down prices until the protected industry was no longer profitable.[478] Tariffs might not even help balance the nation's trade. America had levied high protective tariffs but still managed to experience persistent trade deficits which were only covered by the production and export of silver and gold.[479]

Instead of worrying about the impoverishment of the nation at the hands of foreigners or advocating protectionist policies to artificially (in Taguchi's view) balance the nation's trade, Taguchi argued his readers should lay the blame for Japan's predicament where it actually belonged, in the government's monetary policy. To prove his point, Taguchi presented a theory of currency and international trade that was essentially identical to that of British economist David Ricardo.[480] Like Ricardo, Taguchi began with the hypothesis that there was a natural proportion between the amount of money and the supply of tradable goods in every nation on earth.[481] If this natural proportion stayed at a constant level the price of goods would remain stable and trade between nations would remain in balance.

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[477] Ibid., 22-23.

[478] Ibid., 21.

[479] Ibid., 65.

[480] Taguchi's explanation of the mechanism governing foreign trade relies heavily on Ricardo's theories. For a comparison see how Taguchi and Ricardo explain the mechanisms of trade in David Ricardo, *The High Price of Bullion: a proof of the depreciation of bank notes* (London: John Murray, 1810; reprint, *The Works and Correspondence of David Ricardo*, ed. Piero Sraffa, vol. 3, *Pamphlets and Papers, 1809-1811* (Indianapolis: Liberty Fund, 2004), 89-92 and Taguchi Ukichi, *Nihon Keizairon*, 31-40.

[481] Ibid., 31.

Complications arose when the proportion between money and goods in any single country changed. If the money supply in one country suddenly increased while the amount of goods in that country remained constant, the value of money would decrease because money was plentiful and goods relatively scarce.[482] This development would encourage imports into the country because goods could fetch a higher price there. Alternatively, if the money supply shrank, the value of money would increase because there were now more goods lying around than cash. This would trigger exports, because the merchants in the nation with a reduced money supply could fetch a higher price for their goods abroad.

Over time, of course, either a scarcity or oversupply of money would tend to balance itself out. Either imports would bring in scarce goods and dispose of excess money, or exports would get rid of plentiful goods in exchange for much needed cash. When net exports and net imports persistently failed to balance, the problem could only be a monetary one. Taguchi's explanation of the mechanism driving imports and exports implied that only the Japanese government's issue of an excessive amount of paper notes could explain the persistent trade deficits. The unstated message of *A Theory of the Japanese Economy* was that a reduction in the amount of money in circulation should correct the imbalance of trade. If the government merely stopped printing bills the outflow of specie would eventually make money more scarce and goods cheaper. Imports would drop, while exports expanded.[483] The only way to stop inflation was to reduce the amount of paper notes in circulation and allow Japan's trade to adjust itself automatically.

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[482] Ibid., 33-34.

[483] Although Taguchi does not explicitly make this specific recommendation in *A Theory of the Japanese Economy*, but he does make this statement in his book *Keizaisaku* printed in 1882. See Taguchi Ukichi, *Keizaisaku* (Tōkyō: Keizai Zasshisha, 1882), 64-65

In place of protectionist policies he believed to be deeply flawed, Taguchi offered an alternate method of achieving national wealth and prosperity. He argued that a massive injection of foreign capital could stimulate domestic industry, because a large amount of cheap and idle labor was waiting to be employed.[484] Importing foreign capital would provide funds to many entrepreneurs who might otherwise not have access to credit to start up a business and would spur the growth of domestic industry.[485]

Taguchi contended that Japan could become a great commercial power. The first hint of his vision for Japan's economic future came in 1884 in an article entitled "The Measure of Wealth" (*Tomo no Tabi*) which appeared in the *Tōkyō Economic Journal*. Taguchi began with the observation that Japan's position relative to the rest of East Asia closely resembled the position of Britain to Europe. Japan could play a role in Asia similar to that of Britain in Europe by becoming a center of international trade. He also noted that Japan served as a coaling station for the ships hauling freight between China and North America. This bustling trade between China and America was times larger than Japan's trade with America. Taguchi discerned that participation in this trans-Pacific trade offered Japanese merchants a lucrative commercial opportunity. If Japan could somehow capture the Sino-American trade and ensure cargo ships that merely stopped at Japanese ports instead unloaded their cargoes in Japan and traded in the Japanese market, the servicing of the trade alone would bring tremendous wealth and prosperity to the nation.[486] Although there would seem to be little compelling reason for traders in the Sino-American trade to do business in Japan when they

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[484] Taguchi, *Nihon Keizairon*, 70.

[485] Ibid., 72.

[486]Komine Kazuo "Taguichi Ukichi no egaita kaihō keizai kokka Nihon no shinro,"in *Taguchi Ukichi to"Tōkyō Keizai Zasshi*, ed. Sugihara Shirō and Okada Kazunobu (Tōkyō: Nihon Keizai Hyōronsha, 1995), 218-219.

could deal with one another directly, Taguchi believed that with the proper incentives Japan could be transformed into the center of trans-Pacific trade

Taguchi outlined a simple plan to realize this goal and extolled the potential benefits to all parties involved. To capture the Sino-American trade, Japan had to gain most favored nation trading status from China and obtain preferential tariff rates that would allow Japan to procure Chinese produced goods and commodities at a lower price than other countries. This arrangement would benefit all parties involved. America would be able to purchase inexpensive Chinese produced raw materials for its growing industries on the Japanese market with Japan playing the role of intermediary in securing Chinese supplies. Japan would gain full access to the Chinese market and the infinite commercial opportunities it offered. China would benefit from Japanese participation in its domestic market, because Japanese traders would introduce modern Western business practices and standards of ethical behavior to the country and serve as a positive force for reform of what Taguchi believed to be a business culture rife with corruption.[487]

In short, Taguchi's vision for Japan's future was that of a great mercantile power which would acquire wealth by acting as a broker and middleman in the Asian trade, rather than a great industrial power. In Taguchi's mind, it was not the productive powers of the nation but the position a country occupied in the international order that determined its prosperity. Britain, Taguchi noted was not wealthy and powerful because of the material richness of the nation itself but because of London's role as the center of European and world trade, a place where the various products of the world were bought and sold.[488] By attracting

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[487] Ibid.

[488] Ibid., 209.

the world's trade to its ports, Britain could capitalize on servicing the financial and logistical needs of international trade and enrich itself through these mercantile activities. Taguchi hoped that Japan might play a similar role in Asia.

Thus for Taguchi, Britain served not only as a source of sound economic theory but also as an ideal vision of what a commercial nation should be and what Japan could one day become. He was not so optimistic as to believe that Japan would become a "Britain of the East" overnight; instead he looked toward small trading nations that might serve as better models for Japan in the near future. He paid particular attention to the Netherlands and Belgium. Both were small, wealthy, and independent nations deeply involved in international trade. Because both nations were relatively weak militarily their status more closely resembled Japan's own peripheral place in the international order than did Britain, the hegemonic military power.[489]

The first practical step in realizing the dream of a great mercantile Japan for Taguchi was the opening of Tōkyō, the nation's capital and largest city, as a port of international commerce and the city's transformation into a world class commercial center. In the 1880s only six Japanese ports were open to foreign commerce: Yokohama, Kōbe, Ōsaka, Niigata, Hakodate, and Nagasaki.[490] As discussed in previous chapters, Yokohama, which was close to Tōkyō, quickly became a hub of international trade, but the capital remained off limits to foreign shipping and commercial activity. Taguchi believed that Yokohama's presence as a major financial and business center now held Tōkyō back from becoming a world commercial center. Arguing that, "…a nation's commerce should be concentrated as much as

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[489] Ibid., 217.

[490] Ibid., 215.

possible in a single city," Taguchi advocated opening Tōkyō to foreign commercial shipping and completely renovating the city's port facilities to accommodate more commercial activity.[491] Beyond being impressed by the model of London, Taguchi's local ties undoubtedly influenced his strong advocacy for making Tōkyō Japan's commercial capital. A native son of the city, he had recently gained a seat on the newly formed metropolitan assembly. Yet there can be no doubt that given his views of the benefits of commerce for the nation Taguchi sincerely believed that what was good for Tōkyō would, by extension, be good for Japan as a whole.

In the context of the views of Ōkuma, Iwakura, and Maeda, Taguchi's vision of a great commercial Japan paid strikingly little heed to the fate of Japan's own domestic industry. This stance resulted from his staunch belief in the principles of economic liberalism. Taguchi opposed the protectionist ideas of industrial reformers by arguing that government driven attempts to reform the structure of Japan's industries and modernize the economy were worse than useless. State support for infant industries would merely divert revenue from profitable sectors to unprofitable, inefficient industries that could not survive without state support. However desirable the economic transformation of Japan might be, the process had to occur through the work of market forces, not government intervention.

While Taguchi viewed the contribution of indigenous industries to the economy in a positive light, he had no sentimental attachment to them and emphasized that market forces would inevitably alter Japan's economic landscape. Noting that some indigenous industries were suffering from foreign competition, he declared the collapse of Japan's traditional industries might be regrettable but such economic restructuring was both unavoidable and necessary. Eventually the focus of economic activity would shift to the production of those

[491] Ibid., 210-211.

products in which Japan enjoyed a natural competitive advantage. Similarly he placed little emphasis on maintaining a capacity for manufacturing because of his belief in the international division of labor.

Ultimately, in Taguchi's view, there were obvious limits to a prosperity based on production alone since no nation could ever enjoy a competitive advantage in the production of more than a few products. It would be more advantageous for Japanese merchants to gain a command of trade flows so that they could buy cheap in one country and sell dear in another. International commerce offered the greatest potential to enrich the nation.

While Taguchi presented a logical and well thought out position of economic liberalism, his views overlapped in intriguing ways with those of the industrial reformers and especially the commercial nationalists. Both Taguchi and Maeda, for example, placed great emphasis on commerce and access to cheap capital for industry as keys to national prosperity. For Maeda, commerce served a vital role in supporting domestic industry. Only when Japanese traders carried and sold Japanese goods abroad could the nation derive the full benefit of its export trade that foreign exploitation had denied. Taguchi placed an equal stress on commerce but he viewed it primarily as a source of wealth in and of itself. In both cases, however, both Taguchi and Maeda emphasized the importance of establishing Japan as an important player in international commerce and saw the control over the flow of goods as the key to wealth and prosperity. Maeda defined this control as the exercise of state power while Taguchi dreamed of making Japan the place to do business in Asia by attracting business to Japan. In both cases, however, the focus was on the creation of a commercial state that would actively embrace the world economy, rather than a protectionist response that sought to shield the domestic market until industrial development could take place.

The focus on access to cheap capital is another common thread tying Taguchi to Maeda. For all Taguchi's warnings against the excess printing of currency, he ironically suggested that cheap credit to stimulate business activity would save Japan's economy. Both Maeda and Taguchi stressed the important benefits of lowering lending costs for domestic businesses as a measure to make Japanese enterprises more internationally competitive. The main difference between the two lay in the means of providing cheap credit. Maeda hoped the state working through the Yokohama Specie Bank would provide low cost credit to producers and merchants and thereby make Japan more competitive. In contrast, Taguchi hoped opening up Japan fully to international capital markets was the best way to funnel cheap capital to business.

In regard to industrial reformers, Taguchi rejected Ōkuma's diagnosis of the nation's economic ills in blaming trade deficits for inflation and the need for state-led industrial restructuring. Taguchi instead criticized the finance minister's loose monetary policy as the main cause of inflation. Still, Taguchi agreed with Ōkuma on the benefits of importing foreign capital to provide cheap financing for Japanese enterprises.

Conclusion

The inflation crisis of the late 1870s triggered a lively debate over foreign trade and its relationship to Japan's economic problems. In the midst of this debate an ideology of commercial nationalism that advocated the promotion of direct trade and the recovery of commercial rights as the cure to the nation's economic ills emerged. The idea that inflation was caused by the abuse and exploitation of Japan by Western merchants transformed the concept of direct trade into something more than a mere economic issue and made direct trade and commercial rights a integral part of the quest for equality with the West in the minds of some intellectuals, officials, and businessmen. With the debate over foreign trade in the late1870s, the idea of direct trade developed into a program capable of sustaining a popular nationalist movement, as will become clear in the next chapter.

Advocates began to devise a comprehensive program to achieve direct trade. Maeda Masana, who would pay a key role in the movement as the pre-eminent theorist of direct trade, created a set of policies designed to establish an independent commercial network free of Western dominance which could deliver and sell Japanese goods to foreign markets. Maeda proposed state subsidized financing for direct trade through specially created banks and the creation of state supported trade companies which would serve as bridges between Japanese producers and Western consumers. Although some elements of Maeda's program were perhaps too ambitious to put into practice, his vision of a type of quasi-managed trade with strong state support for producers provided an attractive vision for small producers in Japan's indigenous industries.

The commercial nationalism of Maeda and other direct trade advocates was not the only school of thought concerning foreign trade or economic policy. Some officials, such as Ōkuma believed that high inflation reflected structural problems in Japan's foreign trade due to Japan's relative economic underdevelopment. Advocates of this theory urged the strengthening of the Japanese economy through a series of protective industrial policies which would nurture new industries. This idea of industrial reform would exercise a strong hold over Japanese policy makers in the coming decades, yet the idea held little attraction to the bulk of Japan's entrepreneurs running small and medium sized businesses. Enthusiasm for industrial reform would therefore center on a group of reform minded civil servants and elite urban businessmen.

Economic liberalism also made its public debut as an intellectual force for the first time in the debates over inflation and foreign trade in the 1870s. Unlike commercial nationalists or industrial reformers, the economic liberals, such as Taguchi, argued that both inflation and trade deficits were the result of lax monetary policy. They contended that if the government reduced the money supply to an appropriate amount, market forces would bring Japan's trade into balance. Although the perspective of these economic liberals on policies toward international trade differed from that of the commercial nationalists, the former shared the latter's desire to transform Japan into a great commercial power and belief that commerce would bring national prosperity. Despite the impressively tightly reasoned arguments of advocates, such as Taguchi, economic liberalism held little attraction for entrepreneurs in Japan's indigenous industries who did not view freedom of trade as one of their primary problems. The implicit cosmopolitanism of laissez-faire economic liberalism also made its ideals less attractive to a Japanese public sensitive to its apparent subservience to the Western powers and eager for a show of national strength. Economic liberalism was not yet ready to offer a compelling alternative vision to inspire a popular movement.

Finally, this analysis of the debate over inflation has suggested the complexity of economic thought in early Meiji Japan. Examining the economic ideas of that period in simple binary terms such as "positive" and "negative" policies (as described in the introduction of this chapter) will not suffice. There were, for example, at least three different approaches to interpreting the causes of inflation and positing solutions to it. Moreover, lines could blur between aspects of the three approaches.

In any event, the approach of the commercial nationalists represented by Maeda gained enough traction to spawn a national movement that included intellectuals, officials, and entrepreneurs. It was, indeed, perhaps the first national movement to enlist support from what one might call an emerging business community in Japan. The dynamics of the rise and ultimate fall of this movement revealed much about the process of determining national economic policy in early Meiji Japan and the nature of the state in that era.

CHAPTER 5:

Profits and Patriotism: the direct trade movement and the improvisation of economic policy

An editorial in the Tōkyō daily newspaper, the *Yūbin Hōchi Shinbun*, hailed it as, "one of the most splendid undertakings that has been mooted since our country opened to foreign intercourse," and promised that, "it will without fail, enable our country to derive great benefit from trade."[492] The spending undertaking to which the *Hōchi Shinbun* referred was the creation of a new trade company, christened with the rather unimaginative name, the Trade Company (Bōeki Shōkai), by a group of Tōkyō based businessmen. The founding of a new company was not a rare occurrence in Meiji Japan and while any group of entrepreneurs might expect a few lines in the major Tōkyō paper if they announced a new business venture, few could expect an extended editorial in a major newspaper full of the kind of flowery praise that the *Hōchi Shinbun* heaped upon the Trade Company. At first glance an entire editorial devoted to the founding of a new company no doubt seemed odd to the newspaper's readership.

[492] An English translation of the article appeared in the *Japan Weekly Mail*. "On Direct Trade," *Japan Weekly Mail* (Yokohama) 10 July 1880 (reprint: *The Japan Weekly Mail*, vol. 25, Tōkyō: Edition Synapse, 2006), 897.

Yet the *Hōchi Shinbun* was willing to devote a significant amount of column space to discuss the company's creation because its editors believed that the event signaled a vitally important first step in recovery of Japan's economic sovereignty. Noting the lamentable state of Japan's trade, the newspaper informed its readers that, "From the very commencement of Japan being opened to foreign intercourse…foreign merchants have invariably acted on the aggressive and increased their influence over our commerce."[493] The newly founded Trade Company promised to reverse this trend by creating direct links between Japanese entrepreneurs and the consumers of Japanese goods overseas, thus, "…securing the means now possessed by foreigners of monopolizing the benefits of our trade…"[494] If the Trade Company proved successful and similar ventures followed, eventually, the *Hōchi Shinbun* speculated, "…it will not be difficult to achieve the premier position of England which always gains profit from her commerce."[495] Because the company proposed to operate abroad and engage directly in trade with foreign countries, the editors believed that it signaled the first step toward the commercial revival of the nation.

The founding of the Trade Company in the summer of 1880 and the *Hōchi Shinbun* article that announced this news were two examples of growing enthusiasm for the idea of direct trade among businessmen, civil servants, and the general public. Until the last few years of the 1870s direct trade had been little more than a vague goal half-heartedly pursued through a set of impromptu policies. Toward the end of the 1870s, however, this situation began to change. As if suddenly seized by a fever, businessmen and bureaucrats excitedly

[493] Ibid.

[494] Ibid.

[495] Ibid.

discussed the prospects for direct trade and launched a series of new initiatives to promote Japanese exports and the extension of Japanese controlled commercial networks abroad. At the same time calls for Japanese patriots to raise up and challenge foreign merchants' control over Japan's international trade through the pursuit of direct trade began to emanate from the popular press and the general public. In a short time direct trade transformed from an abstract concept to a nation-wide campaign to reclaim the nation's "commercial rights."A direct trade movement was now in full swing.

The emerging direct trade movement was the result of a confluence of several different developments in the last years of the 1870s. Informing the new movement was a sense of crisis and urgency caused by anxieties over inflation, as explained in Chapter 4, and a sense that stabilizing the economy required drastic measures. Moreover, as discussed in Chapter 4, officials such as Maeda Masana developed a thoughtful rationale and a comprehensive program for implementing direct trade, which included national trade companies. Nationalist sentiment and a burning desire to overturn the *status quo* established by the "unequal treaties" which relegated Japan to the status of a second class nation were also driving forces behind the movement which promised to give Japan's people control over their own economic destiny. The movement was also in part a reaction to the emergence of the Mitsui Trading Company and the Hoshino brothers' silk business (see Chapter 3) which suggested that direct trade offered the adventurous entrepreneur an opportunity for profit.

While all these factors helped to bring direct trade to public attention as both a viable solution to pressing economic problems and an effective method for reclaiming the nation's "commercial rights," those participating in the push for direct trade joined the fray for a variety of reasons. Government officials saw direct trade as a remedy for inflation as well as a way to promote the nation's long term economic development. Urban entrepreneurs believed direct trade promised an attractive ideal business opportunity which offered both lucrative profits and a chance to strike a blow against the foreign merchant oppressor. Producers in the Japan's indigenous industries saw direct trade as a way of escaping the hierarchal networks of merchant middlemen who dominated the domestic trade in Japanese export goods and capture a larger slice of the profits generated for their goods for themselves. Ordinary Japanese saw direct trade as part of a wider campaign to enable their country to gain a position of equality with the Western powers. The broad attraction of direct trade gave the movement a constituency that included a large portion of Japanese society.

The direct trade movement also occurred at a critical time when the Meiji regime was beginning its slow transition from an autocratic to a constitutional state. In 1881 the oligarchs promised the enactment of a constitution within ten years, a pledge they kept. An examination of this sudden movement for direct trade reveals much about the relationship between business and the state in this transitional period and how economic policy developed. First, the direct trade movement shows that despite possessing autocratic powers government officials did not play a dominant role in developing economic policy or in guiding the development of private industry as some scholars have suggested. Instead, state and business pushed and pulled each another in complex ways and were able to influence one another to the degree that it is impossible to declare that either party set the agenda for economic policy. Private individuals could shape the direction of government policy through offering advice to important officials, volunteering to assist the state in the realization of important projects, or petitioning state agencies. Government policy in turn could influence the behavior of business through offering incentives.

Within the push and pull between businessmen, intellectuals, and businessmen over direct trade a set of new institutions and policies to promote Japanese exports emerged, but these measures to promote direct trade were still mostly *ad-hoc* measures. While the Meiji state did adopt several important policies to promote Japanese exports and direct trade and provided funding for Japanese exporters, these policies came about almost by coincidence rather than as the product of a concerted or well thought-out strategy for economic development. Although some officials did possess an overall vision of economic policy that would prove inspiring to advocates of direct trade, these visions were not what drove policy.

Finally, an examination of the direct trade movement reveals emerging divisions and tensions between different actors who were all ostensibly united in a common drive to promote direct trade and committed to the recovery of the nation's commercial rights. Although the state, urban merchants, and producers in Japan's silk industry all became enthusiastic supporters of direct trade and sought to promote direct trade as part of a patriotic mission, the motives and agenda of each actor were slightly different in each case. Understanding the variety of motives behind policies to promote direct trade is necessary to understand why policies evolved in the manner that they did. Realizing that actors with a shared sense of patriotic mission also might, nevertheless, have conflicting motives for advocating direct trade also reminds us that a mere surface level examination of the rhetoric of Meiji era economic policy can often give a misleading impression of unity of purpose and coherence in the efforts of different economic actors when, in fact, no such unity or coherence existed.

Fukuzawa Yukichi, Ōkuma Shigenobu and Currency Stabilization

One of the most important government sponsored initiatives to promote direct trade and a key component of the direct trade movement arose as a byproduct of the late 1870s debate over what to do about inflation. As we have seen in the previous chapter there was a lively debate about the causes of inflation and the relationship between inflation and recurring foreign trade deficits. The person who exercised the strongest influence over the Meiji government's economic policy at the time, Ōkuma Shigenobu, supported the view of the "industrial reformers" who believed that the only effective long-term cure for halting inflation and eliminating trade deficits lay in a fundamental reform of the Japanese economy which would upgrade Japan's industrial structure and transform the nation into a manufacturer of high value-added products.

The main problem with Ōkuma's ambitious plan for transforming the Japanese economy was that it did not offer a quick way of halting inflation. The development of a strong manufacturing sector that could seriously compete with foreign industry and reduce the amount of imports would take years, if not decades. Ōkuma's idea of erecting tariff barriers to keep out foreign goods would simply be impossible until Japan was able to renegotiate the commercial treaties with the Western powers and remove the treaty enforced restrictions on tariff rates, something no one expected to happen in the near future. Despite the determined rhetoric stressing industrial development in Ōkuma's policy proposals, the reality was that he desperately needed a set of immediate measures to curb inflation and stabilize the value of paper currency.

In his search for a quick solution to curb inflation Ōkuma found a powerful ally in the prominent intellectual and author, Fukuzawa Yukichi. Already a leading scholar of "Dutch studies" (*Rangaku*) in the final years of the Tokugawa *bakufu*, Fukuzawa had established himself as Japan's foremost expert on all things Western with the publication of his multivolume bestseller, *Conditions of the West* (*Seiyō Jijō*), the first volume of which appeared in 1867.[496] Deeply concerned about the problem of inflation, Fukuzawa would in the last years of the 1870s become both an important advisor to Ōkuma and a key agent in the formulation and implementation of his commercial policies.

Fukuzawa and Ōkuma's collaboration on economic policy began in 1878 when the problem of inflation was just beginning to attract public attention. Believing that a lack of public confidence in paper currency was the main cause of inflation, Fukuzawa determined that in order to restore the public's faith someone had to convince the public of the soundness of paper money. Fukuzawa wrote Ōkuma to declare his intent to write a short tract on the theory of currency in order dispel poplar misconceptions about the proper function of currency. He asked Ōkuma to have the Ministry of Finance supply him with relevant statistics about the issuance of paper currency in both Japan and the West.[497] Ōkuma gladly supplied the figures.

Armed with Ōkuma's statistics, Fukuzawa published a short book on currency in late 1878 entitled, *A Theory of Currency (Tsūkaron*). The book did not overtly endorse Ōkuma's monetary policies, but Fukuzawa's main message placed Ōkuma's policies in a favorable light. The book's strong condemnation of utilizing precious metals as currency and advocacy

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[496] Norio Tamaki, *Yukichi Fukuzawa, 1835-1901: the spirit of enterprise in modern Japan* (New York: Palgrave, 2001), 70.

[497] The correspondence between Fukuzawa and Ōkuma on monetary policy and the establishment of the Yokohama Specie Bank can be found in volume 2 of the *Fukuzawa Yukichi shokanshū* which is a published collection of Fukuzawa's correspondence. In all following notes on the correspondence between Fukuzawa and Ōkuma, the author will adopt an abbreviated form of citation indicating: the letter writer and addressee, the date and the title of the volume in which the published versions of the letters can be found. All letters cited in this chapter can be found in volume 2 of the *Fukuzawa Yukichi shokanshū*, unless otherwise indicated. Fukuzawa to Ōkuma February, 28, 1878 in *Fukuzawa Yukichi shokanshū*, ed. Keiō Gijuku, vol. 2 (Tōkyō: Iwanami Shoten, 2001), 57-58.

of replacing gold and silver coin with a paper fiat currency indirectly supported Ōkuma's relatively loose monetary policy.

In his work, Fukuzawa endeavored to prove to his readers that the real value of any currency lay solely in its utility as a method of exchange and that in terms of utility, paper cash was far superior to gold or silver coin. Not only could paper serve as a medium of exchange equally well as precious metal coins, but paper had the added advantage of being cheap and easy to produce. In contrast, gold and silver were merely "lumps of suffering" (*kutsu no katamari*), or metals whose sole value lay in the fact that they required the costly expenditure of labor and energy to obtain both in mining the raw material and minting them into coin.[498]

The advantages of a paper currency were so clearly obvious that Fukuzawa argued the continued use of specie in the economy could not be explained by anything other than an irrational attachment to gold and silver originating in a more primitive era of human history.[499] Any civilized and rational society would view the use of gold and silver money as a wasteful and barbaric practice that condemned otherwise useful labor to waste away in dark mines to dig out shiny, decorative metals which had no real practical use.[500] Fukuzawa proposed that it would be much better to do away with gold and silver coin entirely and rely on paper bills as the sole method of exchange. Several of Japan's feudal domains in the Tokugawa period had in fact done away with gold and silver coin and created functioning economies based on the circulation of paper currency. Citing the success of paper bills in his

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[498] Fukuzawa Yukichi, "Tsūkaron," in *Fukuzawa Yukichi chosakushū*, vol. 6, *Minkan keizairoku, jitsugyōron*, ed. Komura Masamichi (Tōkyō: Keiō Gijuku Daigaku Shuppankai, 2007), 219-220.

[499] Ibid., 230.

[500] Ibid., 217.

home domain of Nakatsu in Kyūshū, Fukuzawa informed his readers that a well-functioning currency system based on paper was possible.[501]

Although a nation could ban the use of gold and silver coin in the domestic economy with no ill effects, Fukuzawa admitted that there was one area in which paper currency could not yet operate effectively as a medium of exchange. This area was foreign trade. Even if Japan could easily replace specie with paper currency in its domestic economy, foreign merchants would be unlikely to accept Japanese paper currency as payment for their goods and would continue to demand gold and silver coin. The nation would therefore always need some reserves of precious metals to fund its foreign trade. Fukuzawa lamented this situation by comparing the use of precious metals in international trade to the maintenance of standing armies by the world's nations, a regrettable reality of international relations where the enlightened principles of civilization had not yet conquered the savage instincts of "strong-eat-the-weak" (*jyaku-niku kyō-shoku*) diplomacy.[502]

The need to maintain gold and silver reserves would not, however, necessarily have to impose a great burden on the national economy, provided those reserves were well managed. Fukuzawa posited that if Japan's trade were carefully balanced, the reserves necessary to service foreign trade might actually be miniscule.[503] Assuming a regular flow of specie could be maintained, one could expect that payments of specie for imports and the intake of specie as income from exports would largely cancel each other out. Thus a relatively small fund of silver might be sufficient to provide the entire demand for payments

[501] Ibid., 223.

[502] Ibid., 218-219.

[503] Ibid., 230-232.

in foreign trade. In this observation lay the seeds of what would become the centerpiece of Ōkuma's commercial policies, the Yokohama Specie Bank.

From Silver to Trade: the Yokohama Specie Bank and the exchange loan fund

Soon after it was founded in 1880, the Yokohama Specie Bank became both the single most important tool the government utilized in promoting Japanese exports and a key pillar supporting the direct trade movement. Ironically, however, the bank's assumption of these prominent roles occurred largely by accident, because the bank did not emerge as the product of the grand designs of any single individual, social group, or government agency. Instead it resulted from efforts of several actors all with different and oftentimes conflicting ideas about what they wished to accomplish by creating the bank. As a result, its rapid evolution from the "silver bank" that Fukuzawa envisioned would help stabilize silver prices to a vehicle for promoting direct exports evolved from conflicts and compromises between the bank's founders and their competing goals. In this sense, the Yokohama Specie Bank was not only a key component of the direct trade movement, but also was an example of the accidental, unplanned, and haphazard fashion in which national economic policy developed under Ōkuma leadership.

Fukuzawa biographer Norio Tamaki argues that the Yokohama Specie Bank, "was Fukuzawa's brainchild."[504] Indeed, there is no question that Fukuzawa was the intellectual driving force behind the bank's founding. Following the suggestions he outlined for regulating specie flows in *A Theory of Currency,* Fukuzawa urged Ōkuma in a series of letters to take steps first to suppress domestic demand for silver, because currency

[504] Tamaki, *Yukichi Fukuzawa*, 1835-1901, 110.

speculation caused high silver prices. Arguing that a sudden increase in supply would be enough to stop speculators and stabilize silver prices, he suggested that Ōkuma might be able to cool the speculative fever for silver by selling off a million dollars' worth of Mexican silver coins held in the government reserves.[505] Fukuzawa urged Ōkuma to guard against future increases in silver prices by careful use of government reserves and management of the money supply.[506] In order to use silver reserves to manipulate prices and supply, Fukuzawa recommended the creation of a new bank to oversee monetary management.[507]

Although some scholars argue Fukuzawa authored many of Ōkuma's economic policies, most of Fukuzawa's recommendations to Ōkuma probably served only to convince Ōkuma to adopt or continue courses of action he already favored. By the time Fukuzawa wrote to urge Ōkuma to find ways of stabilizing silver prices, the Ministry of Finance under Ōkuma's direction had already established official silver exchange markets in Tōkyō, Ōsaka, and Yokohama with the aim of making silver coin more easily obtainable and reduce anxieties about silver shortages by centralizing silver trading in formal markets.[508] Clearly, Ōkuma was already thinking along lines similar to those of Fukuzawa even before Fukuzawa began providing unsolicited advice on monetary policy. On the other hand, Fukuzawa's recommendation to sell off over a million yen of silver coin held in government reserves may have prompted Ōkuma to make the disastrous decision to sell over 2.4 million yen worth of

[505] Fukuzawa to Ōkuma March 3, 1878, *Fukuzawa Yukichi shokanshū*, 58-59.

[506] Fukuzawa to Ōkuma, August 2, 1879, *Fukuzawa Yukichi shokanshū*, 230-231.

[507] Ibid.

[508]Ishii Takashi, "Meiji jūnen dai no yōgin sōba," in *Yokohama Shishi,* ed. Yokohama-shi Sōmykyoku Shishi Henshūshitsu, vol. 3 part 2 (Yokohama: Yokohama-shi, 1958), 364-366.

silver from government reserves later the same year. This measure ended up depleting government reserves without making any lasting impact on the price of silver.[509] Fukuzawa did not create all of Ōkuma's policies but he did influence at least some of them.

The founding of the Yokohama Specie Bank is one instance where Fukuzawa, along with a group of his associates, was able to wield decisive influence over government policy. The Ministry of Finance had begun work on drafting a proposal for the creation of a state-backed trade bank which was supposed to both help promote exports and help stabilize silver prices, but Fukuzawa was able to convince Ōkuma throw his support behind a private venture to create a "silver bank." [510] Two close associates of Fukuzawa, Nakamura Michita and Hayashi Yuteki, headed this project to seek a safe way to profit from rising silver prices. Ōkuma scrapped plans for a trade bank to create a unique bank which would deal solely in silver and serve as a secure place for holders of silver coin to store their wealth.

Fukuzawa's relationship with Nakamura Michita and Hayashi Yuteki began at the Keiō academy. In addition to being a bestselling author and prominent intellectual, Fukuzawa founded a private academy, the Keiō Gijuku, in 1871 which was the forerunner of the modern day Keiō University.[511] Fukuzawa's academy offered its students valuable training in Western languages, and Western learning. Both Nakamura and Hayashi studied at Fukuzawa's academy and had attracted Fukuzawa's attention for their linguistic and mathematical skills.

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[509] Ibid., 376.

[510] Ishii Takashi, "Yokohama Sōkin Ginkō no setsuritu to sono seikaku," in *Yokohama Shishi*, ed. Yokohama-shi Sōmykyoku Shishi Henshūshitsu, vol. 3 part 2 (Yokohama: Yokohama-shi, 1958), 501-502.

[511] Tamaki, *Yukichi Fukuzawa, 1835-1901*, 86.

Because of the strong emphasis Fukuzawa placed on the practical application of Western learning, the Keiō academy became an incubator for entrepreneurs. Convinced that that Japan's future would depend upon an active and independent entrepreneurial class, he began encouraging his students to take up careers in business. Despite this lofty goal, however, Fukuzawa's initial interest in business was also motivated by more practical concerns. In running a private academy teaching Western knowledge to students, Fukuzawa quickly realized he needed a cheap and reliable way of obtaining Western texts for his students at the academy to study. The task of obtaining Western books cheaply fell on a group of Fukuzawa's students who eventually founded the Maruzen Company, a trading firm specializing in importing books and Western medicine.[512]

In addition to being his students, Nakamura Michita and Hayahsi Yuteki were both involved with the Maruzen Company. Hayashi traded a career in medicine for business when he founded the company with Fukuzawa's encouragement. As the company's president he oversaw the day-to-day management of the firm's business.[513] Nakamura served as one of the firm's chief accountants.[514] The two men enjoyed modestly successful business careers but engaging in the import trade during a time of rampant silver inflation proved to be a challenge. As a business that specialized in importing Western goods, Maruzen was in constant need of Mexican silver dollars to pay for those goods.

Procuring silver at a time when silver prices were constantly increasing, however, proved vexingly difficult. Nakamura and Hayashi had lost large sums of money while

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[512]Ibid., 101 & 103.

[513]Ibid., 100-101.

[514] Ibid., 103.

speculating in the volatile silver market. After suffering financial losses the two began seeking a safer way to secure silver dollars and profit from rising silver prices. Nakamura and Hayashi hit upon the idea of creating a bank which would issue short term loans in silver or paper currency to Yokohama merchants and collect loan payments and interest in specie. If their bank could readily exchange silver for paper on demand, they could gain safe profits through fees and interest payments on loans.[515] Yet the real benefit of the plan was that Nakamura and Hayashi's bank would receive all its profits in silver specie and, in the process, solve their problems in procuring silver.

When Fukuzawa learned of Nakamura and Hayashi's plan to found a bank dealing in silver he began to lobby Ōkuma suggesting the government support his former students'project. Another former student, Koizumi Nobukichi, who had entered the Ministry of Finance a few years before, served as an intermediary between Fukuzawa and Ōkuma.[516] Judging from Fukuzawa's letters to Ōkuma, it appears Ōkuma sought out Fukuzawa's advice on the government's plans to create a trade bank. Fukuzawa, noting that he had spoken to Koizumi about the "bank matter," recommended that Ōkuma entrust the creation of detailed plans to Koizumi and Nakakamigawa Hikojirō (another former student of Fukuzawa).[517] After conversations with Koizumi on the matter of creating a bank, Fukuzawa urged Ōkuma to allow his former students Nakamura Michita and Hayashi Yūteki to head the effort to

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[515]Ishii, "Yokohama Sōkin Ginkō no setsuritu to sono seikaku," 501.

[516] Tamaki, *Yukichi Fukuzawa, 1835-1901*, 116.

[517] Fukuzawa to Ōkuma, September 12, 1879, *Fukuzawa Yukichi shokanshū*, 249.

create a specie bank.[518] Within a month government plans for a trade bank gave way to the private venture led by a Nakamura and Hayashi.

The lengths to which Fukuzawa went in lobbying for Ōkuma's support for his former students is readily evident in his letters to Ōkuma. On more than one occasion, Fukuzawa had to stress to a seemingly reluctant Ōkuma that his former student, Nakamura Michita, was an able choice to head the effort to create a bank.[519] Fukuzawa emphasized that Nakamura's wide connections inside the business community would enable him to attract a significant amount of capital from wealthy investors.[520] This strategy would have the dual advantage of allowing the government to create a silver bank with a minimum of investment of its own resources and also help draw hoarded silver out of the pockets of the wealthy in return for shares in the new bank.

The bank that Fukuzawa envisioned and Nakamura and Hayashi were striving to create was different from what the Ministry of Finance had originally planned. Fukuzawa believed that businessmen were hoarding a significant amount of the nation's silver stock as a way to guard themselves against losses due to the continuing decline of the paper currency. If a silver bank began operating hoarders might entrust their silver to the bank in the hope of gaining more profit from their holdings and thus put "inactive" hoarded silver back into circulation. This action would lower silver prices and stem the decline of value of the paper

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[518] Fukuzawa to Ōkuma, October 5, 1879, *Fukuzawa Yukichi shokanshū*, 254-255.

[519] Fukuzawa to Ōkuma, date unknown, 1879, *Fukuzawa Yukichi shokanshū*, 296-297.

[520] Fukuzawa to Ōkuma, October 5, 1879, *Fukuzawa Yukichi shokanshū*, 254-255.

currency.[521] Nakamura and Hayashi also expected the bank to turn a tidy profit in the process. Although financing trade and promoting Japanese exports was a secondary part of the agenda, the enterprise Fukuzawa and his associates sought to create would primarily function as a silver bank which would deal exclusively in specie.

Nakamura travelled around the country trying to drum up investor interest in the venture. For potential investors, the plan for the silver bank had several potential advantages. Hints of tacit government backing for the scheme made investing in the bank a relatively safe prospect. A bank dealing exclusively in silver would also provide a safe and convenient way to access and store silver which was useful for importers and exporters. There was enough interest in investing in the bank that Fukuzawa even worried that the bank venture was beginning to attract attention from "unsavory businessmen" who might purchase bank stock in the hopes of quickly flipping their shares to earn a quick profit.[522]

Although Nakamura was able to secure promises of significant investment from important businessmen, Fukuzawa argued that to ensure the venture was a success the government should place large deposits with the bank. Fukuzawa wrote Ōkuma arguing this measure would increase public confidence in the bank and make it more effective as a central clearinghouse for the nation's silver.[523] Creating a bank required large amounts of capital, especially large reserves of silver coin which would enable to bank to act as a reliable supply of silver.

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[521] Tamaki, *Yukichi Fukuzawa, 1835-1901*, 109.

[522] Fukuzawa to Ōkuma, October 24, 1879, *Fukuzawa Yukichi shokanshū*, 271 and Fukuzawa to Ōkuma, December 13, 1879, *Fukuzawa Yukichi Shokanshū*, 295-296.

[523] Fukuzawa to Ōkuma, October 13, 1879, *Fukuzawa Yukichi Shokanshū*, 266-267.

The details of the plan were then hashed out between Nakamura, Hayashi and the Ministry of Finance. Nakamura and Hayashi sent a series of proposals to the Ministry seeking approval of their new bank. Both men claimed it would promote trade and help solve the problem of specie shortage, two key goals of Ōkuma's policies. Suggesting that the initial capital for the venture should be 3 million yen, Nakamura and Hayashi asked the government to invest 1 million yen in the venture with the expectation that private capital would provide the remaining 2 million yen. They also requested that the bank be authorized to issue bank notes which would be redeemable in silver coin.[524]

The Ministry of Finance accepted the plan with significant modifications. In return for the government investment in the bank, Ōkuma demanded that the government possess far-reaching supervisory powers over the bank's business. The government would have the right to appoint a supervisor who could attend all bank board meetings, inspect the bank's books and report to government officials on the state of the bank's business. He also demanded that the government be able to exercise veto powers over the selection of the bank's board members. Finally, he rejected Nakamura and Hayashi's request to issue banknotes. Ōkuma feared that allowing the bank to issue its own notes would have effectively negated the bank's role as a "silver bank" and made it little different from the established national banks which proved to be some of the primary sources of inflated paper currency. Instead he suggested the bank hold government bonds which were redeemable in specie. The bank could sell these back to the government in exchange for silver coin when needed.[525]

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[524] Ishii, "Yokohama Sōkin Ginkō no setsuritu to sono seikaku," 505-507.

[525] Ibid., 509-510.

With these changes the bank received a charter and opened for business as the Yokohama Specie Bank (Specie Bank) in 1880. By providing a secure place to store silver coins and a ready source of silver specie for those who needed silver to conduct commercial transactions, this new bank was supposed to help stabilize the price of silver currency by removing anxieties about a possible scarcity of silver in the market. For Nakamura and Hayashi, the bank was supposed to be a relatively safe and secure way of turning a profit from servicing the financial needs of those who needed quick access to silver. Yet it soon became clear that stabilizing silver prices would not be easy.

Within one month of its opening, the Specie Bank ran into trouble. Ironically, one of the biggest problems the bank encountered was a lack of demand for silver. Bank officials also complained that high silver prices were "killing off trade" as both import merchants in Japan and foreign buyers of Japanese goods held off on making purchases until silver prices declined. Analyzing the source of the bank's problems for stockholders at the bank's first shareholder meeting, Namakura argued that the currency situation in Japan was rapidly changing. Most commercial exchanges in the country were now almost exclusively using debased paper currency. Traders were using silver coin primarily just as collateral or surety to secure loans.[526]In short, the silver the bank held was largely sitting in the Specie Bank's vaults as depositors collected interest payments. Exclusively dealing in silver would not yield the profits necessary to keep the bank afloat.

Realizing the need to expand their business, Nakamura and other bank officials saw great potential in providing exchange services for Japanese merchants even if these deals did not involve silver. By dealing in paper currency and financing exporters, the bank could

[526] Unno Fukuju, "Jiki yushutsu no tenai," in Yokohama-shi Sōmukyoku Shishi Henshūshitsu ed. *Yokohama Shishi*, vol. 3 part 1 (Yokohama: Yokohama-shi), 666.

capture a portion of the rich profits the export trade offered. Yet to expand into commercial loans in paper currency, the bank would need to receive government approval. The Yokohama Specie Bank thus lobbied the government for an injection of capital for the promotion of Japanese exports. The Specie Bank's officers proposed to start lending to merchants dealing in tea and silk exports using the goods those merchants intended to export as surety. The bank would make loans in paper currency and insist on repayment in specie.[527]

Ōkuma and the Ministry of Finance saw this option as a welcome chance to create a mechanism to promote Japanese exports. In 1878 Maeda Masana in the Ministry of Finance had proposed the creation of a trade bank which would lend to exporters and the Yokohama Specie Bank's founders' initial request had made a vague pledge to "gradually recover our commercial rights in the field of foreign exchange."[528] The Meiji government decided to approve the Yokohama Specie Bank's request to issue loans in paper to exporters and deposited 800,000 yen with the bank. This was the beginning of the bank's exchange loan (*gaikoku ni-kawase*) and cargo loan (*ni-kawase*) programs. As a condition for this support, the Ministry of Finance stipulated that the Specie Bank could use the money only to supply low interest rate loans to exporters. The government also required the bank to create separate "specie" and "paper currency" divisions to ensure that the administration of these government funds remained separate from the rest of the bank's business.[529]

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[527] Ibid.

[528] Quoted in Unno, "Jiki yushutsu no tenkai," 665.

[529] Ibid., 666-667.

This initial deposit quickly expanded. Within a few months the loan fund was increased to 3 million yen and then 4 million yen within a year.[530] The bulk of these funds supported exchange loans to Japanese merchants and firms that intended to engage in direct trade by shipping and selling their goods abroad. Profits from sales abroad would return to Yokohama Specie Bank branches abroad or the nearest Japanese consulate which would remit the money to the Yokohama Specie Bank.[531] The bank's main office would then distribute any remaining profits to the seller back in Japan after subtracting amounts to cover repayment of the loan and any fees.

Roughly 1.2 million of the 4 million yen fund went to cargo loans which provided loans for producers and small merchants in Japan's interior to cover expenses involved in shipping export goods to the treaty ports.[532] The exports --typically silk, tea or other goods produced by Japan's indigenous industries--were to serve as surety for the loans. Although the cargo loan fund was a much smaller project than the exchange loan program, cargo loans provided a vital source of financing for small and medium sized producers who wished to participate in direct trade. [533] The program also allowed regional producers a degree of independence from local merchants by enabling them to ship their own goods to the treaty ports.

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[530] Tomizawa Kazuhiro*, Kiito chokuyushutsu shōreihō no kenkyū: Hoshino Chōtarō to dōhō setei undō no tenkai* (Tōkyō: Nihon Keizai Hyōronsha, 2002), 102.

[531]Unno, "Jiki yushutsu no tenkai," 667.

[532] Tomizawa*, Kiito chokuyushutsu shōreihō no kenkyū*, 116.

[533] Ibid., 513-514.

The two loan programs, which began in early 1881, represented Ōkuma's most important achievement in promoting exports. One must realize, however that the creation of the 3 million yen fund, which direct exporters would use heavily, evolved through trial and error. The Yokohama Specie Bank's original mission was to stabilize silver prices, but the practical need to turn a profit and officials' ambitions to promote the export trade slowly transformed the Yokohama Specie Bank into a trade bank, a development which they had anticipated but never planned.

The Salad Days of Direct Trade

The creation of a strong government sponsored incentive in the form of cheap loans from the Yokohama Specie Bank proved decisive in motivating ambitious entrepreneurs to engage in direct trade. The availability of cheap credit and the potential for large profits as demonstrated by the success of early direct trading ventures proved too tempting to pass up. In 1880 a series of new trading companies sprang up in rapid succession, all of them proclaiming their intent to venture abroad to seek profit. The entrepreneurs who founded these companies were unquestionably opportunists seeking riches but they also proclaimed their patriotic intent to aid the cause of "recovering" the nation's "trading rights" by eliminating foreign merchant intermediaries from Japan's foreign trade. Although a cynic might dismiss such proclamations as merely a cover for the pursuit of self-interest, such proclamations tapped into a deep seated nationalist resentment toward Western merchant capital that helped to justify the direct trade movement in the eyes of many Japanese.

To understand the economic significance of the direct trade movement one should think of it as consisting of two distinct components. The first component consisted of what one might term urban outsider firms. They were formed by groups of urban based businessmen who were highly educated and well connected to government and high finance but were outsiders in the sense that they were rivals to the Yokohama export merchants who were dominating Japan's foreign trade through their dealings with foreign merchants. These businessmen hoped to exploit their knowledge and contacts to engage in direct trade in an attempt to establish a presence in the lucrative silk and tea trades. For these entrepreneurs direct trade was a way of tapping into cheap credit from provided by the Yokohama Specie Bank's cargo loan program and using the bank's exchange loans to export goods directly to foreign markets.

The second component of the direct trade movement was the campaign to create local cooperatives of silk and tea producers in Japan's interior. The drive to create cooperatives primarily came from rural elites who served as self-appointed leaders to tea and silk industries in their respective locales. These local elites sought to organize local small producers into cooperatives to engage in direct trade for two reasons. First, direct trade with foreign markets offered the opportunity of bypassing both sets of middlemen in Yokohama, the Japanese export merchants and the foreign merchants. In their quest to eliminate these middlemen, the interests of producer cooperatives aligned with those of urban outsider firms, but the most active members of the direct trade movement sought to create their own silk trading firm, the Mutual Advancement Company which would function as the trading arm of the nation's cooperatives. Selling directly to foreign customers would allow producers to reap the bulk of the profits from silk and tea sales that those merchants otherwise would have captured. Second, producers hoped to invest some of the cheap credit the government promised to extend to direct traders in improving the quality of local products in order to improve their reputation and raise their prices. By creating higher quality silk and tea for export, local elites hoped to fully exploit demand in foreign markets.

A Typical Urban "Outsider" Firm: the Trade Company

A typical example of the urban merchant "outsider" firm was the Trade Company (Bōeki Shōkai) founded in 1880. Yet another project initiated by associates of Fukuzawa Yukichi, it manifested all the distinctive characteristics of the urban "outsider" firm. Members of the Trade Company's corporate board and shareholders came from highly educated urban residents who had close contacts with the government and the financial world. The company sought to capitalize on exchange loans from the Yokohama Specie Bank to engage in direct trade and reap large profits. Finally, the firm made loud public pronouncements of its patriotic mission to free Japan's trade from the chains of foreign control.

Clearly, Fukuzawa had a strong influence on the venture. Five out of seven founding members whose names appeared in the company prospectus had close connections to Fukuzawa. His former student, Hayashi Yūteki, became the first president of the Trade Company in 1880.[534] Nakamura Michita and Koizumi Nobukichi, who had become the president and vice president, respectively, of the Yokohama Specie Bank, invested heavily in the firm.[535]

Some observers believed that the Iwasaki family that headed the Mitsubishi firm, also backed the Trade Company. Although on paper there were no clear links between the Trade

[534] Kiyama, *Kindai Nihon to Mitsui Bussan: sōgō shōsha no kigen* (Kyōto: Mineruva, 2009), 155 &161.

[535] Ibid.

Company and Mitsubishi, Mitsubishi's owner, Iwasakai Yatarō, had a close relationship with Fukuzawa. He had helped the Iwasakis purchase a coal mine in Kyūshū from ex-government official turned entrepreneur Gotō Shōjirō in 1879 by acting as a mediator between the two parties. Rumors suggested that Iwasaki had invested 80,000 yen in the Trade Company through the agency of former Mitsubishi employees who quit the firm to join the Trade Company.[536] The main reason for this investment would have been to diversify the family's business activities beyond shipping into trade. As discussed in Chapter 3, another wealthy family, the Mitsuis, had already created a trading company, Mitsui Trading, in 1876. Iwasaki Yatarō may have wanted to keep his investment secret to escape possible criticism of benefitting too much from government largess. Because the Mitsubishi firm owed much of its early success to generous subsidies from the Meiji government in return for expanding Japanese shipping, he perhaps feared revealing how profitable those contracts had been.

The most solid link between the Trading Company and the Iwasaki family was Asabuki Eiji, who became the manager of the firm. Asabuki was one of Fukuzawa's former Keio pupils who had become a manager at Mitsubishi. Although, Hayashi Shiteki was appointed the president of the Trade Company, Asabuki became the company's chief of operations. The choice of Asabuki in this post likely resulted from a compromise between the Iwasakis and Fukuzawa's Keio students. The Iwasaki family could trust their former employee to guard Mitsubishi interests and Fukuzawa's pupils could be confident in having a

[536] Fujimoto Jitsuya, *Kaikō to kiito bōeki* (Yokohama: Kaikō to Kiito Bōeki Kankōkai, 1939; reprint, Tōkyō Meicho Shuppan, 1987), 508.

former classmate at the helm of the company.[537] Management of the company thus appears to have been evenly divided between Fukuzawa allies and Mitsubishi interests.[538]

For Fukuzawa and his associates, the creation of a new, large-scale trading company that could capitalize on access to cheap credit provided by the Yokohama Specie Bank offered an attractive opportunity for personal profit. In his study of the Trading Company, Historian Kiyama Minoru has not only noted the significant overlap in the membership of the boards of the Trade Company and the Yokohama Specie Bank, but he has also suggested the enterprise seemed specifically tailored to take advantage of loans from the Yokohama Specie Bank. In the company's prospectus the list of goods that the Trading Company proposed to handle--raw silk, tea, ceramics, metal goods, lacquer ware, textiles, tobacco, marine products, and sundry goods--almost exactly matched the list of goods the government had identified as items eligible for loans from the 3 million yen exchange loan fund administered by the Specie Bank.[539] The founders of the firm also announced their desire to secure government contracts and function as an official purveyor of goods for the various agencies of the Meiji state.[540] In short, close associates of Fukuzawa founded the Trade Company with the expectation that they would be able to personally profit from their connections. This hope of using high level connections in business and government circles to profit was one of the hallmarks of the "outsider companies."

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[537] Kiyama, *Kindai Nihon to Mitsui Bussan*, 153.

[538] Ibid., 153-154.

[539] Ibid., 162-163.

[540] Ibid., 151.

The profit motive was not, however, the sole motive for the Trade Company's founding. The company's prospectus trumpeted the patriotic cause of the "recovery of commercial rights" as one of the new company's primary goals. The founders proudly proclaimed that the firm would sell Japanese goods around the globe and in doing so aid in the recovery of Japan's trading rights. They would make their firm into one of the most important players in Japan's foreign trade and therefore weaken the grip of foreign merchants in the treaty ports. Commerce, the founders argued, was a crucial pillar in the construction of national prosperity. The world's greatest economic power, Britain, was fabulously wealthy despite importing more goods than it exported. Conversely, Britain's largest colony, India, was mired in poverty despite a consistently positive balance of trade. If a nation's *balance* of trade alone determined a nation's prosperity, this situation would be impossible.[541] Yet a nation's prosperity did not depend merely upon the balance of its foreign trade, but its wealth and prosperity depended upon the ability to control trade flows. Profits earned through shipping, financing, and buying cheaply in one place and selling dear in another were in and of themselves vital methods of generating wealth which could determine the poverty or prosperity of a nation. The founders of the Trade Company argued that their firm would contribute to Japan's prosperity by taking a leading role in world trade.[542]

Asabuki also emphasized the patriotic nature of the company's mission in a speech he gave at the company's opening ceremony. He began by observing that only a few decades ago Japanese patriots had taken up the sword in order to expel foreign "barbarians" from their country. Although today it would be the height of chauvinistic arrogance to insist that

[541] A complete and unedited version of the Trade Company's mission statement, "Bōeki kaisha setsuritsu shuisho," can be found in Fujimoto, *Kaikō to kiito bōeki*, 500-510.

[542] Ibid., 511-512.

the foreigners were barbarians, the fundamental struggle for dominance between Japan and foreigners was, nevertheless, still ongoing. Japan was fighting a struggle for its independence; the only difference from earlier times was that Japanese and foreigners were fighting by commercial, rather than military means.[543] Unfortunately, according to Asabuki, Japan was losing the commercial war. Foreign traders had become the masters of Japan's overseas trade while Japan's own merchants were content to sell their goods to rich foreigners in the treaty ports and did not bother to venture abroad. As a result, Japan's entrepreneurs were completely ignorant of foreign markets. Asabuki argued that foreign economic dominance of Japan's trade amounted to a breach of Japanese sovereignty. Although the borders of the nation had not been compromised, in an economic sense Japan had already lost sovereign territory.[544]

The Trade Company would strike a blow for Japan by boldly entering foreign markets and engaging in direct trade with foreign nations. Through active engagement in world trade the company would help Japan to reclaim control of its foreign trade and lead the way to a national economic revival. Asabuki predicted that if the company was successful, other Japanese merchants would see the profits the company had earned and rush to imitate the company's model. Then, with several firms actively engaged in trade the nation would be well on its way to regaining control over its trading rights.[545]

It might be easy to dismiss such statements as mere lip service to nationalist sentiment intended to put a patriotic gloss on what was ultimately a naked attempt to

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[543] "Kiji: kajitu Bōeki Shōkai kaigyō no hi, Asabuki Eiji no enzetsu," *Tokai keizai shinpō,* no. 1, August 21, 1880 (Tōkyō: Tōkaisha, 1880; reprint, *Tokai keizai shinpō*, vol. 1 (Tōkyō: Nihon Keizai Hyōronsha, 1983), 12.

[544] Ibid.

[545] Ibid., 13.

capitalize on government policies to turn a quick profit. For Asabuki, however, this rhetoric was heartfelt. His first contact with Fukuzawa had been in the heady days at the end of the Tokugawa bakufu when Asabuki, as a young hot-headed "gentleman of spirit" (*shishi*), had reportedly sought to assassinate Fukuzawa for the crime of studying the West.[546] Although this story is likely somewhat apocryphal, Fukuzawa himself referred specifically to Asabuki's anti-foreign nationalism in recommending him for a government sponsored mission to Europe in 1878. Besides praising Asabuki's skills in accountancy, Fukuzawa also emphasized Asabuki's burning desire to engage in direct trade with foreign countries and thereby "drive out the foreign merchants in Yokohama."[547]

Possessing strong nationalist sentiments, did not, of course, preclude the simultaneous possession of strong business instincts. For all Asabuki's patriotic sentiment, he also made clear in his speech at the Trade Company's opening ceremony that the company's patriotic mission to carry Japanese products to every last corner of the globe would also be lucrative. Japan's foreign trade was rapidly increasing and, Asabuki argued, even if the Trade Company only captured a small portion of Japan's growing trade, the profits would amount to millions of yen.[548] As it turned out patriotism would pay dividends.

Asabuki's statements reveal the mix of motives that were probably common in typical urban "outsider" firms. The idea that foreign intermediaries were exploiting Japan provided both a sense of mission of national consequence for the patriotic capitalists and led them to

[546] For information on Asabuki's background see "Kaisetsu," in *Fukuzawa Yukichi Shoranshū*, ed. Keiō Gijuku ed., vol. 2 (Tōkyō: Iwanami Shoten, 2001), 383.

[547] Fukuzawa to Matsukata, October 10, 1877 in *Fukuzawa Yukichi Shokanshū*, ed. Keiō Gijuku, vol. 2 (Tōkyō: Iwanami Shoten, 2001), 25.

[548] "Kiji: kajitsu Bōeki Shōkai kaigyō no hi, Asabuki Eiji no enzetsu," 13.

believe that engaging in direct trade would reap large profits. After all, if foreign merchant houses were prospering by acting as middlemen in Japan's foreign trade, it only stood to reason that there were great profits to collect if Japanese firms would take over these functions from foreign firms. The relative inexperience of the executives of outsider firms also may have encouraged naïve optimism.

Opening for business in 1880, the Trade Company made full use of exchange loans from the Yokohama Specie Bank and achieved good progress in extending its business. In the very first year of 1880 the Trade Company claimed the position of fifth largest silk dealer in the nation in total volume of sales.[549] This position had previously been occupied by the Mitsui Trading Company whose silk business began to decline as it was displace by upstart firms the Trade Company.[550] By the end of 1881 the firm had captured a small but significant share of the raw silk trade to America and had opened offices abroad. In that year it exported a total of 1801 bales of raw silk which was an amount roughly equal to one-tenth of the total of 18, 128 bales of raw silk that Japan exported that year.[551] Despite a slight decline in the firm's silk exports in 1882, the Trade Company was able to increase its exports to about 3,000 bales of silk in the next few years and handle about ten percent of the nation's

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[549] Yamaguchi Kazuo, *Kindai Nihon no shōhin torihiki: Mitsui Bussan o chūshin ni* (Tōkyō: Tōyō Shōrin, 1998), 38.

[550] Ibid., 35-36.

[551] The calculations are based on statistics provided by Tomizawa Kazuhiro. Tomizawa Kazuhiro, *Kiito chokuyushutsu shōreihō no kenkyū*, 65 &122.

total silk exports by volume.[552] The venture to combine patriotism and profits appeared to be a smashing success.

The Trade Company was the most notable example of an "outsider" firm because its founders were vocal in publicizing their activities and the firm did briefly occupy an important position in Japan's foreign trade. It was not, however, the only outsider firm. Other urban merchant enterprises emerged in 1880 and 1881 with the purpose of engaging in direct trade. One was the Fusō Company, a trading company founded in 1881.[553] The firm's founders were similar to those of the Trade Company in having close connections to the government or the financial world. Koyasu Takashi had quit his career in the Ministry of Foreign Affairs to go into journalism by helping to start the *Yomiuri Shinbun*, which soon became a prominent Tōkyō based newspaper. The firm's second partner, Nakayama Uyaji, had worked for the Ministry of Finance and had gained some experience in the silk business. Harada Jirō, the third major partner, was the director of the 74th National Bank located in Tōkyō.[554] All three men had the additional advantage of proficiency in foreign languages and experience either living abroad or dealing with foreigners.

Like the Trade Company, the Fusō Company aimed at engaging in direct trade. While the company appears not to have ever claimed to be undertaking a patriotic mission by doing so, its leaders obviously saw an opportunity in the dealing directly with foreign markets. The

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552 Total raw silk exports in 1883 and 1884 were 31,315 bales and 24, 572 bales respectively. The Trade Company's total raw silk exports in that period amounted to 3, 237 bales in 1883 and 3,088 bales in 1884. For details see Tomizawa, *Kiito chokuyushutsu shōreihō no kenkyū*, 65 & 122.

553 Unno, Fukuju, "Jiki yushutsu no tenkai," in Yokohama-shi Sōmukyoku Shishi Henshūshitsu ed., *Yokohama Shishi*, vol. 3 part 1 (Yokohama: Yokohama-shi, 1958), 649.

554 Ibid.

300,000 yen in capital the founders managed to gather from investors suggested that a significant number of wealthy individuals saw a great deal of potential in direct trade as well.

Direct Trade and the Cooperative Movement in the Silk Industry

Another driving force behind the direct trade movement was the campaign for cooperatives that arose in Japan's interior in the late 1870s. Although the cooperative movement also espoused direct trade as a goal and mixed dreams of great profits from selling goods directly to foreigners with a vaguely patriotic impulse to strike a blow for the reclamation of Japan's commercial independence, the campaign differed from the schemes of urban merchant outsiders in several important ways. First, the cooperative movement was a largely rural phenomenon born out of the concerns and frustrations of rural producers and small merchants who felt they were losing out in a trade system dominated by wealthy export merchants in the treaty ports. Second, unlike the well-educated would-be-merchants who founded the outsider firms, the founders of the cooperatives all had extensive experience in the silk and tea trades and were familiar with at least the domestic realities of those trades even if they were not especially knowledgeable about foreign markets. The cooperatives formed by rural producers aimed to displace wealthy Yokohama merchants as the main agents in Japan's silk and tea trades. Like the urban "outsider" firms created to engage in direct trade, the cooperatives hoped to profit from direct engagement in foreign trade, wrapped in a vaguely patriotic rhetoric of recovering the nation's "trading rights." Many of the cooperatives aimed to sell their silk to urban outsider firms or specially created entities like the Mutual Advancement Company (which will be explained below) designed to advance the commercial interests of silk producers.

The cooperative movement of the 1870s experienced its greatest progress in the important silk producing region of Gunma where participants aspired to boost silk producers' incomes by improving the quality of locally produced raw silk and selling it directly to foreign markets. The movement grew from a small organization based on a few villages in Gunma prefecture to become a nationwide organization with its own large-scale commercial organization, the Mutual Extension Company (Dōshin Kaisha). Because the silk producer cooperatives encouraged direct trade, the government initially embraced the movement as an extension of its own policies in promoting exports in an effort to eliminate the nation's trade deficits.

The cooperative movement began with Hoshino Chōtarō. As we saw in Chapter 3, Hoshino was the first Japanese entrepreneur to market and successfully sell his raw silk in a foreign market. In 1876 he had sent his younger brother, Arai Ryōichirō, to New York to work as his sales agent looking for buyers for silk produced in Hoshino's factory. Hoshino's ambitious plan succeeded and soon Arai had made a name for himself as a reliable supplier of silk in a rapidly expanding American market.[555]

This fortunate development presented Hoshino with new opportunities and new problems. Selling his silk directly to American customers proved highly lucrative. Hoshino was able to gain a higher price for his raw silk in New York than he would have obtained had he sold his goods to the export merchants in Yokohama.[556] However, keeping his younger brother in New York to act as a sales agent proved to be expensive to the extent that paying for his brother's living expenses ended up eliminating most of the gains Hoshino made from

[555] Haru Matsukata Reischauer, *Samurai and Silk: a Japanese and American heritage* (Cambridge: Harvard University Press, 1986), 211.

[556] Ushiki Yukio, *Chihō meibōka no seichō* (Tōkyō: Kashiwara Shobō, 2000).

direct sales. To fully benefit from the higher prices in New York and turn a profit, Hoshino had to sell more silk.[557]Because news of Hoshino's success had spread around the region several of his neighbors were eager to join him in exporting silk to America.

Hoshino invited forty silk producing households in his village of Mizunuma to join him in founding a village cooperative, the Watarase Association (*Watarase-gumi*) which would produce high quality silk for direct export to the American market.[558] Upon hearing the announcement of the Watarase Association's founding, neighboring villages soon rushed to set up similar organizations to export raw silk to America. These cooperatives soon joined Hoshio's Watarase-gumi to form a larger cooperative, the Silk Company (*Seishi Gensha*) in 1877.[559]

The Silk Company consisted of six separate village based cooperatives working together. Each cooperative consisted of roughly 40 members who elected their own officers. The elected officials of each cooperative were in charge of overseeing all steps of raw silk production within their cooperative. Cooperative officials collected money from members to purchase silk cocoons and oversaw the purchase, inspection and distribution of the cocoons to members of the cooperative who would process the cocoons into raw silk. Once the raw silk had been reeled, the officers of each cooperative would collect the raw silk and to subject it to a rigorous quality inspection.[560] Silk Company officials would then inspect the raw silk

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[557] Ibid., 62.

[558] Matsukata Reischauer, *Samurai and Silk,* 211.

[559] Soda Osamu, *Chihō sangyō no shisō to undō: Maeda Masana o chushin ni shite* (Kyōtō: Mineruva Shōbō, 1980), 239.

[560] Soda, *Chihō sangyō no shisō to undō*, 242.

again, grade it, and ship to America where Hoshino's brother Arai Ryōichirō supervised sales.[561]

This cooperative model pioneered by Hoshino's Silk Company proved to a highly effective method of encouraging direct exports. By pooling capital to purchase raw materials, working strictly to enforce a uniform quality of silk production among its various members, and sharing a sales network managed by Arai, the enterprise managed to boost the earnings of a large number of small raw silk producers, many of whom used rudimentary human powered machinery to reel raw silk.[562] By exporting their raw silk directly to the New York market, the cooperatives were also able to realize greater profits because they bypassed the hierarchical domestic trade network controlled by the export merchants and foreign mercantile houses in Yokohama. Villages around Gunma were soon dispatching representatives to study and copy Hoshino's cooperative model.[563]

The main drawback of the Silk Company and the cooperative model was the long lag between the shipment of raw silk to America and the return of profits from sales. The shipment, sale, and final repatriation of the profits gained from the sale of raw silk abroad required a minimum of six to eight months.[564] During this interval the producers in the Silk Company would not receive a single yen. In the meantime, these same producers also had to scrounge up the necessary capital to obtain cocoons to fund the next round of silk production, a difficult challenge for smaller-scale silk producers with limited funds.

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561 Ibid., 240-241.

562 Ibid.

563 Soda, *Chihō sangyō no shisō to undō*., 246-250.

564 Ushiki, *Chihō meibōka no seichō*, 61-62.

In contrast, the silk producer who agreed to sell his silk through one of the Yokohama export merchants faced no delay in payment. The export merchants offered cash in advance and loans to silk producers to help them cover their raw material and labor costs. In return, the export merchant would demand the exclusive right to sell the producer's raw silk. After selling it, the export merchant would subtract the loan amount and a commission fee from the sales revenue and send any remaining cash profits back to the silk producer.[565] Although the silk producer ended up paying a premium to the export merchant in return for loans and a quick return of profits, many small-scale silk producers were simply financially unable to wait six to eight months to see any return on the sale of their raw silk. They were ready to sacrifice a portion of their potential profits if they would see those profits quickly.

To solve this problem and to secure necessary capital to invest in ensuring the manufacture of a uniform quality of silk for the American market, Hoshino requested a 300,000 yen loan from the local government. In a letter to Gumna prefecture officials, Hoshino argued that there was a great demand for Japanese silks overseas. Unfortunately, this high demand had encouraged the production of low quality or adulterated raw silk by a group of disreputable producers and merchants in the prefecture who sought to turn a quick profit. This trend had caused the reputation of the once highly sought after Gunma silks to decline in recent years, Hoshino complained. Although he and a group of other silk producers wished to restore the prefecture's reputation as a region that produced only high quality silks, these "spirited persons" (*yūshi*) faced three main challenges. First, producers in Gunma needed to increase their output in order to become major suppliers of silk on the New York market and gain more leverage in negotiating a price for raw silk with customers there. Second, local producers needed to break the foreign merchants' monopolistic control over

[565] Unno Fukuju, *Meiji no bōeki kyoryūchi bōeki to shōken kaifuku* (Tōkyō: Hanawa Shobō, 1967), 36-37.

the pricing of raw silk by traveling abroad and selling directly to consumers in foreign markets. Third, local silk producers needed capital to invest in improving silk production techniques in order to produce a silk of uniformly high quality. Hoshino urged the prefectural government to help fund his cooperative so that the Silk Company could accomplish its goals.[566]

After endorsing Hoshino's plea, the prefectural authorities forwarded to the national Ministry of Finance. They emphasized the recent decline in the quality of locally produced silks in arguing the urgent need to encourage the production of a higher quality product. Although prefectural officials shared Hoshino's concerns about the quality of locally produced silk and stressed the possibility of increasing local silk exports to America, the officials also underlined the benefits to a large segment of the local society. They suggested that the best way to improve the quality of local silks was to promote the gradual improvement of hand reeling techniques employed by many small-scale silk producers. This approach would avoid the expense and difficulties of investing in mechanized filatures and it was most quickly increase the volume of high quality silk production. Small producers could then benefit more fully from expanding foreign demand for higher quality Japanese silks.[567] The Ministry of Finance readily agreed to the full loan on generous terms- a ten-year period for repayment with no interest accruing for the first five years and a six-percent annual interest rate after that.[568]

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[566] Gunma-ken to Naimushō, "Kiito seisei shōrei no tame shihonkin kashisage no shiei," 12 March, 1879 in *Gunma kenshi: shiryōhen,* ed. Gunma kenshi Hensan Iinkai, vol. 23 *kindai* part 7 (Maebashi: Gunma-ken, 1985), 386-387.

[567] Ibid., 385-386.

[568] Ibid. 385.

The Creation of the Mutual Extension Company

In the early 1880s, the role of the central government in the campaign for cooperatives changed in important ways. In its early stages, the energy of local entrepreneurs fueled the cooperative movement. The central government often was not involved in the creation of cooperatives, and even local officials played a limited role. Producer cooperatives therefore were very much a movement "from below" propelled by local initiatives in the private sector in the countryside. By the opening of the 1880s, however, the Meiji government sought to encourage the cooperative movement as part of its attempts to boost exports. At the same time key members of the cooperative movement looked to the government to overcome daunting challenges they faced in mobilizing capital. By 1881 the cooperative movement was leaning heavily on the state to support its activities.

While securing adequate finance to allow its members to continue business was a constant challenge for Hoshino and the Silk Company, the sales side became a source of concern. His brother, Arai, was a good salesman and a vital asset to the company, but his business partner in New York, Satō Hyakutarō, had to return to Japan in 1878 because of problems with creditors.[569]Satō's departure left Arai alone to cope with a rapidly expanding raw silk sales business.[570] Hoshino worried that without a partner, Arai might not be able to sustain the business, let alone manage to handle the expanded volume of raw silk that the Silk Company was shipping to America.[571] Hoshino hoped to increase sales by enlisting

[569] Reischauer, *Samurai and Silk*, 215-216.

[570] Ibid., 217.

[571] Ushiki, *Chihō meibōka no seichō*, 62.

partners to help with Arai's New York operations. If other silk producers joined his direct trade ventures, they could provide additional capital to expand operations in New York.

Government efforts to foster greater contact between producers in the silk, tea, and other rural industries would provide Hoshino with an opportunity to solve his problems. In 1879 Matsukata Masayoshi, then head of the Agricultural Promotion Bureau (Kannōkyoku) in the Ministry of the Interior, had just returned from a fact-finding mission in Europe. He was particularly impressed by the various agricultural fairs and exhibitions he had attended. Europe's governments and industry associations used these events to encourage the improvement of agricultural products through competitions and awarding prizes to superior agricultural produce. Upon his return to Japan, Matsukata immediately set about organizing "mutual progress societies" (*kyōshinkai*) which organized both competitive exhibitions and industry association meetings for tea and silk producers where participants could share knowledge about new production techniques and discuss common issues of concern.[572]

One of the earliest annual mutual progress society meetings held for silk producers occurred in Yokohama in 1879. The event featured a competitive agricultural exhibition where producers from around the country displayed their raw silk before a panel of judges who awarded prizes to the highest quality silks as well as an industry meeting where producers socialized, exchanged information on the latest innovations in silk reeling, and discussed problems of common interest. Inspired by speeches by Matsukata and other government officials emphasizing the need to increase silk exports, a group of silk producers

[572] Reischauer, *Samurai and Silk*, 221-222.

agreed to meet in Tōkyō a few days afterwards to discuss issues of common concern and deepen intra-industry cooperation.[573]

This Tōkyō meeting proved to be an important moment in the development of the cooperative movement. Major silk producers from across the nation attended, as did Hiyami Kenzō, Hoshino Chotarō's former mentor and now the Meiji government's chief expert on the silk industry. Hayami's presence signaled the government's intense interest in developments in the industry. At the meeting the silk producers expressed their dissatisfaction with the current state of the silk trade and agreed to join together to create a new national company which would export raw silk directly to foreign markets. They set March 1880 as the tentative date for the company to open its doors.[574]

A widespread frustration with the current state of the silk trade motivated producers to create a new silk export company. In particular, silk producers located in Japan's interior resented the power of urban silk merchants who dominated the trade. In a brief statement of purpose outlining the goals of the proposed silk company, the silk producers pointed out that producing high quality silk was a difficult and expensive process which required great effort. Unfortunately, they complained, Japan's silk merchants were totally ignorant of the complexities involved in silk production and therefore were unable to fairly assess the true value of high quality silk. Similarly, foreign merchants in Yokohama were all lower level functionaries of large commercial houses who were poorly trained, possessed little specialist knowledge of the silk trade, and thus also incapable of accurately assessing the value of a silk producer's goods. Due to this widespread lack of knowledge among silk merchants both

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[573] Fujimoto Jitsuya, *Kaikō to kiito bōeki* (Yokohama: Kaikō to Kiito Bōeki Kankōkai, 1939): reprint (Tōkyō Meicho Shuppan, 1897), 492.

[574] Ibid., 492-493.

foreign and domestic, silk producers were unable to gain a fair price for their wares. They could not advance Japan's national interests until they could reach foreign customers who would appreciate the high quality of Japanese silk and pay a generous price for it.[575]

The solution to the dilemma was, naturally, to directly penetrate foreign markets. In a statement of purpose declaring their intent to form a new trade company, rural silk producers attending the Yokohama meeting noted that individual efforts to reach foreign consumers had had mixed success. Attempts to sell Japanese raw silk in the French market had proved unsuccessful. The successful efforts by Hoshino Chōtarō and Sano Rihachi in Nagano to export to America were too modest to take advantage of that important and growing market. The only way to develop direct trade was for silk producers to abandon their individual efforts and pool their resources to form a national company which could utilize their collective capital and resources to sell silk producers' goods under a single banner. The silk producers' preliminary plan envisioned a new company with a branch office in Lyon to sell Japanese silk to the French market. The company would open additional offices in Britain and America as needed.[576]

Although government officials were encouraging, the silk producers who founded the company hoped to maintain a semblance of independence from government authority. When searching for a suitable person to serve as the president of their new company, the silk producers turned to Hayami Kensō. They demanded that he resign his government post to

[575] Ibid.

[576] Ibid., 493-494.

avoid any possible accusations of conflict of interest and to keep the company independent of government interference.[577]

The new enterprise which took the name the Mutual Extension Company (*Dōshin Kaisha*) functioned according to the same cooperative principles as the Silk Company. The company's activities focused on the financing, collection, and marketing of raw silk. In its role as financier, the company took advantage of the government's direct trade promotion polices to borrow large sums from the Yokohama Specie Bank's exchange loan program. The firm divided and funneled the money to corporate members to help fund silk production and bring their goods to Yokohama. Once the company received silk shipments from its members, it would inspect and package the silk for shipment and sale abroad. When the silk arrived in foreign markets, agents from the Mutual Extension Company would handle the sale. Revenue from overseas sales would return to Japan where company officials would calculate each member's share according to the volume and sale price of the silk sold by each member. The Company would then subtract from each member's share the amount received by each member in advance loans plus any interest accrued on the loan. The member would receive the remaining money as profit.[578]

Thus the Mutual Extension Company acted as a trading firm. It did not engage in silk production. It remained centered on individual entrepreneurs who functioned as independent firms that merely shared a common finance, sales, and marketing arm. The creation of the enterprise therefore did not radically alter the nature of the silk industry from the viewpoint of the medium to large-scale silk producers. The company did, however, present a challenge

[577] Ibid.

[578] Ushiki, *Chihō meibōka no seichō*, 70-71.

to local silk merchants and the powerful mercantile interests in Yokohama. By organizing finance, sales, and marketing abroad, the firm effectively replaced the Yokohama export merchants who dominated these aspects of the silk trade. For local silk dealers the company also presented a potential threat, because it replaced them as gatherers of silk in the countryside and took away their role of carrying out inspections of silk to rate its quality and of shipping it to the port. This change was, of course, partly by design. The creation of the Mutual Extension Company resulted from the frustrations of rural producers with the structure of the silk trade and their desire to realize greater profits by cutting out some of the middlemen in the Yokohama port trade. While purporting to help recover Japanese control of the nation's foreign trade, the Mutual Extension Company would advance the interests of rural silk producers at the expense of export merchants in Yokohama and local merchants in the countryside.

Like the Trade Company, the Mutual Extension Company was able to use the Yokohama Specie Bank's exchange loan program to turn itself into an important player in Japan's silk trade. In its first year of business the company exported 1,206 bales of raw silk, or roughly 6 percent of Japan's total raw silk exports for that year (1881). Within the next few years the company's direct exports expanded steadily to a total of 2,664 bales of silk in 1884. Though the percentage of the total silk trade handled by the company varied slightly, in the early 1880s, the company could boast that it handled between 5 and 10 percent of the nation's silk trade.[579]

From a Cooperative to a Company: the Jōmō Silk Improvement Company

[579] Figures are derived from statistics provided by Tomizawa. Tomizawa, *Kiito chokuyushutsu shōreihō no kenkyū*, 65 & 122

The creation of a large scale trade organization solved some of the basic problems silk producers had in getting their goods to market, but it did not solve the challenge of producing uniformly high quality silk that foreign markets demanded. The Silk Company provided some help in achieving the aim of standardizing production and in promoting direct trade, but producers urgently needed more capital. Producing large amounts of silk of uniform quality required larger investments in everything from planting more mulberry trees to feed silkworms and boost the production of cocoons, to training local farmers in efficient methods of silk reeling, and creating new mechanized filatures. These measures were necessary to fully exploit the growing overseas market for Japanese silks.[580]

The leaders of the cooperative movement in Gunma prefecture were therefore pleased when the mangers of the 33rd National Bank (*Sanjūsan Kokuritsu Ginkō*) based in Tōkyō thought they had spotted a commercial opportunity. Anticipating rapidly growing silk exports to the United States, the bank decided to begin financing the Silk Company's direct trade ventures. Demand for loans from silk producers, however, soon far outstripped what the available funds at the 33rd National Bank. In response, the bank's managers advised local producers to band together to form an even larger company. It company would focus on improving local silk manufactures and utilize the services of the Mutual Extension Company to export its silk directly to the United States. According to bank executives, by forming a large company and posting land deeds as collateral for loans, silk producers stood a good

[580] The need for additional capital is underlined as the primary reason for the founding of the Jōmō Silk Improvement Company which will be discussed below. Gunma Kenrei, "Jōmō Mayukei Kairyō Kaisha jikkyō" in *Gunma kenshi: shiryōhen*, ed. Gunma kenshi Hensan Iinkai, vol. 23 *kindai* part 7 (Maebashi: Gunma-ken, 1985), 409.

chance of securing a large loan from the government to fund investment in improved silk production.[581]

Taneda Seiichi, the director of the 33rd National Bank travelled to Gunma prefecture in early 1880 to address a gathering of 300 local silk producers who had formed their own local silk improvement association. Taneda's proposition to secure a large loan from the government spurred the local silk producers to launch a campaign to gather together their land deeds to post as surety for a loan of 1 million yen.[582] When Taneda learned that a major government official, Inoue Kaoru, happened to be visiting the local hot springs, Taneda rushed off to pitch his idea for a large-scale loan to the Gunma silk producers. Inoue gave his unofficial blessing to the venture by making an informal visit to a gathering of silk producers on his way back to Tōkyō. During his brief stop-over Inoue inspected samples of raw silk and addressed a gathering of local silk producers on the need to form associations and work together to increase the nation's silk exports. Within a few weeks local producers managed to collect 1.2 million yen worth of land deeds which they intended to present to the government as surety in securing a government loan.[583]

The next step was to begin negotiations with the government. Hoshino Chōtarō, Fukazawa Yukizō, another leading figure in Gunma's silk industry, and Taneda Seiichi all travelled to Tōkyō to discuss the matter with government leaders. Hoshino visited Inoue at his private residence to present a formal request for a loan. Inoue voiced his approval for the venture, but noted that only the Minister of Finance, Ōkuma Shigenobu, could approve a loan.

581 Ibid., 409-410.

582 Ibid., 410.

583 Ibid., 410-411.

A subsequent visit with Ōkuma yielded similarly inconclusive results. Ōkuma readily expressed his enthusiastic approval of the idea in principle, but emphasized that the ministry would have to conduct an official review.[584] Yet after several months there was no sign that the MOF had taken any action. Tired of waiting for the review to start, Hoshino sent another formal request to the Council of State (*Dajōkan*). It decided to send Maeda Masana, at the time a MOF official, to Gunma to investigate the state of the local silk industry. After constant lobbying by Taneda, Hoshino, and Gunma governor Katori Motohiko, Maeda finally arrived in November1880.[585]

What happened next became a matter of controversy. Letters to Governor Katori from the Ministry of Finance stated that Maeda had the authority to discuss all matters involving silk production and the requested loan. Maeda met with silk producers and lectured them on the need for a collective effort in promoting silk exports. Utilizing military terminology, Maeda declared raw silks were Japan's "elite troops" in a commercial war and that it was the duty of all Japanese subjects to ensure that the nation's elite forces functioned effectively to secure victory. Maeda added that to defend the nation the government had to adequately equip its elite troops—an apparent reference to the need for government support. He did not, however, make a direct reference to the requested loan.[586]

That night Maeda attended a private dinner with Hoshino and Governor Katori. When pressed on the loan issue, Maeda informed them that the Ministry of Finance had still not rendered a final decision on the request but he was certain that the government would

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[584] Ibid., 411.

[585] Ibid., 411-412.

[586] Ibid., 412.

eventually consent to at least a 700,000 yen loan to the collective of silk producers if they organized themselves to form a larger company. Taking Maeda at his word, Gunma's silk producers reorganized their informal association into a company the Jōmo Silk Improvement Company (Jōmō Mayukei Kairyō Kaisha).[587]

A report submitted by Sekine Chikamitsu, however, reached a very different conclusion. Dispatched by the Ministry of Finance's Commercial Bureau to investigate the viability of a loan to the local silk producers' cooperative a month prior to Maeda's mission, Sekine noted that a loan to the local cooperative would encourage more silk producers to join the enterprise and thus make a larger injection of capital necessary.[588] Left unchecked, loans to any cooperative might merely result in requests for larger loans until the government was subsidizing the entire silk industry. The report also expressed doubts about the silk producers' prospects for success and the profitability of the direct export venture.[589]

In any event the loan of 700,000 yen failed to arrive. Meanwhile the Ministry of Finance acted as if the new company would soon receive a large loan. The ministry required the Jōmō Company to return money it had borrowed from the Yokohama Specie Bank, because, the ministry argued, once the company received a loan directly from the government, the company could not take advantage of the bank's cargo loans. Within a few months, however, the company was once again authorized to borrow from the bank which issued a series of small bridge loans to help the firm bring its goods to market. Finally, later

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[587] Ibid., 412-413.

[588] A brief explanation of the context of the report can be found in *Gunma Kenshi*. *Gunma kenshi: shiryōhen,* ed. Gunma kenshi Hensan Iinkai, vol. 23 *kindai* part 7 (Maebashi: Gunma-ken, 1985), 1160.

[589] Sekine, Shinmitsu, "Jōmō Mayukei Kairyō Kaisha keikyō hōkokusho" October 9, 1880 in *Gunma Kenshi*: *shiryōhen,* ed. Gunma kenshi Hensan Iinkai, vol. 23 *kindai* vol. 7 (Maebashi: Gunma-ken, 1985), 419-420.

in the year, the Yokohama Specie Bank extended a 300,000 yen line of credit to the company to facilitate trade, rather than fund improvement in regional silk production.[590]

Attempts by the cooperative movement in Gunma to gain government support for improving the quality of local silks and promoting direct trade ended in frustration. Despite local producers' efforts in forming the Jōmō Silk Improvement Company and doing everything in their power to obtain government approval for financial support, the state gave only paltry funding for the company through a series of half-measures which did little to help local producers realize their ambitious goals. The case of the Jōmō Silk Improvement Company provides one instance where miscommunication between the state and business resulted in confused and ineffective policies. Gunma's silk producers had formed the Jōmō Silk Improvement Company with the understanding that they had received tacit government support for their scheme when in fact the government ended up being hesitant to support the company. The case of the Jōmō Silk Improvement Company was one instance where the *ad hoc* approach to commercial policy did not work.

Conclusion

By the beginning of 1881, a broad based movement to promote direct trade seemed well underway. Patriotically minded readers of the *Hōchi Shinbun* who shared the paper's enthusiasm over the creation of the Trade Company could be satisfied in the knowledge that their country was taking the necessary first steps to break foreign merchant control over Japan's commerce. These patriotic readers had every reason to believe that they were

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[590] Gunma Kenrei, "Jōmō Mayukei Kairyō Kaisha jikkyō," in *Gunma kenshi: shiryōhen,* ed. Gunma kenshi Hensan Iinkai, vol. 23 *kindai* part 7 (Maebashi: Gunma-ken, 1985), 414-415.

witnessing the dawn of a new era in the development of their nation's commercial prowess and that Japan would soon join the ranks of mighty commercial nations like Britain.

These readers could point to specific accomplishments. A new specie bank had emerged with a special fund to support Japanese exports and aid the rapid expansion of direct trade ventures. New trading firms declared their intent to carry Japanese goods to distant lands. Groups of "spirited gentlemen" in Japan's interior had formed cooperatives to promote local silk and tea industries and take their products directly to consumers in the West. For a brief moment it appeared as if the momentum of the direct trade movement would propel Japan's ascendancy to greatness as a mercantile nation.

Some of the greatest accomplishments of the direct trade movement were the result of collaboration and mutual arm twisting between the state and the private sector. The single most important achievements of the direct trade movement, the creation of the Yokohama Specie Bank and its cargo loan program, are apt examples. Fukuzawa Yukichi first convinced Minister of Finance Ōkuma Shigenobu to create a private specie bank that could help stabilize the currency. After officials realized that the newly created Yokohama Specie Bank could not survive just by dealing in silver, they supported its transformation into a trade bank. When the bank's management requested that the government permit the bank to issue loans to exporters, officials responded by creating the cargo loan program and demanding stronger supervisory powers over the bank.

Throughout the process neither the state nor the private sector was able to set the agenda. Instead the interactions between the state and the bank's founding managers resembled a process of negotiation in which both officials and bank executives influenced the policies of the bank. A similar pattern can be seen in the foundation of direct trading companies and producer cooperatives. Entrepreneurs created many of the trading companies in order to capitalize on government support for direct trade, yet their existence also created a constituency demanding government support for direct trade. In a similar fashion, the government encouraged greater contact and cooperation among producers in Japan's indigenous industries, a development which led to the creation of producer cooperatives. Some of these cooperatives, in turn, sought out state assistance to improve their products and engage in direct trade ventures.

Because the interactions between the state and private industry were a process of give-and-take, the resultant economic policies to promote direct trade and the direct trade movement itself were haphazard and impromptu, rather than carefully planned or thought-out. Economic policies to promote direct trade typically resulted from historical accidents, rather than clearly crafted plans. While the government hoped to encourage direct trade, it did not plan to create exchange and cargo loan funds at the Specie Bank, it did not anticipate the creation of new trading companies, and it did not drive the formation of producer cooperatives. The state indirectly contributed to all of these developments, but all three responded primarily to various demands from private industry and attempts to adapt policy to realize the goal of promoting direct trade. These measures were not part of a master plan by a group of officials to promote direct trade. Instead they were making up economic policy in an *ad hoc* fashion, sometimes in response to demands from the private sector and sometimes in response to a crisis.

The patriotic rhetoric of the direct trade movement which appeared to give the movement a semblance of united purpose and coherence also papered over tensions between the conflicting priorities of those participating in the movement. While the government, urban “outsider” merchant firms, producer cooperatives, and the general public all shared a desire to challenge foreign merchants’ dominance over Japan’s overseas trade, each group had other goals. The government saw direct trade as a way of halting inflation and accomplishing its goal of building a strong modern polity. Urban outsider merchants seized on direct trade as a new business opportunity that promised generous profits. Silk producers utilized direct trade as a slogan to encourage their peers to mobilize against the powerful foreign mercantile houses and the Yokohama export merchants who dominated the trade in raw silk. These various agendas attached to direct trade both explain the movement’s broad appeal and, demonstrate the primary reason for the unorganized, spontaneous character of the movement. Beyond challenging the dominance of foreign merchants, the direct trade movement had no clear agenda.

Undoubtedly, many entrepreneurs imagined that direct trade provided a convenient combination of patriotism and profits. Believing that they would reap great profits if only they could reach foreign consumers directly, would-be direct traders hoped they would receive handsome rewards for their efforts in creating new networks of trade abroad. It was unclear how long they would be willing to sustain those ventures without substantial material gains and to what extent the government was willing to support the movement. The greatest threat to the movement would come from the established kingpins in Japan’s foreign trade, the Yokohama export merchants and foreign mercantile houses. One would not expect that they would docilely cede their profitable business. Indeed, a major confrontation would erupt in the fall of 1881.

CHAPTER 6:

The Skeins of Power: silk, national sovereignty and the United Silk Storing Company incident

On the evening of September 20, 1881, a group of foreign merchants held an impromptu meeting at the Club Germania in Yokohama. The European and American merchants who gathered in the club's rooms were worried about an ominous new development in Japan's silk trade. Only a few days before a group of Japanese silk merchants in Yokohama announced they had pooled their capital together to found a new company they christened the United Silk Storing Company (*Rengō Kiito-niatsukarijō*). This group of Japanese silk suppliers declared that their new company would serve as the main warehousing agent for all shipments of silk moving in and out of Yokohama and would be the center for all future silk trading in the city. To realize these aims, the Japanese merchants who founded the company pledged to entrust all of their silk to the United Silk Storing Company's warehouse and to conduct all sales of silk products exclusively at the company's offices. The merchants participating in the company also agreed to refuse to do business with any party that sold or purchased silk from anyone other than the United Silk Storing Company's affiliated members.

Reacting to the announcement from their Japanese counterparts, the foreign merchants acted swiftly and decisively. They publicly condemned the United Silk Storing

Company as a naked attempt by a group of would-be monopolists to seize control of Japan's silk trade. Within two days of their initial meeting over thirty foreign merchant firms, including some of the largest purchasers of Japanese silk, formed an association for the express purpose of opposing the United Silk Storage Company and its affiliated Japanese merchants. The foreign merchants sent an open letter expressing their surprise and dismay in learning of the new company's founding and the new restrictions that the Japanese merchants affiliated with the company sought to impose on the silk trade. The foreign merchants openly declared they would refuse to purchase any silk from the new company since it "was not safe" to do so and they pledged to work together to defeat the new company.[591]

For the next two months the rival groups of Japanese and foreign merchants were locked in an increasingly bitter feud that threatened to develop into a full-blown economic crisis. With Japan's main silk suppliers refusing to sell to foreign firms unless they agreed to recognize the legitimacy of the new company and foreign firms refusing to purchase silk until the company was dismantled, Japan's silk trade, a trade which accounted for nearly half of all of the nation's export trade, came to a complete standstill. It caused economic difficulties for many Japanese from Yokohama's dockworkers to silk producers in the nation's interior.

In the meantime, a popular campaign to support the United Silk Storing Company and the Yokohama export merchants in their fight with the foreign merchants began. Japanese newspapers jumped on the story by portraying the dispute as a brave struggle by patriotic merchants to recover the nation's "commercial rights" (*shōken*) from "haughty" and "unjust

[591] "Copy of Resolution," *The Japan Weekly Mail* (Yokohama), 24 September, 1881 (reprint, *The Japan Weekly Mail*, vol. 29, Tōkyō: Edition Synapse, 2006), 1104. Unless otherwise indicated, all other *Japan Weekly Mail* articles cited in this chapter can also be found in vol. 29 of the 2006 Edition Synapse reprint of the *Japan Weekly Mail*.

foreign merchants."[592] Japanese banks and transport companies pledged to support the United Silk Storing Company by refusing to finance or ship any silk cargoes going to foreign merchants. In a show of solidarity, Yokohama's import merchants (*hikitorishō*) promised to suspend all purchases of foreign goods until the silk dispute was resolved. The nation's most prominent businessmen in the Tōkyō Chamber of Commerce put the full weight of their prestige in support of the company by issuing a resolution calling on fellow businessmen around the country to refuse to sell silk to foreign merchants. From the countryside, small scale silk producers and silk merchants sent letters of thanks, promises of support, and donations of cash and gifts as tokens of appreciation for what they praised as the company's brave stance against the foreign merchants.

Why did this seemingly mundane commercial dispute between Japanese silk traders and a small group of foreign businessmen in Yokohama become an issue of national attention and the subject of frenzied public campaigns on both sides? The answer to this question lies in the coincidence of the silk dispute occurring at the precise moment when an active movement to "recover commercial rights" had reached its high watermark. Motivated by concerns over Japan's negative balance of trade and spurred on by a popular movement to revise the unequal treaties and obtain equality with the West was well as a desire for profits, Japanese entrepreneurs had begun to challenge the dominant position foreign merchants enjoyed in handling the nation's overseas trade. With the government's help, Japanese businessmen had established the Yokohama Specie Bank which promised to displace foreign banks in financing Japan's overseas trade, and patriotic merchants rushed to create new trading companies with the aim of selling goods directly to foreign consumers, bypassing

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[592] "On the Trouble Between the Ki-ito Ni Adzukari-jo and Foreign Merchants," *The Japan Weekly Mail* (Yokohama), 1 October 1881, 1144.

foreign merchants. The government initiated the exchange and cargo loan programs to promote direct exports and promised more initiatives to support the expansion of direct trading. Local producers had formed cooperatives to improve the quality of their silk to make it more marketable abroad. In this environment, the silk dispute appeared to signal a vital turning point in the campaign to recover the nation's commercial rights. A victory in the showdown over the control of the silk trade, the single most lucrative branch of Japan's foreign trade, would mark a decisive victory in the effort to free Japan from the bonds of foreign control.

In the end, Japan's merchants failed in their bid to transform the shape of the silk trade in the treaty ports. After two months of suspended trading, Japanese and foreign merchants agreed to resume trading under a slightly reformed version of old silk trading conventions that failed either to address the grievances of Japanese silk traders or challenge the dominant position of the foreign mercantile houses in the trade. By the end of the year the United Silk Storing Company was effectively dissolved and silk trading continued much as it had before.

Despite the failure of the United Silk Storing Company and its affiliated merchants to transform Japan's silk trade, the silk dispute marked a pivotal moment in the history of the Japanese commercial policy and in the development of the direct trade movement. The significance of the silk dispute was threefold. First, it intensified the economic nationalist movement by wedding commercial issues with the larger concern for protecting Japanese sovereignty in the popular imagination. For the first time the state of Japan's commerce became an issue of widespread national concern. Many Japanese who had never had any reason to ponder the nature of Japan's foreign trade learned from the popular press and statements by silk merchants that Japan was a victim of Western commercial exploitation. In the mind of the public, staunch opposition to foreign commercial interests and the promotion of Japanese trade became part of the larger project of reclaiming Japanese sovereignty and achieving equality with the Western powers. This situation provided advocates of direct trade and commercial nationalists a welcome chance to bring their ideas to the public's attention and helped contribute to the creation of a dedicated core of activists who would continue to agitate for direct trade promoting policies long after the government abandoned most of its direct trade initiatives.

At the same time the United Silk Storing Incident marked the debut of organized economic interests as actors on the Meiji political scene. The incident was the first time business interests around the country gathered together in common cause to influence the outcome of an economic issue. The leadership exercised by prominent businessmen like Shibusawa Eiichi and Masuda Takeshi during the crisis demonstrated that business interests were beginning to form their own groups and institutions in order to speak with a unified voice. Attempts by the business community to organize and engage in collective action in support of the United Silk Storing Company paved the way for the beginning of a new era in which organized interest groups politics would serve as powerful forces in the economic policy-making process.

The United Silk Storing Company Incident also revealed growing divisions and conflicts within Japan's changing silk industry. A fundamental division was emerging between the Yokohama export merchants and mechanized silk producers on one hand, and a loose coalition of upstart trading firms and rural handicraft silk producers on the other. All silk producers and merchants, however, shared a desire to challenge the dominance of foreign mercantile houses over the silk trade and construct a silk trading system which would be firmly under Japanese control.

Yet the silk industry was divided over the pace and extent of change. The Yokohama export merchants that were the driving force behind the United Silk Storing Company sought to forestall the direct trade movement while introducing reforms to in the treaty port trade that would give them a more equal footing in dealing with the foreign mercantile houses that purchased silk. This change would allow them to maintain their dominant position in the domestic silk trade while paving the way for a gradual transition to direct trade which they could control. In contrast, upstart trading firms and rural silk producers enthusiastically embraced the idea of immediately implementing direct trade and a rapid transformation of the silk trade. These merchants and producers favored rapid and far-reaching change, because a shake-up in the silk industry represented their best chance to challenge the dominant forces in the silk trade, both the export merchants and the foreign merchants in Yokohama, and establish themselves as major players in the trade. As long as the silk dispute remained a fight with foreign merchants over the shape of the silk trade, both groups could maintain a united front, but once actual changes in the conventions of the silk trade became an issue for debate these tensions emerged.

The Yokohama Export Merchants and the Silk Trade

To understand the origins of the United Silk Storing Company, one must first grasp the motives of its founders. The primary backers of the enterprise were a small group of major wholesalers of raw silk commonly referred to as "export merchants" (*urikomishō* or *urikomi-donya*) operating in the port city of Yokohama.[593] As discussed previously these export merchants played a crucial facilitating role in the silk trade. They were the main financiers of silk production in Japan's provinces and they served as middlemen in selling silk delivered to them from Japan's interior to foreign mercantile houses in the treaty ports.[594] The export merchants exercised tremendous influence over the silk trade.

A combination of financial muscle and expertise in dealing with foreign merchants were the primary keys to the export merchants' power. The most prominent could take advantage of intimate ties with major banks in the Tōkyō-Yokohama area to take out large loans which they used to help finance silk production in Japan's interior. The export merchants typically used the funds from the banks to issue advance loans to smaller scale silk merchants in the provinces known as silk dealers (*ni-nushi*).[595] These silk dealers then used the money they borrowed from the export merchants to issue advance loans to rural silk producers who then could purchase necessary material to produce raw silk.[596] In some cases, the owners of mechanized silk filatures and other large-scale silk producers might contract a loan directly from the export merchants, but such direct links between export merchants and silk producers was still relatively rare in 1880.

Silk producers and dealers in Japan's provinces also depended upon the export merchants to sell their silk to foreign buyers in Yokohama. This was, in part, a matter of

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593 "Commission merchant" is also sometimes used as the English translation for the Japanese term *urikomishō* or *urikomi-donya*.

594 Unno Fukuju, *Meiji no bōeki: kyoryūchi bōeki to shōken kaifuku* (Tōkyō: Hanawa Shobō, 1967), 36.

595 The term *ni-nushi* (荷主) could be literally translated as "cargo holder." The term was used to indicate provincial silk merchants who were active in local markets.

596 Unno Fukuju, *Meiji no bōeki,* 37.

logistics. Most silk producers and dealers probably possessed neither the necessary time nor the money to travel to Yokohama to search for a foreign buyer for their silk. It was much more practical to entrust one's silk to an export merchant who maintained offices in Yokohama and had regular dealings with foreign mercantile houses. The export merchants, moreover, used their financial muscle to ensure they would serve as the middlemen in any silk trading. Whenever a silk dealer or producer took out a loan from an export merchant, the loan contract included clauses which awarded the lender the exclusive right to sell silk produced or collected by the borrower.[597]

Once the contracted silk arrived in Yokohama an export merchant would search for a foreign buyer. He would negotiate directly with the foreign mercantile houses in acting as the agent for dealers and producers in the interior. After selling the silk, he would deduct the loan amount, plus interest, and a commission fee from the proceeds of the sale and pay whatever profits remained to the dealer or producer who had provided the goods.[598]

New developments in the late 1870s posed a potential threat to this lucrative business. Government policies designed to promote direct trade threatened to undermine the export merchants' position as the main financiers of the silk trade. In particular, the provision of low-interest loans directly to producers through the government sponsored Yokohama Specie Bank exchange and cargo loan programs created in 1880 (see Chapter 5) provided a rival source for the financing for silk producers and dealers in the interior. This option gave them a degree of independence from the export merchants.

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[597] Nakabayashi Masaki, *Kindai shihonshugi no soshiki: seikeigyō hatten ni okeru torihiki no tōchi to seisan kōzō* (Tōkyō: Tōkyō Daigaku Shuppankai, 2003), 334.

[598] Ibid

Furthermore, the creation of silk producers' cooperatives, like Hoshino Chōtarō's Jōmō Silk Improvement Company and the Mutual Advancement Company (See Chapter 5), that sought to engage in direct exporting had the potential to make the intermediary role of the export merchant obsolete. Direct traders proposed to bypass foreign mercantile houses in Yokohama and sell directly to foreign consumers in their home markets. This change would mean that the export merchants, the intermediaries in the treaty port trade who sold silk to those foreign mercantile houses, would no longer have any meaningful role to play in the silk trade.

For some of the most militant advocates of direct trade, undermining the export merchants was, in fact, one of the main attractions of the movement. Hoshino Chōtarō, a silk producer and advocate of direct trade, [599] argued that creating silk producer cooperatives that would engage in direct trade was necessary because of the shortcomings of Japan's mercantile classes. Hoshino lamented that, "…it is as if our merchants are completely without spirit. Although the wicked plots of foreigners are apparent, our countrymen lack courage to venture abroad."[600] Meanwhile, advocates of direct trade in the government like Maeda Masana were busily hatching plans to establish a series of state backed companies which would export Japanese goods directly to foreign markets, making the mediation of export merchants superfluous.[601]Export merchants must have been aware that these

[599] For more information on Hoshino Chōtarō see chapters 3 and 5.

[600] Gunma-ken to Naimushō, "Kiito seisei shōrei no tame shihonkin kashisage no shireian," 12 March, 1879 in Gunma kenshi Hensan Iinkai ed. *Gunma kenshi: shiryō hen*, vol. 23, *kindai* 7 (Maebashi: Gunma-ken, 1985), 386.

[601] A literal illustration of this point can be seen in Maeda's diagrams in Maeda Masana, *Chokusetsu bōeki iken ippan* (Tōkyō: Hyakansha, 1881), 17 & 22.

advocates of direct trade viewed the export merchants as little more than servants of foreigners and hoped to undermine the treaty port trade.

The recent developments in government trade policy and the appearance of the direct trade movement disturbed the Yokohama merchants. In a proposal to the government, the export merchants complained about what they believed was the government's excessive "protection" of direct trade firms and argued that reform of the treaty port trade was an equally vital part of the maintaining a healthy foreign trade.[602] Although the number of firms proposing to engage in direct trade was relatively small and the Yokohama Specie Bank's exchange and cargo loan programs had just started, the export merchants felt that they needed to find some way of responding to the new developments that would ensure their continued survival.

Worries about the future of the silk trade were not the only reason for taking action. Like the silk producers in the interior who advocated direct trade, the export merchants had their own complaints about the operation of trade in Yokohama. They complained, for example, that foreign merchants in Yokohama frequently refused to honor contracts, a problem known in the jargon of the silk business as "*peke*."[603] Buyers and sellers typically sold silk on the basis of informal oral contracts. The seller would bring samples of raw silk to foreign merchants who would inspect the quality of the sample. If the sample proved to be

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602 Unno, *Meiji no bōeki*, 96.

603 Taniyama Eitsuke, "Meiji shoki Yokohama kyoryūchi no kiito torihiki ni okeru seido to sono keisei katei: 'rengō kiito niazukarijo jikken' no keizai-teki igi," *Shakai keizaishi* 74, no. 2 (May 2008): 39.

satisfactory, the two parties would negotiate an initial oral contract outlining the volume of silk to be purchased, price per unit, and an estimate of the total amount of the sale.[604]

This initial contract, however, was merely provisional. After agreeing to the initial contract, the seller (the export merchant) would hand over the entire shipment of silk to the foreign buyer who would then hold the goods in his own warehouse to conduct a vigorous quality inspection of the entire shipment. It was only after the foreign buyer had inspected the silk that he would finalize the sale.[605]

During this time disputes between foreign and Japanese merchants commonly arose. Quality inspections by foreign buyers could take several days and would sometimes last for over a week.[606] If the buyer deemed that the silk shipment did not match the quality of the original sample, foreign merchants might agree to purchase only a fraction of the silk shipment, demand a reduction in the previously agreed upon sale price, or, in the worst case, simply send the entire shipment back to the seller.[607] Possession of the raw silk and the results of the quality inspection gave the foreign merchant significant power over Japanese merchants in dictating the terms of any trade.

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[604]Unno, *Meiji no bōeki*, 94.

[605] Ibid.

[606] The typical delay between initial contract and the completion of silk trades is difficult to determine. In a circular outlining their objections to the foreign "abuses," members of the United Silk Storing Company argued that it took "often as many as ten" days for some silk trades to be completed, suggesting a ten day delay was an extreme. During the Tōkyō Chamber of Commerce Meeting to discuss problems in the silk trade Masuda Takashi, president of Mitsui Bussan, stated it could take, "from three to ten days or longer," suggesting an average delay of over a week. "Notes on the Silk Trouble,"*The Japan Weekly Mail* (Yokohama), 8 October, 1881, 1161 (hereafter the circular which was printed as part of the "Notes on the Silk Trouble," will be referred to as the "Kiito Urikomi-donya Circular" and "Meeting of the Tōkyō Chamber of Commerce," *The Japan Weekly Mail* (Yokohama), 13 October, 1881, 1191.

[607] Unno, *Meiji no bōeki*, 95.

The export merchants often accused their foreign counterparts of abusing their power. According to the export merchants, foreign mercantile houses frequently used quality inspections as a pretext to manipulate silk trading in their favor. Once the foreign merchant had a shipment of silk securely stored in his warehouse he would await information about current silk prices back in his home country before completing the purchase. If the market price proved to be favorable, the foreign merchant would purchase the silk according to the terms of the initial contract. However, if prices proved to be too low, the foreign merchants would simply return the silk to the seller without any qualms about violating the original contract.[608] The cost of transporting the silk out of the foreign merchant's warehouse would be borne by the seller himself who would then be stuck not only with a shipment of unwanted silk, but also a bill for its transport as well.[609]

Even if contracts were not broken, Japan's export merchants complained that foreign merchants were manipulating silk trades to their advantage in several other ways. Because the foreign merchant carried out the inspection of silk in his own warehouse, he could easily manufacture some problem with the quality of the silk and use that alleged flaw to demand a lower price. Foreign merchants frequently rejected silk shipments by claiming that the product did not match the quality standards of the initial sample. Foreign merchants were also accused of confiscating a certain amount of silk under the pretext that a larger sample was needed for detailed testing and of loading the scales to their advantage when weighing the silk.[610]

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[608] "The Kiito Urikomi-donya Circular," 1161.

[609] Unno, *Meiji no bōeki*, 95.

[610] Ibid, 1162.

To add insult to injury, the purchasing agents of the foreign merchant houses would demand informal fees from sellers. Chinese employees of foreign merchant houses who often handled initial negotiations with Japanese sellers charged numerous under-the-table inspection and handling fees which Japanese silk sellers had to pay in order to have their goods considered for purchase.[611] Foreign merchant houses usually did not approve these fees which served only to line the pockets of their employees. Nevertheless, the existence of these informal fees and the pressure that Japanese sellers felt to pay them starkly demonstrated the power foreign merchant houses had over Japanese merchants.

Disputes between foreign buyers and Japanese sellers of silk were frequent, especially disputes over the quality of silk. Although the foreign side unquestionably committed abuses, Japanese silk producers and merchants were not always innocent victims. Shipments of silk often contained products of inconsistent and varying quality and Japanese producers gained a reputation for ingenuity in finding new ways to adulterate their silk to cover up inconsistencies in its quality or increase its weight. Even Japanese observers noted that the rampant production of shoddy and adulterated goods blocked the development of Japan's export trade.[612]

A Silk Guild?

[611] A discussion of the issue from the foreign merchants viewpoint appears as the 6th item in the foreign merchant's circular to Japan's silk dealers and producers. "Second Address of the Foreign Merchants of Yokohama to the Silk Dealers and Producers of Japan and the Japanese People Generally," *The Japan Weekly Mail* (Yokohama), 15 October, 1881, 1195-1196.

[612] The decline in the quality of Japanese raw silk and the poor reputation of Japanese silks were major concerns for Japanese silk producers. See Dajōkan, "Seshi Gensha Tōka-gumi enkaku" in *Gunma kenshi: shiryō hen*, ed. Gunma kenshi Hensan Iinkai, vol. 23, *kindai* part 7 (Maebashi: Gunma-ken, 1985), 376-377 and Gunma Kenrei, "Jōmō Mayukei Kairyō Kaisya jikkyō," in *Gunma kenshi: shiryō hen*, ed. Gunma kenshi Hensan Iinkai, vol. 23, *kindai* part 7 (Maebashi: Gunma-ken, 1985), 409.

Desirous of a way to correct what they saw as foreign abuses in the silk trade and needing some way of responding to the direct trade movement, the export merchants in Yokohama eventually seized on a novel idea. A group of wealthy export merchants, who together handled the bulk of domestic sales of silk to foreign merchants, submitted a proposal to the Minister of Finance, Sano Jomin, in November of 1880. Playing to well known concerns of the ministry regarding inflation, the merchants expressed concern about the nation's persistent trade deficits and the effect of the trade gap on the value of Japanese paper currency. Agreeing with the basic tenets of Ōkuma Shigenobu's analysis of the crisis (see Chapter 4), the merchants argued that Japan's trade deficits were clearly the result of a lack of exports and that abuses committed by foreign merchants in the treaty ports hindered expansion of exports. Fitting the nationalist rhetoric of the time, the signatories posited that only the recovery of "commercial rights" could eliminate trade deficits and proposed that an important step in establishing firm Japanese control over the nation's trade would be to create a warehouse for conducting all silk trades.[613]

The export merchants proposed to form a new company. The main business of the company, to be given the unimaginatively utilitarian name the United Silk Storing Company (*Rengō Kiito Niazukarijo*), would be to receive shipments of silk from silk sellers around the country, subject the wares to a process of strict quality inspections, and warehouse the silk until its final sale to a foreign buyer. These measures would transform the silk trade in Yokohama in order to give Japanese silk sellers an edge over their foreign customers.[614]

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[613] The proposal is included in its entirety in Unno, *Meiji no bōeki*, 93.

[614] Taniyama, "Meiji shoki Yokohama kyoryūchi no kiito torihiki ni okeru seido to sono keisei katei," 39.

To achieve their ambitious goal of overhauling the nation's silk trade and eliminating foreign "abuses," the export merchants unveiled a novel organization for their new company. The United Silk Storing Company would be more than simply a company in the Western sense. Three separate sets of rules would govern the functions of the company, regulate the behavior of the export merchants who were the company's major shareholders, and establish a system of affiliated companies in Japan's interior which would bind regional silk producers and dealers to the export merchants' project of reforming the silk trade. This complex set of rules gave the company many of the characteristics of a silk industry association that foreign merchants would later complain constituted, in effect, a guild that would restrict freedom of trade in Japan.

The company publicized its structure and the rules for its operations in August, 1881.[615] Some aspects were similar to those one might find in any modern public corporation. The United Silk Storing Company would be a limited liability firm which raised capital from the sale of shares (Article 3), have a corporate board to manage the company's affairs (Article 14), hold bi-annual meetings where the stockholders would meet to discuss the company's business (Article 17), pay dividends to shareholders (Article 37) and limit its business to the storage of silk and silk products (Article 1).[616]

Yet, the company also had restrictions on membership that made it similar to a guild. The company regulations strictly limited the ownership of shares to "…such persons as have shops in the port of Yokohama and are actually engaged in the sales of silk and silk

615 "The Rules of the Rengo Kiito Ni-Adzukari-jo", *Japan Weekly Mail* (Yokohama), 17 September, 188, 1085.

616 Ibid., 1085-1086.

goods…to foreign firms," or, in other words, export merchants (Article 4).[617] This stipulation effectively made the company more of an association or federation of export merchants than a joint stock company. Other requirements ensured that company shareholders would behave more as members of an industry association or cartel rather than a corporation. The shareholders could not sell or transfer their shares to anyone outside of the company and could not retire from the company without express permission from the company's president (Articles 6 &7).[618] The company could annul shares if their owners violated any of company's rules (Article 8).[619]

They required shareholders to follow a set of strict procedures in silk trading. All shareholders—in effect, export merchants--had to keep their silk in the company's warehouses. They could take only a single bale out of the warehouse as a sample to show to potential foreign buyers but could not otherwise remove their silk without prior notice (Articles 19 & 24).[620] The shareholders also had to conduct all exchanges of goods for money on company premises and could not transfer any silk out of the warehouse unless the shareholder had received payment in full for the product (Article 27).[621] Shareholders also

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[617] Ibid., 1085.

[618] Ibid.

[619] Ibid.

[620] Ibid.

[621] Ibid.

had to abide by the United Silk Storing Company's procedures for the weighing of silk (Article 28 & 29).[622]

A second set of rules outlined further regulations regarding the behavior of the export merchants who were to be the United Silk Storing Company's main stockholders.[623] The "bye-laws" forbade any member company from dealing with anyone selling silk to foreign buyers without channeling the sale through the company (Article 13).[624] Company members also had to refuse to do business with anyone who "…has sent even a single bale to a commission merchant [export merchant] outside [of] the union…" (Article 14)[625] To ensure all members of the company abided by the rules, each stockholder had to deposit a bond of 1,000 yen in a common account at the 2nd National Bank which would be forfeited if the stockholder violated any of the rules (Article 15).[626]

A third set of rules aimed at organizing silk producers and dealers in the interior to serve the United Silk Storing Company's scheme of transforming the silk trade.[627] Regional silk producers and dealers would form local affiliated companies which would inspect and sort silk. The "Rules of the Silk Sorting Company" promoted the creation of such enterprises by regional merchants who had agreed to subject their wares to careful quality inspection and

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[622] Ibid., 1085-1086.

[623] "Bye-Laws of the Ki-ito Uri-Komi-Doiya," *The Japan Weekly Mail* (Yokohama), 1 October, 1881, 1129-1130.

[624] Ibid., 1130.

[625] Ibid.

[626] Ibid.

[627] "Rules of the Silk-Sorting Company" *The Japan Weekly Mail* (Yokohama), 3 December, 1881, 1410.

abide by strict standards for sorting and packaging silk for sale (Articles 1& 2).[628] Although members of the silk sorting companies could "negotiate sales directly with merchants" (Article 17), this freedom was somewhat dubious since members could not employ anyone "as their agents at the open ports persons who do not belong to the [United Silk Storing] Company" (Article 21). Moreover traveling to the treaty ports to negotiate in person with foreign merchants was likely to be extremely inconvenient for most silk dealers and producers.[629] The freedom of trade of the members of local silk sorting companies was further restricted by the requirements that they refuse to do business with any agents or suspected purchasing agents of foreign merchants unless those agents agreed to pay for silk goods immediately on delivery (Article 20).[630] In addition, the silk sorting companies were subject to fines for delivering silk to any buyer (except export merchants who were members of the company) prior to full payment (Article 18). Finally, the sorting companies could not withdraw from the company if they joined (Article 9).[631]

These three sets of rules had important overarching goals. First detailed regulations imposed on silk trading aimed to eliminate the established customs in the silk trade that the export merchants found most objectionable. All three sets of regulations included specific clauses banning delivery of goods prior to full payment and attempted to insure the operation of silk trading on a payment-on-delivery basis. This procedure would make all silk sales final and prevent foreigners from changing the terms of a sale. Regulations concerning the

[628] Ibid.

[629] Ibid.

[630] Ibid.

[631] Ibid.

weighing of silk and adherence to a system of silk inspection would take these processes out of the hands of foreign merchants and put them under the supervision of Japanese silk producers and merchants. Enforcing domestic grades and standards would force foreign merchants to accept Japanese methods of inspection and sorting and eliminate any disputes over quality. Overall, these changes would eliminate the seemingly arbitrary practices of foreign merchants and make silk trading more predictable for sellers.

To ensure the attainment of these goals, however, the United Silk Storing Company needed to be able to coerce unwilling parties to comply with the new rules. Gaining this leverage required the export merchants to use their collective power as the main silk brokers in the country to impose conformity to the new rules upon silk producers and dealers in the interior. Thus, these company regulations depended upon all of the export merchants obeying and supporting the new procedures. The Japanese could impose these new regulations on unwilling foreign merchants only if the Japanese--producers, dealers in the interior and export merchants--presented a united front.

The restrictions on freedom of trade and the coercive nature of some of the regulations, though, raised suspicions that the company aimed to further extend export merchants' control over the silk trade. Both contemporary observers and later historians have viewed the United Silk Storing Company as little more than a conspiracy of a small number of wealthy silk merchants in Yokohama to gain monopolistic control of the silk trade for their own self-enrichment. They, of course, never expressed such a desire, but one cannot deny that the United Silk Storing Company, as a creation of the export merchants, would have exercised strong control over the domestic silk trade.

Whether intended to serve such a function or not, the United Silk Storing Company was, in a sense, a good public relations move. By creating an organization dedicated to reforming the silk trade and eliminating foreign merchant "abuses," the export merchants showed they were not lackeys of Western oppressors but were acting as vigorous defenders of the nation's "commercial rights." By emphasizing the patriotic goals of the new company the export merchants could deflect some of the critique coming from advocates of direct trade. By presenting the goal of the company as the reform of domestic trade, the founders of the company also sought to convince government officials that they too deserved support, because they could play a useful role in solving the trade deficit.

Fully aware that the creation of a new company would fundamentally challenge the *status quo* and threaten the privileged position of foreign buyers, the export merchants backing the company predicted that foreign mercantile houses would oppose it by blocking all silk trading for several months. Such a cessation of trade in Yokohama would force Japanese silk merchants to engage in direct trade to dispose of the nation's silk stocks. The export merchants therefore asked the government to lend a large sum of cash directly to the export merchants to help fund the silk trade.[632]

Had the proposal been approved, it would have instantly put the export merchants at the forefront of the direct trade movement and guaranteed an even more powerful position in the silk trade. Officials, however, appeared to ignore the suggestion. Its general intent fit the nationalist economic stance of Ōkuma's commercial policies, but officials hesitated to support the silk warehouse project because they feared accusations from foreign powers that the government sought to interfere with foreigners' freedom of commerce which the unequal treaties had guaranteed.

[632] Unno, *Meiji no bōeki*, 102.

In any event, the export merchants proceeded to form their company. Prominent export merchants Hara Zenjirō, Mogi Sobee, and Shibusawa Kisaku together with the large firms Mitsui Bussan and Bōeki Shōkai and prominent businessmen Shibusawa Eiichi announced their intent to create the United Silk Storing Company as a joint stock enterprise. Initial plans for a stock offering met opposition from smaller retail merchants who complained of a lack of shares and high share prices which effectively excluded them from participation in the new company. After some deliberation, the founders increased the shares in the initial public offering and lowered the price per share. Despite this concession towards small investors, the export merchants and representatives from large trading firms still dominated the company. Three export merchants, Hara Zenjiro, Shibusawa Kisaku, and Mogi Sobee, held roughly twenty-five percent of its shares. Combined with the holdings of other large stockholders including Asabuki Eiji, Makoshi Kyōhei (representatives of Mitsubishi and Mitsui interests respectively) and Shibusawa Eiichi, large-scale investors held roughly a third of the company's stock.[633] In early September, shareholders elected Shibusawa Kisaku to head the new enterprise and appointed Asabuki and Makoshi to the board of directors. The company began operating on September 15.

The Gentlemen Object: foreign merchant reaction to the United Silk Storing Company

The foreign merchant community in Yokohama reacted with alarm to news of the United Silk Storing Company's creation and the changes in the silk trade. On the morning of September 20th, 1881, a group of foreign merchants issued a call for an impromptu meeting of all those involved in the silk trade to take place that night at the Club Germania in the

[633] Unno Fukuju, " Yokohama rengō kiito niazukarijo jiken,"in Yokohama-shi Sōmukyku Shishi Henshūshitsu ed., *Yokohama shishi*, vol. 3 part 1 (Yokohama: Yokohama-shi, 1958), 763.

foreign quarters of Yokohama. Despite the short notice over seventy merchants attended the meeting.[634] The meeting focused on discussing how the foreign merchant community should react to the United Silk Storing Company and the new rules the company sought to impose on silk trading.

The participants quickly objected to the Storing Company's attempts to change the terms of the silk trade. One of the main criticisms was that the new enterprise would require foreigners to place greater trust in Japanese merchants whom foreign merchants viewed as untrustworthy and dishonest. A.J. Wilkin, a partner in the firm Wilkin and Robison who had been elected to chair the meeting, summarized this opinion. He hinted that the present system of silk trading needed some changes by suggesting that, "the scheme just launched by the Japanese seems to contain within it some principles of such improvement."[635] Yet he rejected the changes the company sought to introduce to the method of silk trading, because they required foreign buyers to "place implicit confidence in the Japanese…in their straightforwardness and honesty..."[636] This was simply impossible since, Wilkin noted, "…in no direction is the trickery of the natives more conspicuous than in the silk business."[637]Wilkins argued that a foreign buyer would have to closely monitor the sorting, weighing, and packaging of silk carefully, because at every step, Japanese sellers were prone to attempt to slip in hanks of shoddy or substandard silk, misrepresent the weight of silk, and

[634] "Notes,"*The Japan Weekly Mail* (Yokohama), 24 September, 1881, 1102.

[635] Ibid.

[636] Ibid.

[637] Ibid.

mislabel shipments to fool the buyer into buying low quality or adulterated silk at a premium price.[638]

Because one could place no faith in the honesty of Japanese merchants, Wilkin explained, the Storing Company's demands for payment on delivery were unacceptable. He was willing to concede that, in principle, demanding payment prior to delivery might be justified. Yet Japanese merchants had proved they felt no obligation to honor contracts and paying for goods on delivery would remove the single most important check foreign buyers could exercise to prevent fraud by Japanese sellers. If payment on delivery became standard practice, the only remaining way to redress grievances against Japanese merchants would be in a Japanese court of law which Wilkin deemed to be, "practically unavailing."[639]

Other Western merchants wholeheartedly agreed. A Mr. Kingdon, a partner in the firm Kingdon and Schwabe, complained about the manner in which the United Silk Storing Company had sought to change the unwritten rules of silk trading. He accused the Japanese merchants behind the company of acting "…secretly and without any due notice and without consulting us." If the Japanese merchants had any legitimate grievances or were dissatisfied with the state of the silk trade it was their duty to "…come to us and state their grievances plainly, instead of banding themselves together in a manner I can only designate as an insult to foreign merchants."[640] Considering what he saw as the underhanded manner in which the Japanese merchants had created the Storing Company, Kingdon argued that the foreign

[638] Ibid.

[639] Ibid.

[640] Ibid., 1103.

merchant community could not place sufficient trust in the company to "transact business with it."[641]

Rejecting any suggestion that the Japanese merchants had formed the United Silk Storing Company as part of an honest attempt to improve the system of silk trading, the foreign merchants imagined that hidden motives lay behind the company's creation. Wilkin speculated that the company was little more than an attempt by a group of merchants to control the silk trade. He observed, "…if we enquire as to the origin and basis of the movement, we may with some reason conjecture that it is for the benefit of a few, --to provide some sung [sic] places, and to put the control of the trade in the hands of these favored ones".[642]

This theory proved sufficiently compelling to the foreign merchants who were quick to denigrate the Storing Company as a monopolistic enterprise by referring to it as the "Silk Guild or simply "the Guild."[643] Foreigners harbored fears, too, that the Japanese government might secretly have urged the creation of the new company to achieve some hidden goal. Wilkin speculated that perhaps the company was part of a scheme in which the "…Government hopes to find in [the company] a convenient outlet for the floating of more paper money."[644]

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[641] Ibid.

[642] Ibid., 1102.

[643] The term "Guild" as a reference to the United Silk Storing Company first appears in the minutes of the September 20th meeting of the foreign merchants' association where James Walsh referred to the company as "the Guild." Thereafter, the terms "Silk Guild" and "the Guild" appear frequently as a reference to the United Silk Storing Company in *The Japan Weekly Mail* and the minutes of the foreign merchant association meetings that appear in that paper. See "Notes," *Japan Weekly Mail* (Yokohama), 24 September, 1881, 1103.

[644] Ibid., 1102.

Besides suspicions about the motives of the company and the honesty of Japanese merchants in general, Western merchants protested that the new system the United Silk Company sought to impose would make silk trading difficult for buyers. Wilkin pointed out that the United Silk Storing Company's insistence on conducting all inspection of merchandise at its own warehouses would be an unbearable inconvenience. Foreign silk inspectors would waste valuable time travelling to and from the company's warehouses to carry out inspections.[645]

The foreign merchants also claimed that they needed flexibility in purchasing. Because they usually received orders from customers in Europe that requested specific types and grades of silk, forcing the foreign merchant to adopt the Storing Company's own standards for sorting would complicate the challenge of matching purchases of silk to customer demand in Europe and America.[646] Wilkin also raised objections to stricter procedures for weighing silk by arguing that a purchaser of raw silk had to take into account the well-known tendency of silk to lose moisture and thus some of its weight during the long journey to Europe or the United States.[647] In effect, he claimed that a foreign merchant was justified in understating the weight of the silk he might purchase in Yokohama, because the load would lighten by the time it reached its final market.

Wilkin's complaints about the new inconveniences being visited upon silk buyers were substantiated by James Walter who gave a detailed report of his own experiences in attempting to purchase silk from the company. Walter told his fellow merchants that he had

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[645] Ibid.

[646] Ibid.

[647] Ibid.

visited the company's warehouse the previous day to purchase "100 to 150 bales" of silk. The main difficulty he experienced was inspecting the silk in question, because inspection facilities were inadequate: "There was apparently no lack of willingness to make matters easy but the ability was wanting. Every bale had to be taken away after inspection to make room for another and the difficulty of getting them down to the carts, the number of coolies and hangers on, and other inconveniences made the whole business of sorting and inspecting little more than a farce. I only succeeded in getting through 14 bales in the afternoon and then gave the thing up as hopeless."[648] Walter concluded that it would be impossible to carry out inspections under the current conditions and do business on the United Silk Storing Company's terms. Walter was, however, willing to view the United Silk Storing Company as an honest if flawed attempt to improve the manner of silk trading. He urged his fellow merchants to meet with the Japanese "and devise some method of mending matters."[649]

Most of his peers, however, were in no mood to negotiate. They swept aside any suggestions of holding talks with representatives of the company in favor of issuing a strongly worded condemnation of the enterprise. The meeting unanimously approved a resolution that Kingdon submitted: "…this meeting resolves that it is not safe, considering the large scale interests at stake, to purchase silk from the Rengo Ki-ito Ni-adzukari-jo [United Silk Storing Company], under the present rules and conditions imposed by that association."[650] Participants agreed to send a strongly worded letter of protest to the leadership of Storing Company along with a copy of the resolution signed by representatives

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[648] Ibid., 1102-1103.

[649] Ibid.

[650] Ibid., 1103.

of all foreign merchant firms supporting it.[651] Two days later, the foreign merchant group had gathered signatures from most of the foreign silk buyers in Yokohama and resolved to meet again to discuss further measures.

Wilkin composed the letter to the board of the United Silk Storing Company. He expressed "surprise" and "disappointment" at the "sudden and abrupt manner in which your association has commenced its operations."[652]Although Wilkin complained that the foreign merchants should have been consulted beforehand, he did promise to give his, "best consideration" to any grievances Japanese silk merchants might present regarding foreign firms and expressed a desire for Japan's silk trade to prosper. Until then the signatories of the resolution clearly stated that they would refuse to purchase any silk from the United Silk Storing Company or anyone affiliated with it.[653]A few days later representatives of the prominent trading firms of Jardine Matherson Company, W.B. Walter, and W.M Strachan & Co. issued a separate declaration that they would "…do all in our power to defeat the combination of Japanese dealers," even though they had not signed their names to the original resolution passed by the foreign merchant group.[654] The battle over the silk trade had begun.

A War of Words: the Silk Dispute in Print

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[651] Ibid., 1103-1104.

[652] Ibid.

[653] Ibid., 1104.

[654] Ibid.

With the declaration from the major foreign silk buyers in Yokohama that they would refuse to do business with the United Silk Storing Company, Japan's silk trade ground to a halt. For the next few weeks the foreign merchants in Yokohama and the United Silk Storing Company would engage in an increasingly acrimonious war of words fought in a series of circulars, letters, and newspaper editorials in an effort to win over the support of the Japanese public. The two sides sought to present rival interpretations of the nature of the silk trade and the causes of the dispute. The foreign merchants employed an economic rationale to justify the current silk trading system in arguing that it was a natural and rational response to market conditions in Japan which required silk buyers to protect themselves against fraud committed by unscrupulous silk suppliers. They condemned the Storing Company's challenge as a devious plot hatched by a small group of would-be monopolists to gain control of the silk trade at everyone else's expense.

In contrast, the United Silk Storing Company portrayed the dispute as part of the political struggle to defend Japanese pride and independence from the encroachment of agents of Western oppression. The firm argued that the silk trading system in Yokohama imparted unfair advantages to foreign buyers and was part of the inherently discriminatory system created by the unequal treaties which denied Japan equal rights as a member of the family of civilized nations. The company portrayed its own efforts as part of a campaign to seek redress for foreign "abuses" and reclaim Japan's "commercial rights" as well as the control of domestic commercial transactions that all nations rightfully possessed.

The foreign merchants outlined their views in two circulars that went to silk dealers and producers around the country and were publicized in both the Japanese and foreign press. The foreign merchants defended the silk trading system as ensuring the smooth operation of the silk trade by protecting the interests of silk buyers. The foreign merchants argued that "It is well known that silk very seldom conforms to the sample shown," and that "dishonest practices…are known to have long existed in the packing and selling of silk…"[655] Given that these "dishonest practices" were commonplace, the custom of delivery prior to payment was necessary because it enabled silk buyers to carefully inspect all silk to ensure that it actually met the quality standards that the seller claimed it did.[656] In an environment where the buyer was unable to place complete trust in sellers, it was only logical for buyers to protect their own economic self-interest by demanding as delivery prior to payment.

The foreign merchants also strove to show there were other ways in which the custom of delivery prior to payment might have evolved as the result of legitimate business practices and rational pursuit of self-interest. If a Japanese silk seller brought his silk to Yokohama only to find the market weak, would it not be logical for the seller to seek to entice buyers to purchase his silk "by offering to send a lot of silk to the foreign godowns with the condition that it may remain there for a week or more on offer?" queried the foreign merchants. Viewed in this light, delivery prior to payment worked to the advantage of the seller. Similarly, the foreign merchants' habit of waiting to receive news of price movements in international silk markets before finalizing purchases was, the foreign merchants claimed, a legitimate commercial practice: "there is nothing improper or unusual in making a purchase or sale conditional upon telegraphic reply…Such transactions occur every day all over the

[655] These arguments are listed as the first item in the second circular distributed by the foreign merchants. The circular was printed in *The Japan Weekly Mail*. Consult footnote 21 for the full citation. "Second Address of the Foreign Merchants of Yokohama to the Silk Dealers and Producers of Japan and the Japanese People Generally," 1194-1195.

[656] Ibid., 1195.

world."[657] As long as both parties agreed to conduct business in this manner, argued the circular, the transaction would be "quite legitimate."[658]

The circulars also sought to demonstrate that the silk trading system in Yokohama benefitted all involved. Seeking to deny claims that the silk trade was somehow impoverishing Japanese merchants, the foreign merchants asked the Japanese public, "…if what the Urikomi doniya [sic] say is true…the silk business in Yokohama would have ceased long ago…Can any one [sic] believe that these Commission agents have suffered for twenty years from outrage and injustice on the part of their customers, and yet in the meantime have grown from being poor and humble men to be rich and powerful?"[659] The foreign merchants contended that the continued existence of the current silk trading system since the opening of the treaty ports and the increase in both the volume and value of Japanese exports proved that the system was "reasonable and good."[660]

If the current silk trading system was indeed "reasonable and good" then it logically followed that the United Silk Storing Company was either misguided in its attempts to reform that system or harbored some hidden motive. The foreign merchants depicted Storing Company as little more than a group of would-be monopolists conspiring to seize control of the trade. The first circular declared that "combinations always tend to confer special advantages on a few persons, to the detriment of general business," and implied the company

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[657]This argument appears under the second item in the second foreign merchant circular. Ibid.

[658] Ibid.

[659] Ibid., 1194.

[660] This statement appears in the first circular issued by the foreign merchants. Hereafter it will be referred to as the, "First Address of the Foreign Merchants of Yokohama to the Silk Dealers and Producers of Japan." *The Japan Weekly Mail* (Yokohama), 8 October, 1881, 1159.

had sinister designs. Some foreign merchants "…cannot help suspecting there are other motives…than those which are published and that this combination of Japanese merchants' desires to obtain control of the whole silk trade of Japan to the injury of everyone else engaged in it whether foreign or native."[661]

The second circular did not accuse the United Silk Storing Company of being aspiring monopolists but it continued to portray the group as representing the interests of a very small group of Japanese merchants to the detriment of everyone else. The circular noted: "…when reform of the silk business is thought to be desirable, it is not the silk sellers in Yokohama who propose to bear any of the inconveniences connected with it…the prosperous commission agents of Yokohama (many of whom were poor men only a few years ago, though they are now Bank proprietors) are not to suffer in the least degree. On the contrary they are to have more power and less trouble than before."[662]According to the foreign merchants, local silk producers and dealers in the countryside would pay the price of reforming the silk trade.

In contrast to the economic rationale that the foreign merchants used to explain the crisis, the United Silk Storing Company and the Japanese press portrayed the silk dispute as a political struggle for national independence and equality. The circular issued by the Storing Company rejected any notion that the enterprise would benefit only a few merchants and

[661]Ibid., 1158-1159.

[662] "Second Address of the Foreign Merchants of Yokohama to the Silk Dealers and Producers of Japan and the Japanese People Generally," 1194.

instead insisted that the company aspired solely to correct "abuses" committed by foreign merchants by making the relationship between buyers and sellers more equitable.[663]

The United Silk Storing Company did not explain why the current system had come into being, but the Japanese press spiritedly argued that the silk trading system reflected the inherently unequal relationship between Japan and the Western powers. According to the *Hōchi Shinbun*, the foreign merchants' superior knowledge of overseas trade had allowed the foreign buyers to take advantage of Japanese naiveté. The paper explained: "…when the ports were first opened, our merchants, then being ignorant of the modes of foreign trade were void of even enough knowledge to discover the deception and ridicule of the foreigners, from which they always suffered, and consequently all their dealings were subject to the management of strangers, while our merchants had, it seemed, no control over any kind of transactions."[664] Echoing this analysis, the *Choya Shinbun* implied that Japanese merchants' relative lack of experience with foreign trade was a major reason for the commanding position foreigners enjoyed in Japan's overseas trade. The paper asked its readers, "How could our merchants, who have not sufficient experience, offer staunch resistance?"[665] The Japanese press also blamed the extraterritorial privileges that the "unequal treaties" imposed upon Japan for allowing foreign merchants to act with impunity in their dealings with Japanese sellers. The *Choya Shinbun* declared, "…foreigners entrenched behind the strong

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[663] The United Silk Storing Company's circular was translated and printed in its entirety in The *Japan Weekly Mail*. The full citation of the document can be found in footnote 16. "Kiito Urikomi-donya Circular," 1161-1162.

[664] A translation of the article appears in *The Japan Weekly Mail*. "Should we not now check the arbitrary conduct of foreigners, our commercial rights will never be restored," *The Japan Weekly Mail* (Yokohama), 8 October, 1881, 1176.

[665] A translation of the article in the *Choya Shinbun* appears in *The Japan Weekly Mail*. "On the trouble between the Ki-ito Ni Adzukari-jo and foreign merchants,"*The Japan Weekly Mail* (Yokohama), 1 October, 1881, 1144.

bulwark of extraterritoriality, hold us in contempt…"[666] The inequality that existed between buyers and sellers in the silk trade thus stemmed from the unequal relationship between Japan and the Western powers by which the West was able treat Japan as an inferior and subservient partner.

The natural result of this unequal relationship was a silk market that foreign merchants controlled. The circular issued by the United Silk Storing Company explaining its views of the conflict accused the foreign merchants of "fixing prices" and condemned payment before delivery of silk as "…the arbitrary proceedings of Foreign silk-merchants…"[667] The *Yokohama Mainichi Shinbun* similarly accused the foreign merchants of utilizing a double standard in their business dealings. For example, when the treaty ports first opened for trade foreign merchants had demanded that Japanese merchants purchasing imported goods pay prior to delivery. However, when Japanese merchants discovered that discrepancies existed "…in the quality of the samples and that of the bulk…," foreign merchants "…did not show even the slightest inclination of taking the matter into consideration."[668] Yet, when the foreigners themselves wished to purchase silk they had the seller entrust his merchandise to the buyer's warehouse where the buyer could not only inspect the merchandise at his leisure, but could also concoct any number of excuses to justify rejecting the silk if the market back home proved to be disadvantageous.[669] Other

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[666] Ibid.

[667]"Kiito Urikomi-donya Circular,"1161.

[668] A translation of this article appears in *The Japan Weekly Mail*. "The Conditions of the institution of the Rengo Kiito Ni-Adzukari-jo,"*The Japan Weekly Mail* (Yokohama), 8 October, 1881, 1175.

[669] Ibid.

practices such as the procedures for weighing silk also seemed to privilege foreign buyers at the expense of Japanese sellers.[670]

According to the Japanese press and the United Silk Storing Company, this unequal system was robbing the nation of legitimate economic gains it should be making from trade. In a circular mailed to provincial silk producers and dealers explaining its view of the dispute, the company complained that "…indescribable abuses have hitherto existed in the silk trade…we have always submitted to the absolute exercise of their commercial rights by Foreign merchants, and the country has suffered heavy losses as a consequence."[671] The *Choya Shinbun* added that foreign merchants "…sometimes secure exorbitant profits under arbitrary and improper contracts."[672] Claiming that the methods used to weigh silk utilized by foreign merchants worked to line the foreigners' pockets at the expense of Japanese sellers, the circular noted that "All this money represents the profits improperly accruing to Foreigners under the old arbitrary system…."[673] The *Nichinichi Shinbun* concurred with this analysis in stating that the method of weighing silk enabled foreigners to obtain "profit…without their paying for it."[674] Refuting the argument in the foreign merchant circular that the prosperity of the export merchants proved that the silk trading system was fair to all, the *Hōchi Shinbun* fumed: "To try to prove the non-existence of abuses in the

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[670] Ibid., 1162.

[671] "Kiito Urikomi-donya Circular," 1161.

[672] "On the trouble between the Ki-ito Ni Adzukari-jo and foreign merchants,"1144.

[673] "Kiito Urikomi-donya Circular," 1162.

[674] A translation of the article appears in *The Japan Weekly Mail*. "The Silk Difficulty," *The Japan Weekly Mail* (Yokohama), 8 October, 1881, 1174.

original customs of the silk business by the prosperity of the present Urikomi-doiya, is as stupid as an indiscreet expression employed by a man to deceive a child…Dealings in silk are of course lucrative, but owing to the prevalence of abuses, there may have been cases in which we have lost half an inch of profits when we should have properly gained one inch, had we possessed equal tradal [sic] privileges with foreigners. And thus we could not get profit undisturbed by loss."[675] The inherently unequal system that existed in the silk trade therefore allowed foreign merchants to pocket profits that should have gone to Japanese merchants under a trading system where buyer and seller would have met in the marketplace as equals. The silk trading system was therefore cheating Japanese merchants and the nation of justly earned riches.

Viewed in this light, the new rules that the United Silk Storing Company sought to impose on the silk trade became a just fight for equal treatment in the marketplace. The *Choya Shinbun* explained the creation of the United Silk Storing Company in these terms: "in order to definitively break down long existing abuses and to regain our commercial rights, our energetic merchants have lately established the Kiito Ni-adzukari-jo, with the hope, under regulations, to establish that the right of our traders is equal to that of foreign merchants, and to shake ourselves from unrighteous oppression in the future".[676]The *Mainichi Shinbun* noted widespread support for reform of the silk trade in reporting that in recent years both export merchants and producers and dealers in the interior had "…begun to express their sorrow that our commercial rights were controlled by aliens" and argued the

[675] The *Yubin Hōchi Shinbun* published a lengthy point by point refutation of the second foreign merchant circular, a translation of which appears in *The Japan Weekly Mail*. "Contradiction to the manifesto of the foreign merchants," *The Japan Weekly Mail*, 5 November 1881, 1294.

[676] "On the trouble between the Ki-ito Ni Adzukari-jo and foreign merchants,"1145.

intent of the company's founders was to "extirpate the abuses existing in…transactions and to assert the rights of our merchants."[677] The *Hōchi Shinbun* informed its readers that the company was established "…with a view to compass the advantage of our merchants, and to restrict foreign traders from a monopoly of the benefit."[678]

If the silk dispute was essentially a fight for equal treatment in the marketplace, it therefore followed that foreign merchants' objections to the new rules were only the complaints of a group of economic tyrants who resented having to treat their Japanese counterparts on an equal footing. The *Hōchi Shinbun* lambasted the foreign merchants by stridently declaring "…foreign traders, long being accustomed to a monopoly of benefits attempt, whenever our business men propose to restore our commercial rights, to stifle their efforts by menaces, acting just as a despotic monarch does towards his subjects. How obnoxious they are!"[679] The *Choya Shinbun* dismissed the complaints of foreign merchants: "…foreign merchants… have acted arbitrarily and improperly hitherto, and always adopted selfish measures in defiance of the principles of right."[680] The United Silk Storing Company argued in its circular that the foreign merchants opposed the company merely because it was "inconvenient to them."[681]

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[677] "The Conditions of the institution of the Rengo Kiito Ni-Adzukari-jo," 1175.

[678] "Should we not now check the arbitrary conduct of foreigners, our commercial rights will never be restored," 1176.

[679] "Should we not now check the arbitrary conduct of foreigners, our commercial rights will never be restored,"1176.

[680] "On the trouble between the Ki-ito Ni Adzukari-jo and foreign merchants," 1145.

[681] "Kiito Urikomi-donya Circular," 1161.

Despite the strong condemnation of foreign merchants in the Japanese press there were some faint hints of hesitancy to endorse the United Silk Storing Company. Although the *Choya Shinbun* voiced its support for the company in its dispute with the foreign merchants, the paper also warned that the company could indeed develop into a monopoly. The paper warned, "If the [company's] goals are not changed, there is nothing to guarantee that regular silk merchants will, after having escaped the oppression of the foreign merchant, simply be subjected to the oppression of the domestic [export] merchants."[682] The paper urged the company to reform its own business practices and deal fairly with silk producers and dealers in the interior.[683] The *Mainichi* was also reluctant to pronounce unqualified support for the company. The newspaper announced that while it supported the company, the paper would support the "Japanese people" (*Nihon kokumin*) against the company if necessary.[684] Even the *Hōchi Shinbun*, perhaps the most militant backer of the company, admitted "…there are many who harbor objections regarding the organization [of the company]."[685]Yet such concerns did not cast doubt on the righteousness of the Japanese cause in the domestic press. As the *Japan Weekly Mail* observed, "Whether the Ito-gwaisha be an unprincipled monopoly or the outcome of a sturdy resolution to correct abuses, it has…received the support of all Japanese who prefer to cast their lot in with their own countrymen."[686]

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682 Quoted in Unno, *Meiji no bōeki*, 159.

683 Ibid.

684Quoted in Unno, *Meiji no bōeki*, 162.

685 Quoted in Unno, *Meiji no bōeki*, 162.

686 "From the Japan Daily Mail," *The Japan Weekly Mail* (Yokohama), 15 October, 1881, 1191.

Throughout the protracted war of words taking place in the initial weeks of the crisis each side was well aware of the arguments of the opposing side, but there was little sign of reconciling the two opposing viewpoints. The foreign merchants continued to explain the dispute in economic terms while claiming that the United Silk Storing Company was a conspiracy to forward the private interests of a few rich merchants. The foreigners claimed that the present trading system had served both sides well and that would-be reformers had to prove that any proposed changes would actually produce material benefits. The Japanese press and the United Silk Storing Company, on the other hand, continued to portray the dispute as essentially a power struggle in which Japanese merchants were simply asking to be treated as equal partners in commercial transactions. Now that both sides had outlined their positions and no room for compromise had emerged, the time had come for more drastic action.

Mobilizing for Commercial War

One of the most remarkable aspects of the silk dispute was how quickly it transformed from an obscure commercial dispute between Japanese and foreign merchants in the treaty ports into a popular nationwide campaign. While Japan's press utilized ink and paper to support the United Silk Storing Company, Japan's wider business community began mobilizing to fight a protracted commercial war against the foreign merchants on the company's behalf. This business campaign was remarkable for two reasons. First, the campaign was the first time businessmen from around the country organized in an effort to realize a common goal. This was an important moment in the formation of the business community as an organized interest group capable of working together in common purpose.

In other words, the silk dispute marked the beginning of "business" as an actor on the Japanese political scene.

In addition, at least an informal leadership of the business community began to emerge in the persons of Shibusawa Eiichi, the director of the First National Bank, and Masuda Takashi, the president of the Mitsui Trading Company. The two men would play a leading role in the silk dispute by endorsing the cause of the United Silk Storing Company and by acting as the company's unofficial negotiators in talks with the foreign merchant group. The dispute also saw the Tōkyō Chamber of Commerce act as a leading organization. It provided legitimacy to the company's cause and set an example for the efforts beyond the capital.

Japan's business community moved quickly to throw its support behind the United Silk Storing Company. One of the first measures was an effort to suppress the price of the Mexican silver dollar in financial markets. Businessmen feared that if silver prices rose too high, the prospect of selling silk to foreign merchants in exchange for silver coin would become too lucrative for many Japanese merchants to resist. With a major part of Japan's export trade now suspended, the Japanese expected already scarce Mexican silver dollars to increase dramatically in price. The authorities in charge of the Specie Exchange in Yokohama decided to help by appealing to currency traders to keep trading volumes as low as possible to prevent any increase in the price of silver.[687] Yokohama's import merchants (*hikitoriya*) also announced that they would suspend their business activities until the crisis was resolved. The import merchants who were the nation's largest importers were in constant need of silver coin to pay for the imported wares. By pledging to cease their business

[687] "Notes on the Silk Trouble," *The Japan Weekly Mail*, 8 October, 1881, 1157-1158.

operations, the import merchants helped cool demand for silver and suppress silver prices, thereby ensuring that any temptation to sell silk for cash would be minimized.[688]

The United Silk Storing Company also secured the vital support of the nation's banks in the fight. The Yokohama Specie Bank, a major player in the financing of the silk trade, announced to all the banks with which it did business that they should issue no loans on any silk shipments that failed to pass through the United Silk Storing Company.[689] Some fifty bankers meeting in Yokohama on September 29 agreed not to issue any loans to silk producers or dealers who did not belong to the company association.[690]

In addition to these precautionary measures to frustrate silk shipments to foreign firms Japanese banks opened up their vaults to ensure the Storing company would have sufficient capital to weather the crisis. Banks in the area of Tōkyō and Yokohama pledged to issue a total of 1.5 million yen in loans so that the company could continue to provide silk suppliers in the interior with capital. The 15th National Bank (the so-called "noble's bank") pledged to loan the company an additional 2.5 million yen in specie in case the 1.5 million yen proved to be insufficient.[691] This financial support aimed to bolster confidence in the creditworthiness of the company as well as provide it with sufficient funds to weather suspension of the silk trade its members depended upon to earn their livelihood.

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[688] This information appears in an untitled article in *The Japan Daily Mail* relaying information originally reported the *Tōkyō Nichi Nichi Shinbun*. "Articles from the Japanese Press," *The Japan Weekly Mail*, 8 October, 1881, 1159.

[689] "The Silk Difficulty," 1174.

[690] Ibid.

[691] "Articles from the Japanese Press," *The Japan Weekly Mail* (Yokohama), 8 October, 1881, 1175.

In response to rumored threats of a boycott of the shipping of Japanese goods by foreign shipping companies, the United Silk Storing Company reportedly persuaded one of the country's major shippers, the *Naikoku Tsū-un Kaisha* (Internal Shipping Company) to refuse to carry any cargo of silk without the Storing Company's approval.[692] Some weeks later when a silk dealer in Yamanashi prefecture, Natori Masaki, attempted to sell silk to foreign merchants, the Internal Express Company refused to transport the goods.[693]

With initial measures by businesses to rally to the United Silk Storing Company's aid and increasingly heated rhetoric in the press, the dispute over silk began to assume the character of a national struggle for independence. Sentiment grew within the Japanese business community that it should issue a formal statement on the issue. On October 12th, 1881, the Tōkyō Chamber of Commerce convened a meeting on the dispute involving the United Silk Storing Company. The meeting included prominent businessmen who were not directly involved in the dispute.

Shibusawa Eiichi, the Chamber's president and Masuda Takashi, the head of the Mitsui Trading Company, dominated the meeting.[694] Masuda, recognized for his expertise on foreign trade issues, recounted the cause of Japanese silk merchants' grievances against the foreign merchants by pointing out that in almost every other country payment upon delivery of goods was the norm, but in Japan a perverse system whereby the seller entrusted his goods

[692] Ibid., 1175.

[693] "The Native Press on the Silk Difficulty," *The Japan Weekly Mail* (Yokohama), 15 October, 1881, 1206.

[694] A record of the meeting of the Tōkyō Chamber of Commerce was printed in The Japan Weekly Mail. A full reference to the article can be found in footnote 20 above. "Meeting of the Tōkyō Chamber of Commerce,"1191.

to the buyer without payment opened up possibilities for all sorts of abuse on the buyers' part. This system had "no other counterpart in any other country in the universe."[695]

Although the most immediately obvious solution to stopping the abusive practices of foreign merchants might appear to be in direct trade, Masuda argued that this was not, in fact, the case, because foreign merchants performed a vitally crucial role in Japan's silk trade. Summing up the conventional wisdom on foreign trade, Masuda asked his fellow businessmen, "If abuses and injustices were the result of employing Foreign [*sic*] intermediaries here, why not eliminate those intermediaries and carry goods direct [*sic*] to consumers?"[696] This reasoning, he answered, was natural, but ignored the reality of the silk trade. European and American customers did not simply want Japanese silk, but wanted silk of certain qualities. The foreign merchants' skill was in sorting and grading silk and repackaging raw silk of varying qualities into lots of uniform quality and specifications. By doing so, foreign merchants enhanced the market value of the silk and helped ensure Japanese raw silk would find a foreign buyer. Both the foreign merchants' intimate knowledge of foreign markets and consumers' demands and the merchants' expertise in sorting and grading silk had enhanced the value and volume of Japan's silk exports.[697] Japanese merchants did not yet have either the required expertise in knowing how to sort silk or sufficient knowledge of foreign markets to replace the vital functions being performed by foreign merchants.

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[695] Ibid., 1191-1192.

[696] Ibid., 1192.

[697] Ibid.

Masuda thus sympathized with some of the foreigners' complaints against the United Silk Storing Company. Although he hoped that eventually Japanese merchants would be able to gain the necessary expertise to effectively inspect and sort silk for foreign markets, it would take time to set up an effective system and until then foreign merchants could not rely on Japanese methods of sorting and inspection.[698] Masuda also rejected the idea that foreign merchants were somehow exploiting Japanese producers and merchants. Foreign firms were merely using their superior knowledge of silk markets and expertise to obtain good silk at a favorable price. They were shrewd businessmen who were merely gaining a "fair commercial advantage," based on their own personal ability.[699]Masuda emphasized that the foreign merchant was playing a positive role in the Japanese economy by doing what any good businessman would do. In this sense, many of the complaints against foreign businessmen were misguided.

Yet, Masuda argued that United Silk Storing Company was an honest attempt by Japanese silk merchants to make silk trading more convenient for both parties and that the foreign merchants' opposition to the scheme was unreasonable. The company's system of silk inspection and sorting, although inadequate at the moment, promised to eventually develop into a well functioning system that would prove convenient to foreign buyers and Japanese sellers alike. Because the Storing Company had taken pains to provide adequate inspection facilities to foreign customers, there was no good reason for the foreign merchants to oppose the scheme.[700]

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[698] Ibid.

[699] Ibid.

[700] Ibid.

Believing that the future of the nation's trade depended on a favorable resolution of the issue, Masuda urged his fellow members of the Chamber to support the United Silk Storing Company in the dispute. Not only did the company promise to bring real and positive changes to Japan's silk trade which would benefit all parties, but a defeat of the company would bode ill for future attempts to re-assert domestic control over Japan's foreign trade. A defeat of the company would set a precedent that would doubtlessly frustrate future attempts to address any abuses of foreigners against Japanese merchants. Therefore the Chamber had to express its support for the company.[701]

The prevailing opinion in the Chamber was that the dispute represented a test of strength between the foreign merchants and the Japanese business community. Several members speaking after Masuda emphasized that the foreign merchants needed to understand Japanese grievances and only maintaining a unified front against the foreigners would make them back down. If the foreign merchant community understood that the entire nation was ready to support the United Silk Storing Company, they would be more willing to make concessions. The Tōkyō Chamber of Commerce voted to announce its support of the company in the dispute and to send requests to the nation's other Chambers of Commerce urging them to back the company as well.[702]

This meeting of the Tōkyō Chamber of Commerce was the final step in transforming what was initially a simple commercial dispute into national campaign against the foreign merchants. The Tōkyō Chamber then assigned itself the role of coordinator and leader of this movement. In a declaration of support on October 16th, the Chamber announced to the United

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[701] Ibid., 1192-1193.

[702] Ibid., 1194.

Silk Storing Company that it had "…appointed a special committee to devise the best means for your assistance…," and proposed to "…consult with energetic men in every province, encourage combinations, and communicate the actual state of affairs in Yokohama…"[703] Besides volunteering to lead the effort to oppose the foreign merchants, the pronouncement of the Chamber also lent the considerable weight of some of the nation's leading business figures behind the movement. This commitment prompted a wave of other organizations and businessmen to pledge their support for the company.

Business groups and regional Chambers of Commerce increasingly voiced their support for the United Silk Storing Company and enthusiastically set about to prevent silk producers and merchants in their locales from selling silk to foreigners. A group of merchants in the Kōfu district of Yamanashi prefecture were perhaps the most vocal. There a group of forty silk producers and dealers published a manifesto declaring their support for the company as a just attempt to rescue the rights of Japanese commerce from unscrupulous foreign merchants.[704] The Yamanashi group also proclaimed that the merchants in the group would police silk trading in the area and ensure that no silk was sold to any entity other than the company. A charter from the group revealed that they would require all silk products from the area must bear the Yamanashi Chamber of Commerce's seal in order to be shipped outside of the prefecture, local authorities would conduct a careful inspection of shipping invoices to prevent illicit shipments of silk, and a new inspections station would strengthen monitoring over the silk trade.[705] Vaguer demonstrations of support came from the Chambers

[703] "The Native Press on the Silk Difficulty," *The Japan Weekly Mail* (Yokohama), 22 October, 1881, 1236.

[704] "The Native Press on the Silk Difficulty," *The Japan Weekly Mail* (Yokohama), 15 October, 1881, 1206.

[705] "The Native Press on the Silk Difficulty," *The Japan Weekly Mail* (Yokohama), 29 October, 1881, 1261.

of Commerce in Kōbe and Sendai. Although neither was a major silk trading area, such announcements of support indicated the nationwide popularity of the United Silk Storing Company and its mission.[706]

The Tōkyō Chamber of Commerce's appeal also seems to have energized individual firms and businessmen to make their own pledges of support. On October 18th the Yasuda Bank, a large private bank owned by Yasuda Zenjirō, a prominent financier, publicly offered a 100,000 yen line of credit to the Storing Company to help it weather the crisis.[707] Two businessmen in the port city of Kōbe named Horiushi and Arima who claimed to represent the "energetic men of Kōbe and Higo, also promised to provide the company with "…funds to such an amount as we can dispose," should the company find itself in financial difficulties. In a dramatic, if largely symbolic, gesture from another group of Higo merchants sent five casks of *saké* bearing the label "commercial rights" (*shōken*) to the United Silk Storing Company along with a letter that declared the merchants' hearty approval that the company was "…now in arms against an enemy in the great battle-field of commerce…," and expressed the wish that "while you are comfortably drinking liquor…your courage will rise higher and higher and you will circumvent any secret strategy of your wily foe, secure complete victory over Europe and America, and liberate us all from their arbitrariness, and thus restore our commercial rights."[708]

In the frenzied rush to pledge support the United Silk Storing Company the Japanese government was the only powerful organization that refrained from public participation in

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[706] Ibid., 1261.

[707] Ibid., 1262.

[708] "The Native Press on the Silk Difficulty," *The Japan Weekly Mail* (Yokohama), 22 October, 1881, 1237.

the dispute. There were, however, rumors of government involvement. The *Japan Weekly Mail* reported that several Japanese merchants claimed that the government was supporting the Storing Company behind the scenes by providing both cash loans and forcing silk producers and dealers in the interior to join the company.[709] Then in early October uniformed policemen intercepted in Yokohama 24 bales of silk that an independent silk dealer had sold to W. M. Strachan & Company.[710] To the foreign merchants the ability of the United Silk Storing Company to summon state authorities to enforce the boycott against the foreign merchants suggested that the company had official support.

Despite the rumors and incidents, however, there is no real evidence that the Japanese government was ever involved in the dispute in any meaningful way. Early on the government had refused requests from the United Silk Storing Company's founders for a large government loan and evidently did not pressure banks to support the company. The government itself denied giving any support for the company and never issued any official statement on the silk dispute other than a letter to the British Ambassador explaining that the dispute was a purely commercial matter in which the government had no role.[711] A government investigation revealed that the attempt of uniformed police officers to disrupt a silk shipment in Yokohama was an unauthorized action carried out by off-duty police officers who were moonlighting as security guards for the United Silk Storing Company.[712]

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[709] "Politics and Commerce," *The Japan Weekly Mail* (Yokohama), 8 October, 1881, 1165.

[710] "Correspondence on the Silk Question," *The Japan Weekly Mail* (Yokohama), 12 November, 1881, 1308.

[711] Ibid., 1309.

[712] Ibid.

Crisis

Despite the popular enthusiasm for the fight against the foreign merchants, silk producers and dealers in the interior came under great stress. Because many of them depended upon silk for their livelihood, the virtual halt of the silk trade in Yokohama meant they were having difficulty keeping their businesses afloat. By the middle of October the situation for them was beginning to look especially grim as the dispute had become a war of attrition with both camps essentially waiting to see whose resolve would break. Still, producers and dealers seemed to be holding up.

Then in late October came a shocking discovery. The Mutual Extension Company revealed that it had sold 40 bales of silk to a foreign merchant, W. Sagel, without the mediation of the United Silk Storing Company. Forty bales was not a large amount of silk, but the sale was the largest one made to a foreign buyer since the silk dispute had begun. The sale showed that cracks were beginning to appear in the resolve of some of Japan's silk producers in the interior.[713]

Although the Mutual Extension Company focused on selling silk directly in foreign markets, the company had joined the United Silk Storing Company as a shareholder. According to later memoirs of one of the key figures in the Mutual Extension Company, its stockholders were not enthusiastic about being part of the United Silk Storing Company, because they viewed the reform of the domestic trade as superfluous to their goal of shipping and selling raw silk abroad. They feared that an attempt to change the terms of the domestic trade would detract from their company's main mission. Nevertheless, swayed by

[713] Unno, *Meiji no bōeki*, 215.

nationalistic sentiment, company executives felt joining the fray would be a relatively harmless commitment that would not significantly conflict with their firm's main goals.[714]

By joining, the Mutual Extension Company officially pledged not to have any dealings with foreign merchants in Yokohama unless the United Silk Storing Company served as an intermediary. Thus the sale of silk to a foreign firm appeared to be a clear violation of this agreement. While the Mutual Extension Company representatives claimed that the sale was part of its direct trading activities and therefore did not constitute a breaking of the ranks on the boycott of foreign firms, critics saw the sale as nothing less than an act of treason. The Mutual Extension Company argued that W. Sagel had merely contracted to be a sales agent and that the company had consigned 40 bales over to him so that he could serve as an intermediary for the company in selling the silk abroad.[715] Critics pointed out, however, that the Sagel Company had paid the export taxes on the 40 bales of silk which suggested the ownership of the bales had been transferred to Sagel as the result of an outright sale.[716]

This sale of silk by the Mutual Extension Company was potentially devastating for the prospects of the United Silk Storing Company. Up until this point, the silk merchants and producers had maintained a united front with the Storing Company. Although the press had reported some small-scale sales of silk to foreign firms, all of these deals had involved silk dealers in the interior who had either refused to join the United Silk Storing Company or were bit players in the silk trade. Also, in most of these cases public pressure proved sufficient to convince would be sellers to cancel the sales before any silk actually reached

[714] Unno Fukuju, "Yokohama rengō kiito niazukarijo jiken," 779-780.

[715] Unno, *Meiji no bōeki*, 215.

[716] Ibid., 216.

foreign warehouses. The Mutual Extension Company's sale was, however, much more significant. Because the Mutual Extension Company was one of the founding members of the United Silk Storing Company, this sale of silk amounted to a defection of one of the key members of the inner circle. The sale therefore exposed serious divisions within the Japanese camp which might cause the foreign merchant community to believe that Japanese resolve might soon crumble. If the resolve of producers and dealers began crack and they began selling silk to foreign merchants, the gamble to change the established customs of the silk trade would fail.

The United Silk Storing Company quickly expelled the Mutual Extension Company, but the expulsion itself caused new problems. The boycott of sales to foreign merchant firms would only be effective as long as all the nation's major silk suppliers were willing to stand behind it. Expelling such a large silk dealing firm opened up the possibility that the firm might simply choose to start selling to foreign firms according to the previously established system. This change could potentially trigger a mass defection of firms from the Storing Company. The announcement by the Sekitanya firm that it was willing to sell silk to foreign buyers "on the old terms" seemed to suggest that desertions were already starting.[717]

With the fate of the boycott hanging in the balance, the United Silk Storing Company and allied merchants called a special meeting on November 1st in Yokohama. In addition to the company stockholders, forty-one "delegates of the provincial silk owners" attended, along with Shibusawa Eiichi and Masuda Takashi who were acting as the company's chief

[717] "Minutes of a special meeting of the United Japanese Silk Merchants," *The Japan Weekly Mail* (Yokohama), 5 November 1881, 1280.

negotiators with the foreign merchants in the dispute.[718] The goal of the meeting was twofold. The United Silk Storing Company had to repair the fissures that were beginning to emerge within it. The company also had to shore up morale among the silk producers and merchants in the interior.

One of the primary tasks was to give local silk producers and dealers a rousing pep-talk. Shibusawa Eiichi, the most prominent of all businessmen of the era, urged the members of the company to continue their fight. Shibusawa claimed that the United Silk Storing Company aimed not just to address grievances of a few Japanese merchants against foreign silk buyers but to promote "the principles of equity and justice."[719] Masuda Takashi also urged unity and confidence in victory over the foreign merchants.[720] In addition, Masuda and Shibusawa reassured the audience that talks with foreigners were yielding progress and might soon produce a resolution in the dispute.[721]

Yet merely rallying the troops and promising progress in talks with foreign merchants were not enough to sustain the campaign. The United Silk Storing Company shareholders had to promise some sort of immediate action. At the meeting, the head of the company, Shibusawa Kisaku, told the businessmen that the only way forward now lay in direct trade. If the foreign merchant houses in Yokohama refused to deal with the company, there was no choice but to venture abroad and sell Japanese silks directly to buyers in the markets of

[718] Ibid.

[719] Ibid.

[720] Ibid., 1292.

[721] Ibid., 1291.

Europe and America. Shibusawa proposed a vote be taken on whether or not to pursue direct trade, so that preparations might begin.[722]

Shibusawa's proposal prompted an outburst of enthusiasm. Local silk merchants were especially excited about the proposal which the meeting passed with a unanimous vote.[723] The resolution proclaimed: "So long as the foreign merchants decline to conform in their transactions to the rules of the Rengo Ki-ito Ni-adzukari-jo, the Guild shall, after arrangement of the necessary regulations, effect direct export of the whole staple now in Yokohama, and of all parcels which may subsequently arrive from any locality. Further, until we obtain our object, we bind ourselves mutually, under solemn obligation, not to dissolve our combination."[724]

In his study of this dispute, historian Unno Fukuju has suggested that despite the declaration that the United Silk Storing Company intended to "export the whole staple," this declaration was never "anything more than a bluff."[725] Unno argues that, in reality, the Yokohama export merchants who were the major stockholders in the company opposed direct trade, because it could potentially undermine the lucrative business they did as intermediaries in the silk trade. If silk producers and merchants in the interior could sell raw silk directly to foreign customers, who would need export merchants?

Unno suggests that instead of being a serious declaration of intent the declaration to export silk directly to foreign markets was carefully calculated to frustrate what was an even

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[722] Ibid.

[723] Ibid., 1292.

[724] Ibid.

[725] Unno Fukuju *Meiji no bōeki*, 194.

greater threat to the interests of the export merchants, an effort to create a public auction house for raw silk. Lead by the head of the Trade Company, Asabuki Eiji, (See Chapter 5) some traders advocated the creation of an auction house in Yokohama where Japanese sellers would bring their raw silks to be auctioned off to foreign buyers.[726] By conducting all silk trading at the auction house and forcing foreign buyers to engage in competitive bidding for Japanese silk, this procedure would eliminate the custom of delivery before payment and put buyers and sellers on a more equal footing. It would also, according to Unno, eliminate any need for export merchants, since the auction house would be open to all buyers and sellers. Theoretically, any silk producer or dealer from the interior would be able bring his silk and auction it off directly to potential foreign buyers.[727] Thus, according to Unno, the export merchants wanted to find a way to kill the idea. Hence they issued their own bold proposal to "export the whole stable" abroad.[728]

Unno's theory is attractive, but it assumes that creating a public auction house was a viable and realistic option, rather than what it really was, a desperate hope. Although silk was sold by auction in some parts of the world, the most prominent example being the London silk auction, there were several major obstacles to the establishment of a public auction house in Japan.[729] The most important barrier was the opposition of the foreign merchants. The *Japan Weekly Mail* noted that the idea of public auctions would be unacceptable unless all lots of silk put up for auction could be laid out for inspection in the auction room. Otherwise

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[726] "From the Japan Daily Mail," *The Japan Weekly Mail* (Yokohama), 5 November, 1881, 1280.

[727] Unno Fukuju, *Meiji no bōeki*, 196.

[728] Ibid.

[729] "From the Japan Daily Mail," *The Japan Weekly Mail* (Yokohama), 5 November, 1881, 1280.

auctions would depend upon samples, and the foreign community would not trust Japanese sellers to supply silk of a consistent quality. The *Japan Weekly Mail* predicted that sellers would probably have to sell their silk at a significant discount if the auction system was to work.[730]

Instead, the declaration to export all of Japan's silk directly served as a gesture to placate silk producers and dealers in the interior. By pledging that the United Silk Storing Company would simply bypass the stubborn foreign merchants and export silk abroad directly, the company was appealing to producers' and dealers' sense of patriotism. By making a bold and dramatic gesture the company convinced them that they were not engaged in a mere commercial dispute but were contributing to a grand, national project to restore Japan's commercial independence. The declaration also suggested that measures to alleviate their plight were possible. By promising to "export the whole staple," the company gave producers hope that they could sell their silk even if the foreign merchants continued to refuse to accept any changes in the silk trade. A tough and defiant declaration could also serve as a negotiating tool. Unno allows that the proposal showed the foreign merchants the strength of Japanese resolve.[731] As Masuda stated, "I believe a report of tonight's resolution will give our side a great advantage when we meet again with the American ambassador."[732]

Beyond merely shoring up morale on the Japanese side, the meeting also had to repair the fractures in the association. Reportedly a group of top level officials from some of the major city banks--Nakamura Michita of the Yokohama Specie Bank, Hara Rokurō of the

[730] Ibid.

[731] Unno Fukuju, *Meiji no bōeki*, 193.

[732] Quoted in Unno Fukuju. Unno, *Meiji no bōeki*, 193.

100th National Bank, and Kawamura Denbei of the 33rd National Bank--pressed the United Silk Storing Company to take the Mutual Extension Company back into the fold.[733]For appearance's sake, the Mutual Extension Company now blamed the sale of silk to a foreign firm on a rouge employee, Takaki Saburō, who allegedly had deluded himself into thinking that he might get away with selling silk under the pretext that he was merely entrusting the silk to a foreign merchant for export.[734] After the Mutual Extension Company fired Takaki as a sacrificial lamb and issued a letter of apology, the Storing Company re-admitted the firm.[735]

The direct trade pronouncement sparked a new round of pledges from local silk producers and merchants who all swore their loyalty to the cause of commercial sovereignty and promised not to have any dealings with foreign merchants until the United Silk Storing Company prevailed in the dispute. A pledge of support for the company signed by over 40 local silk producers and dealers in Yamanashi prefecture incited a wave of similar pledges to pour into Yokohama from around the country. Letters of support to the company and private donations even streamed in from non-silk producing regions. The cause of the United Silk Storing Company had become a populist cause célèbre.

Despite these measures and the constant appeal to patriotic sentiment, real conflicts of interest between export merchants in Yokohama and silk producers in the interior became increasingly clear. Although most observers condemned the Mutual Extension Company's sale of silk as a treasonous act, grumblings about the United Silk Storing Company and the export merchants were beginning to surface. Hoshino Chōtarō and Miyazaki Yūkei, both

[733] Unno, *Meiji no bōeki*, 218-219.

[734] Unno, *Meiji no bōeki*, 218 and "From the Japan Daily Mail," *The Japan Weekly Mail* (Yokohama), 5 November, 1881, 1281.

[735] "From the Japan Daily Mail," *The Japan Weekly Mail* (Yokohama), 5 November, 1881, 1280.

leading figures of Gunma prefecture's silk industry, drafted a letter to the Storing Company which appeared in the November 15th, 1881, edition of the *Tōkyō Yokohama Mainichi Shinbun*.[736] The two men were writing as representatives of the Jōmō Silk Improvement Company which they had recently founded as part of an effort to export silk directly to America (see Chapter 5). They lamented that the Storing Company's recent actions were having an effect "contrary to the [company's] stated intent" by causing damage to silk producers in the nation's interior.[737] Because the company had initially intended to correct the abuses perpetrated by foreign merchants and "put the power to buy and sell in our grasp," silk producers welcomed it. They were grateful to have, "…the devious plots of the foreign merchant removed."[738] Yet, far from aiding silk producers, the company had triggered an unnecessary dispute with the foreign merchants that was "closing the routes of trade" and harming silk producers.[739]

Missteps might be forgivable, but the letter noted that the United Silk Storing Company was doing quite well, despite the halt in trade. Hoshino and Miyazaki complained that the company had taken out loans from the large city banks at a low 6 percent interest rate, only to turn around and lend out the same funds it had obtained from the large banks to silk

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[736] Hoshino Chōtarō and Miyazaki Yūkei, "Jōmō Seishi Kairyōkaisha Rengō Kiito Niazukarijo e no shitsumonjō," in *Keizai kōsō*, ed. Nakamura Masanori, Ishii Kanji, and Kasuga Yutaka,vol.8, *Nihon shisō taikei* (Tōkyō: Iwanami Shoten, 2000), 342.

[737] Ibid., 342.

[738] Ibid.

[739] Ibid.

producers at 18 percent interest, a rate three times higher.[740] For an organization supposedly created to fight for the interests of all of the nation's silk producers and merchants, the company's lending policies seemed to enrich the company at the producers' expense. Hoshino and Miyazaki concluded that export merchants had formed the company mainly "…out of desire for profits."[741]

On top of these usurious loans the United Silk Storing Company charged a host of handling and inspection fees which silk producers had to bear. Under the company's silk inspection system, a supplier of silk had to pay inspection and handling fees both to local silk inspection stations maintained by the company in his own region and a further set of handling and inspection fees to the company's headquarters when the silk reached its warehouses in Yokohama. Added to these fees were the traditional commission fees charged by the export merchants who controlled the company. In essence, Hoshino reasoned, silk suppliers were now facing three separate sets of fees where they had previously only had to worry about paying one set of commission fees. The new system of fees proved that the company placed the entire burden of creating a new trading system in silk on silk producers while the rich Yokohama export merchants lined their pockets.[742]

Hoshino and Miyazaki argued that although the cause of recovering "commercial rights" was laudable, silk producers were bearing all the sacrifice while Storing Company itself sacrificed nothing. The letter explained, "While we producers are experiencing hardships…your company alone lends out capital you borrowed at 6 percent at a high interest

[740] Ibid., 342.

[741] Ibid., 342-343.

[742] Ibid.

rate monopolizing the profits thereby obtained…," and concluded, "…producers are bleeding money and losing their business…."[743] Producers simply could not survive if the dispute was to last much longer.

Hoshino and Miyazaki dismissed the Storing Company's plans to directly "export the whole staple" as unrealistic. The two men declared, "…for us producers the chances of obtaining a victory from this dispute are already nonexistent."[744] The company did not have the capacity to ship large lots, lacked the ability to sort silk appropriately to meet the needs of foreign customers, and had insufficient experience doing business in foreign markets to ensure the silk could be sold at a favorable price.[745]

Hoshino and Miyazaki issued a set of three tough demands to the United Silk Storing Company. They demanded that the company reduce the interest charged on its loans to 6 percent, and called on the company to cover any losses that might arise from any drop in silk prices that occurred since the dispute began and any losses that might result if silk was sold abroad at a low price.[746] In sum the two men demanded that the company take on a greater share of the sacrifice that might result from the dispute.

Hoshino and Miyazaki's letter reveals the frustrations of silk producers in the interior and suggested, for the first time, that their interests might not be identical with those of the export merchants who controlled the United Silk Storing Company. With storage fees and interest on loans piling up, rural silk producers and dealers, most of whom had only limited

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743 Ibid., 343-344.

744 Ibid., 343.

745 Ibid. 343-344.

746 Ibid., 344.

capital, desperately needed revenue. It the silk trade did not resume soon, they would go bankrupt. At the same time, Hoshino and Miyazaki raised disturbing questions about who would really stand to benefit from a reform of the silk trade. They suggested that the Storing Company's battle would benefit of the export merchants who would assume a commanding position in the silk trade while producers and dealers in the interior gained little in the way of tangible benefits. Hoshino's letter showed that despite the façade of unity and patriotic sentiment there were divisions in the interests of the different parts of the silk industry.

Compromise or Capitulation?

From early on the United Silk Storing Company began to search for a possible solution to the crisis through talks with the foreign merchants. The cessation of the silk trade, the most important component of Japan's export trade, threatened to cause real economic damage to the nation's economy if it continued for too long. The nation's business community was also nervous about a drawn out dispute. Although business leaders supported the idea of asserting the nation's economic independence, they worried about the costs involved in the struggle. Almost as soon as news of the dispute reached Shibusawa Eiichi and Masuda Takashi, two of the most prominent members of the Tōkyō-Yokohama business community, they began to seek ways of settling the conflict. The two men met with US Ambassador John Bingham to discuss a compromise solution.[747] At the same time, the export merchants asked the Yokohama import merchants (*hikitorishō*) to act as intermediaries.

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[747] Unno,*Meiji no bōeki*, 233-234.

Prominent import merchants and the foreign merchant group led by Wilkins met several times.[748]

Despite increasingly harsh rhetoric on both sides, informal talks between prominent businessmen on both sides continued. After all silk trading virtually ground to a standstill for almost two months, everyone was growing weary of the impasse. Neither side had anticipated that the dispute would last as long as it had and the efforts to undermine the other side proved largely fruitless. The United Silk Storing Company had so far only succeeded in completely stopping the silk trade, a situation which hardly benefited its members, and attempts to force a new system of silk trading on unwilling foreigners showed no sign of working. On the foreign side, efforts to undermine the association by driving a wedge between urban merchants and silk dealers and producers in the interior appeared for a brief moment to be working after the defection of the Mutual Extension Company, but, as described above, the United Silk Storing Company healed the rift. Even if some producers were starting to complain, on the surface the Japanese managed to maintain a united front. Plans to push for the dissolution of the company through diplomatic pressure looked increasingly unviable since no foreign power seemed willing to take up the foreign merchants' cause.

The realization that any resolution must involve a compromise helped spur some progress in meetings between Shibusawa Eiichi and Masuda Takashi and the foreign merchant group. After discussing the situation with Ambassador Bingham, Shibusawa and Masuda finally managed to arrange direct talks with Wilkin and Walsh.[749] Conferring at the

[748] Ibid., 209-211.

[749] Unno, *Meiji no bōeki*, 233-234.

American Legation on November 2nd, 1881, Shibusawa, Masuda, Wilkin and Walsh resolved to hammer out a settlement to the dispute.

Wilkin and Walsh offered a largely cosmetic change in the methods of silk trading. The foreign merchants argued the only real point of contention was the "detention of silk in buyers' godowns [warehouses]."[750] Any complaints that Japanese silk sellers might have could easily be remedied by the use of a system of written contracts specifying the terms of sale, according to Wilkin and Walsh. By providing a clear contract specifying the amount to be purchased and price, sellers would have a reliable guarantee of sale.[751] Wilkin and Walsh suggested that the price indicated on the contract would be a price, "according to sample," which implied that a buyer could still reject any silk that he judged to be below the quality of the sample.[752] They did not explain the procedure for enforcing such contracts, even though Masuda pointed out that there would be no incentive for the buyer to keep up his end of the bargain.[753]

Shibusawa and Masuda insisted that only the creation of a central silk market where buyers and sellers would meet as equals would solve the long-standing problems in the silk industry. Shibusawa argued that Japanese merchants were dissatisfied with much more than simply the "detention of silk in buyers' godowns" and that only a total transformation of silk trading methods would satisfy them. A system of contracts might serve as a temporary, short-

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[750] "Minutes of Conference between Messrs. Shibusawa and Masuda and Messrs Wilkin and Walsh held at the United States Legation, November 2nd, 1881,"*The Japan Weekly Mail*, (Yokohama), 5 November, 1881, 1281.

[751] Ibid., 1281-1282.

[752] Ibid., 1282.

[753] Ibid.

term fix, but the silk trade needed "the establishment of a central market or warehouse convenient to both parties and where the rights of both may be equally secure."[754]

With two very different positions on the issue staked out, the two sides tried to forge a compromise. Although Wilkin argued that the creation of a central marketplace was not a workable short-term solution, because it would "take one or two years" to organize, he did suggest that foreign merchants would accept a central market with adequate silk inspection facilities, as long as it did not impose too many inconveniences on buyers.[755]Masuda and Shibusawa continued to insist that the only way to remedy the sources of friction in the silk trade would be to create a central marketplace, but they were prepared to agree to resume trading according to the contract system outlined by Wilkin and Walsh in exchange for the foreign merchant community's approval of the proposal for a central warehouse to be constructed and managed by the Japanese.[756]The two parties agreed to go back and discuss the compromise with their respective associations to try to secure support for it.

The compromise agreement represented a significant retreat from the goals of the United Silk Storing Company. In theory the creation of a central warehouse to store all silk and carry out all silk trading would put an end to the "peke" problem while preserving the right of foreign merchants to inspect shipments of silk. Foreign merchants and Japanese producers and traders could inspect silk together at the central warehouse and agree upon a price for the entire shipment. This prospect depended on the belief that the warehouse would

[754] Ibid., 1281.

[755] Ibid.

[756] Ibid., 1282.

actually materialize and that foreign merchants would honor their promises to conduct all silk trading there. Until that time, the Japanese side would essentially concede defeat.

The United Silk Storing Company's stockholders discussed the compromise several days later on November 10th.[757] During the debate, one of the stockholders, Koyasu Takashi, the president of the Fusō Trading Company, put forward a competing proposal. Believing that the compromise yielded too much to the foreign merchants, he proposed to resume with the requirement that all silk purchases be completed at the offices of the export merchants. This procedure would mean the foreign merchants would have to finalize all sales at Japanese establishments and there would be neither storing of silk in foreign merchants' warehouses for a probationary period nor any changes in contract due to disputes over the quality of merchandise.[758] Foreign merchants would pay money and receive silk at Japanese establishments and all sales would be final.[759] Only in cases where the silk seller did not have sufficient inspection facilities would he be allowed to hand over raw silk prior to sale and then only when the foreign merchant had signed a "proof of consignment" (*hikikomi yakuteisho*) which indicated the number of days required to inspect silk and provided a guarantee of fire insurance.[760] Koyasu was essentially proposing to do away with the United Silk Storing Company altogether and replace it with an everyman-for-himself system which would nevertheless favor Japanese merchants. Surprisingly, Koyasu's proposal was popular

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[757] Unno, *Meiji no bōeki*, 238.

[758] Ibid.

[759] Ibid.

[760] Ibid., 238-239.

with the company's stockholders. A majority of them, including representatives of the Mutual Extension Company, approved the plan.[761]

The approval of Koyasu's plan sparked a row within the ranks of the United Silk Storing Company.[762]Opponents of the Koyasu proposal insisted on another special meeting of the association to reconsider the issue on the next day with all shareholders and representatives of the regional silk holders in attendance. Opponents contended that Koyasu's proposal would cause the dissolution of the Storing Company and a complete defeat for Japan. At the end, an alliance of export merchants and regional silk dealers approved Shibusawa and Masuda's proposal for the temporary use of new types of contracts and the creation of a central marketplace in a few years.

Unno Fukuju has suggested Koyasu's proposal and the controversies surrounding it stemmed from a fundamental clash of interests between advocates of direct trade and export merchants who used the cause of reform to solidify their dominance over the silk trade.[763] In Unno's account, Koyasu's proposal found its strongest support among advocates of direct trade and it was the Yokohama export merchants who quickly moved to kill the proposal which threatened to undermine their own commanding position in the domestic silk trade.

To the degree that Unno highlights a conflict of interest between advocates of direct trade and the interests of the export merchants, his interpretation contains a grain of truth. Yet the argument is both overstated and overly simplistic. First, it is difficult to see how

[761] Ibid., 240.

[762] Ibid., 241.

[763] Ibid., 240.

Koyasu's proposal, which would require silk trading to be conducted at Japanese shops typically run by export merchants would undermine the position of the export merchants.

Unno also consistently overestimates the strength of the direct trade movement in assuming that direct trading firms might have somehow benefited from rejecting the compromise plan and potentially prolonging the crisis. Informed Japanese observers indicated direct trading firms had neither the capacity nor the expertise to export the bulk of Japan's raw silk abroad.[764] Pouring the full energies of Japan's silk industry into direct trade might benefit direct traders in the long term, but a switch to direct trade promised to be a long and painful process which would require much trial and error. Although many silk producers and upstart companies desired to engage in direct trade, most lacked the necessary resources to invest in developing their own direct trade links. Many small producers lacked the sufficient capital to ride out the dispute and desperately needed trade to resume.

The behavior of the silk dealers and producers who threw their support behind the settlement negotiated by Shibusawa and Masuda illustrated this situation. It would have been in the long term interests of silk producers and dealers to support direct traders and work against the export merchants. Yet they supported the Shibusawa-Masuda plan that offered little to them beyond a return to the *status quo*, because their short-term survival required trade to resume as soon as possible.

Finally, Unno's view of conflicts within the Japanese camp in the silk dispute relies on an overly simplistic analysis of the interests of direct traders and export merchants. Advocates of direct trade and export merchants stood to gain from a transition to direct trade. Producers who advocated direct trade saw direct trade as a way to bypass networks of trade controlled by foreign merchant houses and export merchants and thus capture a greater share

[764] Hoshino and Miyazaki, "Jōmō Seishi Kairyōkaisha Rengō Kiito Niazukarijo e no shitsumonjō," 343.

of the profits from the silk trade for themselves. The only problem was that many of direct trade advocates lacked the resources to engage in direct trade. To the degree that direct trade would displace foreign merchants, the Yokohama export merchants also stood to benefit from direct trade. With access to greater amounts of capital than producers the export merchants also stood a better chance of building successful direct trade ventures. The main problem was the *pace* of change. Export merchants hoped to introduce a more gradual transition to direct trading and to allow themselves the time to slowly build up their capacities and ensure they would continue to be the dominant force in Japan's silk trade.

Developments within the foreign merchants'association mirrored what happened in its Japanese counterpart. A group of hardliners led by Kingdon opposed any compromise and denounced Wilkin by claiming that the chairman of the foreign merchant association had no right to act as representatives of association in negotiations with the Japanese. The rebels managed to engineer a coup by passing a motion to censure Wilkin and strip him of his chairmanship. In his place, Kingdon was elected chair.

At a meeting of the foreign association held on November 16th to consider the compromise proposal, Kingdon used his newfound position to frustrate any attempt to resolve the dispute. He claimed that the Japanese association would soon collapse if the foreign association held out just a bit longer. He dismissed the idea of a central marketplace by asserting that the creation of such an institution would merely reconstitute the United Silk Storing Company in a modified form and arguing that Shibusawa and Masuda could not be trusted to keep their word.[765] He urged his colleagues to reject the compromise proposal.

As the architects of the compromise, Walsh and Wilkin defended their plan and argued a central market would benefit everyone. Walsh contended the creation of a central

[765] "Foreign Silk Association Meeting,"*The Japan Weekly Mail* (Yokohama), 19 November, 1881, 1353.

marketplace would correct many of the abuses committed by both sides under the current system of silk trading and make silk trading more convenient for everyone. He also suggested that the new Japanese militancy in regard to trade issues might even be a healthy sign. Although much of the rhetoric was overtly nationalistic and claims of grievances were often inflated, Walsh suggested this attitude indicated a real desire for change and perhaps a willingness to act more honestly in business dealings.[766] A central marketplace might indeed be merely a cover for another attempt to establish a Japanese monopoly over the silk trade, but this effort, according to Walsh, should not provoke serious concern. Any monopoly was unlikely to succeed, because the individual desire for profit would eventually win out over patriotic sentiment. In the unlikely event that the Japanese could resist the individual desire for profit to maintain a monopoly, the foreigners had still reserved the right to oppose it.[767]Walsh argued that the compromise proposal should be accepted. Ultimately the moderate faction won the day as the foreign merchant community approved the settlement hammered out with Shibusawa and Masuda.

Examining Koyasu's protest against the compromise proposal side-by-side with Kingdon's objections to the plan suggests the protests of both men were little more than opposition movements of malcontents within the Japanese and foreign communities. Kingdon's opposition to the compromise solution stemmed from the belief that if the foreign merchants held out a little longer they would be able to force the Japanese side to concede complete defeat. Similarly, the main purpose of Koyasu's proposal seems to have been to prolong the silk dispute by putting forward a plan that the foreign side was sure to reject,

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[766] Ibid., 1352-1353.

[767] Ibid.

perhaps in the hopes that the foreign merchants would eventually cave-in to Japanese demands. In both cases objections to the compromise solution seemed to reflect tactical considerations rather than any conflict between interest groups within the two camps.

The Aftermath of the Incident

The disappointing resolution of what came to be called the United Silk Storing Company Incident foreshadowed greater disappointments to come. After the resumption of silk trading, both demand for silk and silk prices dropped dramatically. The dip in silk prices in part resulted from a sudden glut of raw silk which flooded the market. During the two month hiatus in silk trading large stockpiles had been accumulating in Yokohama warehouses. With the resumption of trade this huge stock of silk all came onto the market at the same moment.[768] Unfortunately, this oversupply occurred just as the demand for silk abroad was weakening. When the silk dispute had begun, both the European and American demand had been strong and market prices had been high. Two months later, however, both markets were experiencing recessions and, as a result, demand for silk, which was still a luxury, for many consumers declined.[769] Many of the foreign merchant houses in Yokohama delayed purchases until demand and prices in their home markets began to pick up again.

At the same moment deflationary policies enacted by the government caused the price of the Mexican silver dollar in Japan to plummet. This drop in silver prices hit many exporters hard. They had funded their activities through borrowing paper currency and then receiving silver coin in exchange when they sold their goods to foreign merchants. Increasing

[768] Unno, "Yokohama rengō kiito niazukarijo jiken," 794.

[769] Ibid., 795.

silver prices made it easier to repay loans denominated in paper and improved profit margins. Lower silver prices meant there would be no such bonus generated by a beneficial gap between the values of silver versus paper currencies.

In particular, the downturn in the silk market proved devastating to many silk producers and merchants. Many of them had taken out loans to fund silk production and to ship their silk to market during the crisis. The two month dispute made swift repayment of loans impossible and, while the United Silk Storing Company and the foreign merchants battled one another, producers and dealers in the interior watched interest accrue on their loans. Had the silk market still been strong after the settlement, the situation need not have been dire, but the sluggish overseas demand and low prices for silk meant that many producers could not earn enough to repay their loans. Added to these problems was an economic downturn in Japan which was triggered by the government's deflationary policies. In the wake of the incident many silk producers and local dealers went bankrupt.

An analysis of the silk trade after the incident also shows that the Japanese failed to achieve any of their goals. Although Japanese merchants banded together again in 1885 to boycott a foreign merchant house accused of a particularly flagrant violation of the terms of a purchase contract with a Japanese silk seller, breach of contract continued to occur in the silk trade.[770] In 1885 foreign merchants returned roughly twenty percent of the silk they agreed to purchase in violation of initial verbal agreements. In other words for every 5 bales of silk contracted for sale, foreign merchants returned an average of one bale of silk.[771] Despite the agreements hammered out between the United Silk Storing Company and the foreign

[770]Ibid., 790.

[771] Ibid., 790-791.

merchants, the movement to recover trading rights in the silk trade had failed to yield any significant changes in the way silk was traded.

Finally, the silk warehouse which Shibusawa and Masuda had proposed to create was never built. In 1882 the United Silk Storing Company stockholders agreed to reorganize the company into a silk warehousing corporation. Having drawn up plans to purchase land in Yokohama, the stockholders sought funding for the construction of buildings. The local banks, however, refused to help. After already loaning 3 million yen to the company, the banks were in no mood to increase lending to a group essentially comprised of the same people.[772] The general economic downturn did nothing to encourage the banks to loosen their purse strings. Subsequently, the new warehouse company agreed to suspend its activities "until the return of more favorable business conditions."[773]

Conclusion

The United Silk Storing Incident represented the zenith of the direct trade movement. With the outbreak of the dispute between foreign mercantile houses and Japanese silk merchants, the realities of Japanese commerce and direct trade became issues which captured nationwide attention. By linking opposition to the business practices of foreign merchants and reform of the silk trade to the greater nationalist cause of defending Japanese sovereignty from foreign encroachment, the cause of commercial nationalism and direct trade came to be associated with the patriotic defense of the nation itself. The legacy of the silk dispute was that this association of direct trade and nationalist sentiment led to the creation of a dedicated

[772] Ibid., 795-797.

[773] Ibid., 797.

core of commercial nationalist devotees who would continue to advocate for policies to promote direct trade.

Yet the silk dispute also proved that patriotic sentiment alone was not enough to overcome economic reality. Despite possessing a strong determination to change the terms of the silk trade and enjoying widespread support from Japan's business community and public at large, Japanese silk merchants failed to effect any meaningful change in the silk industry. This failure cast doubt on the viability of the direct trade movement and commercial nationalism in the near term. Although nationalist sentiment would continue to be a powerful source of inspiration that informed future debates over commercial policy, there was also a growing realization that the transformation of Japanese foreign trade was a long-term project. The lesson of the silk dispute for many was that commercial nationalism had to be tempered with a pragmatic recognition that economic realities would not change overnight. Achieving cherished economic goals would require concerted and sustained effort.

The silk dispute was also an important moment in the emergence of organized economic interests as actors trying to influence national economic policy. Although criticized by foreign merchants for its guild-like structure, the United Silk Storing Company was an early example of an effort to create an industry-wide organization that could work to effect meaningful change in an important sector of Japan's economy. The creation of the Storing Company therefore signaled the beginning of the increasing institutionalization of business into organized interest groups.

More importantly, the silk dispute itself served as a learning process by which business leaders could test methods for mobilizing the business community to work toward a common purpose and establish an important set of precedents for representing the business community in domestic and international disputes. The collective effort to support the United Silk Storing Company required Japanese businessmen to coordinate their efforts, maintain lines of communications between themselves, and adopt a common set of policies which would help them realize a common goal. Banks, shipping companies, and regional chambers of commerce worked together to prevent the shipment of silk to foreign merchants and provided financial assistance and moral support to the Storing Company. This experience served as a grand experiment in mobilizing business interests on a nationwide scale. The experience also set important precedents for articulating business opinion at the national level and especially in international disputes. In the confrontation with foreign silk merchants the Tōkyō Chamber of Commerce took a leading role as the official voice of businessmen across the nation. The dispute also established a tradition by which nationally recognized businessmen, including the head of the Tōkyō Chamber of Commerce, would act as leaders in settling economic disputes. In short, the dispute established forms of organization, methods of mobilization and a set of precedents that would pave the way for a new era in which organized business groups would play a dominant role in Japan's political economy.

On the other hand, the United Silk Storing Incident illustrated the beginnings of fragmentation of the silk industry into groups with competing interests on some issues. Silk producers in the less advanced silk producing regions and upstart trading firms used the dispute as an opportunity to attempt a major shake-up of the silk trade that would allow them to become major players. These silk producers and merchants saw direct trade as a prime opportunity to capture a large share of the silk export trade and its profits for themselves. The Yokohama export merchants, who dominated the domestic portion of the silk trade, hoped to forestall the transition to direct trade until they had built up their own capacities for exporting goods overseas and could guarantee that they were able to continue to dominate the silk trade. Instead of direct trade, the Yokohama export merchants pushed for a reform of the treaty trade which would maintain their commanding position in the trade while addressing some of frustrations they experienced in dealing with foreign merchants houses. This division between advocates of rapid change and supporters of incremental change in the silk trade would become a driving force in the future disputes within the silk industry.

EPILOGUE AND CONCLUSION

In the wake of the 1881 United Silk Storing incident, the direct trade movement began to stall. In the following years the movement experienced a series of setbacks and by 1890 the once energetic popular movement appeared to be a lost cause supported solely by a small circle of intractable ideologues. The reasons for the direct trade movement's deplorable end are complex. Shifts in the government's commercial and monetary policies in the 1880s weakened programs designed to promote direct trade. At the same time, changes in Japan's foreign trade made the promotion of direct trade seem less urgent. Japan started importing less and began to experience annual trade surpluses which did much to ease anxieties over the state of the nation's foreign trade among government officials and the public. The direct trade movement also began to lose constituents. Due to structural changes in the silk industry in the 1880s, divisions emerged among silk producers who had been some of the direct trade movement's main constituents. While some silk producers continued to push for direct trade, another group found the existing treaty port trade to be satisfactory and opposed further state sponsored measures to promote direct trade. Finally, the politics of economic policy-making were beginning to change. The creation of new government agencies and industry groups transformed what had been a chaotic and haphazard process of economic policy making dominated by individuals and sporadic movements into a more organized process involving negotiations between organized interest groups. After 1890 a small handful of advocates would continue to press for commercial policies that promoted direct trade, but they would do so as a small, well-organized interest group and not as part of a popular movement.

The shift in the government's commercial policies that contributed to the decline of the direct trade movement took place on three fronts. The first change was a gradual shift in the emphasis of policy at the Yokohama Specie Bank from promoting exports to accumulating specie from abroad in order to improve the bottom line of the bank. The result was a gradual dismantling of the cargo loan program. Instead of focusing on the promotion of Japanese exports, the Yokohama Bank began to concentrate on gaining a larger share of the financing of Japan's foreign trade in general, including loans to foreign merchants. As a result, the bank would no longer serve as the financial pillar of direct trade. The end of the cargo loan program had a dramatic effect on efforts to establish direct trade links by removing much needed financial support.

Deflationary monetary policy also knocked the wind out of the sails of the direct trade movement. Trading companies and rural cooperatives that had sought to engage in direct trade suffered in the economic downturn that followed the introduction of deflationary policies. Most the firms hastily established in the sudden wave of enthusiasm for direct trade in 1880 and 1881 proved to be short lived. Of a total of nine commercial firms engaged in direct trade in 1881, only two, the Trade Company and the Mutual Extension Company, would remain in business for several years. Ultimately, even these two companies ceased to exist after the Yokohama Specie Bank's cargo loan program effectively ended in 1888. Meanwhile, the cooperatives that hoped to engage in direct trade as a way of realizing greater profits for producers were hit hard by the deflationary recession and lack of access to financing. The Jōmō Silk Improvement Company, perhaps the most notable achievement of the cooperative movement, serves as an excellent example of what happened to many cooperatives. It faced painful restructuring by banks and the government in an attempt to make the ailing enterprise profitable. After a long and desperate struggle to stay afloat the cooperative ceased to exist in 1890.

The creation of new institutions and organizations was also changed the nature of disputes over commercial policy. The creation of a new government agency, the Ministry of Agriculture and Commerce, in 1881 altered the debate over commercial policy. Afterwards disputes over commercial policy were intimately tied to attempts by the ministry to promote the formation of producer associations and encourage the self-regulation of important export industries. Advocates of direct trade hoped to use the new government initiatives to their advantage by utilizing producer associations as lobbying bodies to press for state support of direct trade. They also hoped that by allying themselves to the government's initiatives to encourage local associations and self-regulation, they would be able to win state support for direct trade measures. This effort, however, ended in failure.

Structural changes in important export industries like silk, however, militated against any government attempt to regulate the industry and dampened enthusiasm for state sponsored initiatives to support direct trade. With the dismantling of silk producer associations in 1891 one historical era of commercial policy had officially come to a close.

Matsukata and the End of the Cargo Loan Program

After 1881, robust government support for direct trade ventures began to collapse. One of the key reasons for this decline was a change in political leadership. Ōkuma Shigenobu, the most important backer of direct trade, was forced out of the Meiji government in 1881.[774] Because Ōkuma had been the chief architect of the Meiji government's economic policies since 1873, his removal from the government signaled a new stage in economic policy making. Ōkuma was replaced by Matsukata Masayoshi. His ascendancy to a position of leadership in the Ministry of Finance was to have a major impact on government policy, especially toward the Yokohama Specie Bank.

Like Ōkuma, Matsukata was deeply concerned about the problem of domestic inflation and believed that the government had to do everything it could to accumulate specie. While Matsukata also saw government support for direct trade as one way to bring in specie, he was not as ideologically committed to the idea of direct trade as Ōkuma. Direct trade was to become one method of accumulating specie among many instead of being a priority. Matsukata would also take a much more severe approach to taming domestic inflation. Unlike Ōkuma, Matsukata believed an inflationary monetary policy rather than an unfavorable balance of trade caused Japan's inflation. Budget cuts and a shrinking of the money supply were therefore necessary to reduce inflation. This conviction would have a major impact on Matsukata's attitudes toward the Yokohama Specie Bank.

Although some scholars examining Ōkuma and Matsukata's monetary policies have concluded that the two finance ministers held radically different and opposing visions of economic policy, it is difficult to detect any clear-cut difference in the commercial policies of the two. Export promotion polices did not change dramatically after Matsukata assumed the position as Minister of Finance. The Yokohama Specie Bank's cargo and exchange loan

[774] Ōkuma was ousted from the government as the result of a heated dispute over the shape of a proposed constitution for Japan. Ōkuma proposed that Japan adopt a liberal, British style constitutional monarchy. His plan did not sit well with other Meiji leaders who favored a more authoritarian Prussian style constitutional monarchy. An overview of Ōkuma's policies and ideas can be found in Chapters 4 and 5. For a more information on Ōkuma's ouster from government see Kyu Hyun Kim, *The Age of Vision and Arguments: parliamentarianism and the national public sphere in early Meiji Japan* (Cambridge, Harvard University Press, 2007), 318-328.

programs to finance direct trade remained in place.[775] Matsukata saw the continued promotion of direct trade as a way to obtain specie from overseas and build up sufficient reserves to restore convertibility.[776] Yet Matsukata believed the bank had to tighten up the cargo and exchange loan programs. Starting in late 1881, he introduced a series of reforms designed to make the programs more effective. These changes gradually shifted the priorities of the bank from promoting trade to accumulating specie.[777]

Matsukata, imposed more stringent requirements on borrowers. Officials had long suspected that many of the borrowers utilizing the Yokohama Specie Bank's cargo and exchange loans were using the money to speculate in the silver market instead of actually engaging in trade.[778] In January, 1882, Matsukata ordered all potential borrowers to subject their goods to strict quality control inspections by bank officials. This measure aimed ostensibly to keep shoddy goods from being exported, but was in fact meant to ensure exporters actually were engaged in trade rather than speculation.[779] Borrowers also had to repay their loans in full before any goods entrusted to local consulates overseas would be released for distribution to buyers. In other words, the local consulates held the borrower's goods until the borrower could prove that he had made a sale and would be able to repay the

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[775] Unno Fukuju, "Jiki yushutsu no tenkai," in *Yokohama Shishi*, ed. Yokohama-shi Sōmukyoku Shishi Henshūshitsu, vol. 3 part 1(Yokohama: Yokohama-shi,1958), 622.

[776] Ibid.

[777] Ibid., 622-623.

[778] Ibid., 674.

[779] Ibid.

bank loan.[780] This measure was intended to ensure the prompt repayment of loans. Because the bank typically made loans in paper currency and required repayment in specie, the new rules sought to end speculation in exchange rates and to enhance the predictability of exchange transactions by requiring that repayment accord with the market exchange rate between paper currency and specie on the day of the original loan.[781]

The changes gave the bank stronger oversight over borrowers and reduced the risk of loan default. The setting of clear exchange rates would reduce the exchange rate risk for exporters. Under the old system, exporters took the foreign currency they gained from the sale of goods in foreign markets to the nearest Yokohama Specie Bank branch office or Japanese consulate. There the branch office or consulate would take possession of the foreign currency and issue a receipt to the exporter which indicated an amount of Mexican silver dollars equal to the amount of foreign currency to be paid to the holders of the receipt. Exporters could then take their receipt to the Yokohama Specie Bank's main office in Yokohama which would then convert the Mexican silver dollars into yen at the current market rate in Japan. This process made exporters vulnerable to shifts in exchange rates between paper currency and the Mexican silver dollar in both foreign and Japanese markets. The reforms allowed bank officers and consulate employees to note the exact amount of foreign currency received along with the current exchange rate for that day. Receipts would record these amounts along with an expiration date. Until the expiration date the exporter

[780] Ibid.

[781] Ibid.

was guaranteed a set exchange rate at which the bank would convert his foreign currency.[782] This change made speculation using exchange loans much more difficult. The lending rates were also raised to increase the profitability of the bank.

Despite these changes, the Yokohama Specie Bank faced difficult times in late 1881 and 1882. The bank had been overzealous in its lending policies and in the general recession that gripped the nation in starting in 1881 many of the banks' borrowers declared bankruptcy or refused to repay their loans. The accumulation of bad debts put the bank in the red. By 1882 the bank's stock price had dropped dramatically, as investors fled from a bank they expected to become insolvent.[783] The engine that was supposed to promote Japanese exports appeared to be on the brink of a breakdown.

Troubles at the bank convinced the government to begin exercising a stronger role in the bank's management. This decision triggered a power struggle over control of the bank between an alliance of stockholders and officials with close ties to Ōkuma Shigenobu and the Ministry of Finance, now under the leadership of Matsukata. In January of 1882, the ministry decided to strengthen its oversight of the bank by recalling its supervisor at the bank and replacing him with three Ministry of Finance appointed members who would sit on the bank's board.[784] Within months Nakamura Michita, Fukuzawa's former pupil and an ally of Ōkuma, stepped down from his position as head of the bank. His successor, Ono Mitsukage, was evidently not a supporter of the ministry, as he complained about the ministry's interference in the bank's business and lobbied for greater independence from the

[782] Ibid., 674-675 and Ishii Takashi, "Yokohama Sōkin Ginkō no setsuritu to sono seikaku,"in *Yokohama Shishi*, ed. Yokohama-shi Sōmukyoku Shishi Henshūshitsu, *vol*. 3 part 2 (Yokohama: Yokohama-shi,), 547-548.

[783] Ishii Takashi, "Yokohama Sōkin Ginkō no setsuritu to sono seikaku," 551-552.

[784] Ibid., 555.

government.[785] Ono resigned his post in November when the government refused to honor a request for an emergency loan for the bank.

Ono's antics convinced Matsukata to institute a purge of the bank's shareholders and personnel to eliminate any pro-Ōkuma elements. Under Matsukata's direction, the Ministry of Finance began to purchase large amounts of bank stock at favorable rates and resell it at market rates. This move diluted the ownership of the bank and reduced the proportion of stocks owned by Ōkuma and Fukuzawa's circle.[786] These moves succeeded in removing pockets of opposition and paved the way for Matsukata to conduct a thorough reform of the institution.

Once the Ministry of Finance had gained a firmer grip on the bank, it nominated Hara Rokurō, the president of the 100th National Bank, to serve as the head of the Yokohama Specie Bank. As the Yokohama Specie Bank's newly installed chief, Hara's main task was to ensure that the bank remained solvent. To do this Hara immediately proposed major reforms in the bank's operations aimed to shore up the bank's balance sheet and restore profitability. Since silver prices were starting to decline and the value of paper currency was climbing, he argued the bank should dispose of the majority of the silver coin it held and deal primarily in paper. By selling off silver while prices were still favorable and gaining paper currency which was increasing in relative value, the bank could earn a profit. The side-effect of this measure was that the bank would deal primarily in paper and its dealing in specie would

785 Ibid., 554.

786 Ibid., 556.

become more of a side business.[787] Matsukata approved this massive switch to dealing in paper currency.[788]

Hara also wanted to refocus the bank's lending to a small group of relatively low risk clients, such as a handful of large scale firms and prominent entrepreneurs.[789] This policy left the bulk of small and medium sized firms in rural districts out in the cold. To add insult to injury, Matsukata announced the end of the government sponsored cargo loan program upon which rural producers depended to help them bring their goods to Yokohama. Matsukata reasoned that such loans would not help bring any specie into the country and merely acted as a subsidy to rural producers. Only those engaged in direct trade qualified for loans.[790] As a result, many rural producers could no longer participate in the Yokohama Specie Bank's loan programs.

The need to sustain the bank as a profit making enterprise caused Matsukata and Hara to turn away from subsidizing direct exports and instead focus strictly on the bank's bottom line. The bank would begin to abandon its role as a promoter of direct exports in 1883, but this change in direction would ironically aid the bank in realizing a small part of the goal of recovering the nation's commercial rights.

The Yokohama Specie Bank's New Mission

[787] Ibid., 557.

[788] Ibid., 559.

[789] Unno, "Jiki yushutsu no tenkai," 675.

[790] Tomizawa Kazuhiro, *Kiito jikiyushutsu shōreihō no kenkyū: Hoshino Chōtarō to dōhō seitei undō no tenkai* (Tōkyō: Nihon Keizai Hyōronsha, 2002),116.

If the need to ensure the Yokohama Specie Bank's continued existence as a profitable enterprise forced the government to first revise and then eliminate the cargo loan program, changing economic conditions transformed the very fiber of the financial institution. By 1882 Japan was in the throes of a major recession, yet the nation's balance of trade improved dramatically, registering surpluses for the first time in years. As the declining value of silver made imports more expensive, the total value of Japan' s import trade declined from a high of approximately 38 million yen in 1880 to slightly over 29 million yen in 1883.[791] In the same period total exports jumped from just over 28 million yen over 37.9 million yen.[792] In 1880 Japan had a 9 million yen trade deficit. In 1883 Japan enjoyed an 8.8 million yen surplus.[793]

The appearance of trade surpluses undermined one of the central theses of the commercial nationalist analysis of Japan's foreign trade. Commercial nationalists and advocates of direct trade contended that foreign merchants' dominance of Japan's trade robbed the nation of the profits it otherwise would have gained from engaging in trade with other nations and that therefore the conduct of foreign trade in the treaty ports merely served to drain the nation's wealth. As long as trade deficits continued, this argument appeared convincing, but, when Japan began to enjoy trade surpluses in the absence of any major reforms in Japan's foreign trade in the 1880s, this argument become harder to sustain. When specie started to flow into Japan, the reform of the treaty port trade and promotion of direct trade seemed less urgent.

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[791] Naikaku Tōkeikyoku, *Nihon Teikoku Tōkei Nenkan*, ed. Tōkeikyoku, vol. 5 (Tōkyō: Tōkei In, 1885; reprint: Tōkyō, Tōkei Kyōkai, 1963), 237.

[792] Ibid.

[793] Ibid.

Trade surpluses also began to change the financial scene in Japan. As Japanese banks started to accumulate capital and build up reserves of specie, the reserves at foreign banks operating in Japan were beginning to decrease as they had to use specie in order to help their Western clients pay for Japanese goods.[794] With growing reserves of specie, Japanese banks could begin financing the nation's trade.

Starting in November 1883 the Yokohama Specie Bank even began to lend to foreign merchant houses. This was a shrewd business decision designed to improve the bank's profits. As established commercial ventures, the foreign merchant houses were low-risk borrowers. Moreover, many of the commercial houses were major buyers of Japanese goods and were likely to require large loans which would pay handsomely in terms of servicing fees and interest. The decision to loan to foreigners, however, went against the very idea of an institution that would promote Japanese exports and the recovery of "commercial rights." By loaning money to the very foreign merchants who were held to be exploiting Japan, the Yokohama Specie Bank was aiding and abetting the enemy.

Initial lending to foreigners, however, proved to be too lucrative to pass up. By the end of 1883 a pilot program to lend money to foreign merchants in Yokohama had proved to be wildly successful. The Yokohama Specie Bank's directors were soon bragging about the high demand and high profits the bank was earning through loans to foreigners.[795] This success convinced Matsukata to make lending to foreigners easier. He also decided to allow foreign merchants to take out special low interest loans from the government sponsored

[794] Unno, "Jiki yushutsu no tenkai," 680.

[795] Ibid., 681.

exchange loan program at the bank. In July 1884 the new rules went into effect.[796] Within a short time the exchange loan program was lending more to foreign merchants than it was to direct traders.[797] This was a complete reversal of the program's original intent. Instead of supporting direct trade, the program was now helping foreign merchants in the treaty ports continue their business and helping to shore up the treaty port trade system.

In another sense, however, the Yokohama Specie Bank's new policies did help in the struggle to reclaim "commercial rights." The success of the loan program enabled the bank to enlarge its capital and reserves of specie. This capital allowed it to continue lending to foreigners and made the bank a major player in the financing of Japan's trade. For the first time since the opening of the treaty ports, a Japanese bank financed a large portion of Japan's trade. The profits from the interest and fees attached to those loans were increasingly enriching the Yokohama Specie Bank, instead of foreigners. The Japanese were thus capturing larger portion of the benefits of trade. Although conducted with much less fanfare than initiatives to promote direct trade up until 1881, the new focus on the bank's profitability probably did substantially advance the cause of the recovery of "commercial rights."

Lending to direct traders through the exchange loan program continued, but its days were now numbered. On the one hand, with loans to foreign firms providing tidy profits, the bank no longer had a strong incentive to lend to direct exporters. On the other hand, despite having access to subsidized loans many direct trade ventures continued to struggle to survive. Defaults on loans to direct traders became common and promotion of direct trade merely

[796] Ibid., 681.

[797] Ibid., 682.

threatened to undermine the new lucrative business the Yokohama Specie Bank did with foreign firms. In 1887 the bank announced the end of the exchange loan program. At the request of exporters, the program continued for one more year to prevent a sudden collapse in silk and tea prices.[798]

The end of the cargo and exchange loan programs proved devastating to direct exporters. At the direct trade movement's height in 1881 there were at least nine direct trading ventures: by the end of the 1880s there were only two direct trading firms still operating: the Mutual Extension Company and the Trade Company. Neither firm, however, proved capable of surviving for long without government subsidized loans. The Trade Company ceased to function as a viable business by the beginning of 1890 and the Mutual Extension Company soon followed. By the start of the first Sino-Japanese War in 1894 all of the direct trade ventures created during the direct trade movement's height had disappeared.

The Battle over the Jōmō Silk Improvement Company

Changes in government policy and the general economic downturn beginning in the first half of the 1880s caused the campaign to create cooperatives in the silk industry, which had been a driving force in the direct trade movement, to collapse. The most dramatic episode in the decline of the silk cooperative movement was the slow implosion of the Jōmō Silk Improvement Company in Gunma prefecture. The company's difficulties began as soon as it opened its doors in 1881. Because it began operations at the beginning of the mulberry cultivation season, many members sought advance loans from the company. An initial loan of 70,000 yen from the Yokohama Specie Bank proved insufficient to meet this demand. Furthermore, the government refused to provide additional funds. Therefore the firm had to

[798] Ibid., 685.

take out large loans from private banks. The Company borrowed an additional 200,000 yen from the Yokohama Specie Bank in several installments. The Company also looked to the 33rd National Bank for further loans. This dependence on the 33rd National Bank deepened when the Yokohama Specie Bank changed its lending policies in July, 1881, to cap lending to each silk producer at 200,000 yen. In effect, the Improvement Company could not obtain more loans from the Yokohama Specie Bank.[799]

Taking out loans from privately owned banks instead of relying on subsidized government loans hurt the company's balance sheet. Because executives expected to secure a low-interest, long-term loan from the government, they assumed the company would have ample funds to invest in improvements in local silk production. Relying on more expensive private loans meant that they had to use the bulk of the profits earned from the sale of raw silk to cover loan repayments. Without being able to build up a significant pool of operating capital, the company could not invest in local improvements of production and lived from loan to loan in a precarious hand-to-mouth existence. Company officials continued to lobby the government in an attempt to secure funds, but the most they were able to procure was a 100,000 yen bridge loan from the Yokohama Specie Bank that had to be repaid in 45 days.[800]

The Jōmō Silk Improvement Company's trouble in securing financing for its member producers struck at the heart of its business. Silk producers required advance loans to engage in production and, if the company could not provide advance loans, producers were likely to look elsewhere. The next option for many silk producers in Gunma became the Jōmō Product Company (Jōmō Bussan Kaisha), founded in June, 1881, with the financial backing of the

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[799] Unno Fukuju, Chihō jiki yushutsu kaisha no setsuritsu to tenkai," in Yokohama Shishi, ed. Yokohama-shi Sōmukyoku Shishi Henshūshitsu vol. 3 part 1 (Yokohama: Yokohama-shi, 1958), 700.

[800] Ibid.

Yokohama export merchants and silk dealers in Maebashi. Many members of the Jōmō Silk Improvement Company abandoned it to join the ranks of the Jōmō Product Company or simply sell their silk elsewhere.[801]

In an attempt to reverse the trend the Improvement Company made another bid to secure government loans in the amount of 400,000 yen for strengthening the silk industry. Even though the company submitted letters of support from the 33rd Bank and the Gunma prefectural government, the Ministry of Finance refused the request. When the Yokohama Specie Bank in 1882 suspended loans for domestic cargoes and prior loans started to come due, the company faced a crisis.[802]

Despite its troubles, the Improvement Company managed to become an important player in Gunma prefecture's silk trade. The enterprise handled volumes of silk equivalent to somewhere between one-fifth to one-fourth of the prefecture's total output. By the end of November 1881, the company had taken out over 1, 319,000 yen in loans and had repaid 785,000 yen with a remaining 534, 000 yen left to be paid back.[803]

Unfortunately, the company had used most of the remaining funds to issue long term loans to silk producers to help them improve their facilities and equipment. This strategy left little cash on hand to finance the next round of silk trading and made the company dependent on the banks just to continue its operations. The company was vulnerable should any of its lenders decide to call in their loans. Over the next few years, it lurched from crisis to crisis.

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[801] Ibid., 700-701.

[802] Ibid., 701.

[803] Ibid., 702-703.

During the downturn in the silk business in 1882, the Improvement Company found itself unable to secure loans and the amount of silk it handled fell rapidly.[804] Only funds from the cargo loan program of the Yokohama Specie Bank enabled the company to fund much of its activities.[805] Meanwhile, officials in MAC worried that the failure of the enterprise might damage the local economy in Gunma prefecture, one of the country's most important silk producing regions. In 1886, the MAC minister wrote a request to the MOF asking for government funding for the company. While the Ministry of Finance continued to refuse a direct loan to the company from government coffers, the ministry approved additional loans of 300,000 yen through the Yokohama Specie Bank.

The government loan, however, entailed stronger supervision from Gunma's prefectural government to ensure repayment. Prefectural officials were more concerned with the overall health of the company and its ability to repay the loan, than with direct trade or the improvement of local silks. This stress on profitability required a more businesslike approach to managing company business. At a July 15th meeting of company shareholders, Gunma's governor, Saitō Yōzō, demanded that the company abandon its exclusive focus on direct exports and ordered it to sell silk by whatever method was most profitable, including selling to export merchants in Yokohama.[806]

This change in strategy had an important impact on the company's business. No longer able to engage solely in direct trade, the company was in the uncomfortable position of engaging in trade with local silk dealers who also sold local silk to export merchants. The

[804] Unno, "Chihō jiki yushutsu no kaisha no setsuritsu to tenkai, 703.

[805] Ibid.

[806] Ibid., 704.

emergence of the Jōmō Silk Improvement Company as organization which made local silk dealers redundant by creating a direct tie between local silk producers and large direct trading firms like the Mutual Extension Company, was a disturbing development to silk dealers in Gunma prefecture. They increasingly threw their support behind the Jōmō Product Company as a way of counterbalancing the Improvement Company's advantage.[807]

To make matters worse, almost as soon as the Ministry of Finance approved the new 300,000 yen loan, the local government appeared to change its mind about the deal. In November Takase Shirō, an official dispatched by the prefecture's Agriculture and Commerce division, suddenly demanded immediate repayment of the loan. Then, in an emergency meeting of company shareholders, Takase, accompanied by the director of the 33rd National Bank, Taneda Seiichi, announced a complete restructuring of the company. To raise much needed new capital the company was to abandon its previous charter and its cooperative character and become a public corporation in which any investors, not just silk producers, could purchase stock.[808]

The restructuring of the company triggered a major internal power struggle. The "old" shareholders, the silk producers who had joined the company at its start, saw the restructuring as a way to allow the 33rd National Bank, silk dealers, and outsiders with little interest in the silk business to take over the company. "New" shareholders, who were focused on profits, opposed any policies which benefitted producers at the expense of possible dividends. In an attempt to reconcile the two sides, Kawase Hideji, a former Ministry of Finance bureaucrat and supporter of direct trade, became the head of the company. However, Kawase was

[807] Ibid., 705-706.

[808] Ibid., 712.

booted out shortly afterward when the 33rd National Bank rejected his plan for restoring the company to financial health. The bank installed one of its own representatives as head of the company, but he clashed with other stockholders over issues of executive compensation and resigned within four months of assuming the job.[809]

The resignation of the 33rd National Bank's representative from the company put the plans to restructure the company's finances and pay off debts in limbo. The bank was now ready to write the company off as no longer worth saving. As a result the 33rd National pressed the company for repayment of its debts. The bank moved to seize the 300,000 yen fund that the central government had ordered the Yokohama Specie Bank to lend to the company. This move sparked off a legal dispute with Gunma prefecture which argued the bank had no rights to the money since it had been loaned to the company for a specific purpose and therefore could not be claimed as an asset of the company. Local courts ruled in the 33rd National's favor, allowing the bank to seize the funds.[810]

Afterwards, the Jōmō Silk Improvement Company headed toward its final decline. As a result of the court ruling and the loss of the 300,000 yen fund, the company went into receivership. Rather than promote direct exports, the enterprise had to focus on repaying its debts, primarily by collecting money from silk producers who owed the company money. A ray of hope for the company appeared in 1889 as the period of receivership came to an end. Shareholders appointed Miyazaki Yūteki, a longtime ally of Hoshino Chōtarō, as chief executive. In an effort to revive the company, he negotiated a deal with the Jardine Matherson Company that would have made the Improvement Company a silk supplier of the

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809 Ibid., 712-713.

810 Ibid., 714-715.

British firm, but other members of the board rejected the deal.[811] In 1891 the Jōmō Silk Improvement Company met an ignominious end. The Mitsui Bank seized the 33rd National Bank's assets after its collapse, including the land deeds of the Improvement Company's members. Mitsui promptly sold the deeds to large landlords in Gunma prefecture, dealing the final blow to the cooperative.[812]

Silk Industry Associations and Intra-industry Conflict

During the 1880s, as a softening of government support for direct trade began to impact the silk cooperative movement, the creation of a new government agency and new industry associations began to change the way in which commercial policy was debated and decided. What had been a haphazard decision making process in the government was slowly undergoing a process of institutionalization as a regular system or procedures and rules governing the decision making process evolved. Mirroring the developments in government, the silk industry also began to become more organized and structured. Industry associations emerged to handle intra-industry disputes and address issues of common concern. The era of sporadic policy- making and popular movements to influence economic policy was beginning to give way to an era dominated by organized interest groups.

Direct trade advocates in the silk industry hoped to capitalize on the trend toward a clearer structure in the economic policy-making process and use silk industry associations as a platform for reviving their movement, but they faced an uphill battle. In the wake of the United Silk Storing Incident, Japan's silk industry faced uncertainty about its future direction.

[811] Ibid., 715.

[812] Ibid., 716.

The return, in effect, to the *status quo* in the silk trade indicated that efforts to reform the trade had ended in complete failure. Despite the lingering dissatisfaction with foreign dominance of the silk export trade, there was no clear consensus about how to overcome this dominance. Furthermore, serious conflicts within the silk industry that had emerged during the silk crisis suggested that any future attempt to introduce new reforms or regulations in the silk industry promised to spark new disputes. The lack of consensus over a clear program for reform meant that any drastic changes in the industry were unlikely.

Still the desire for change in the silk industry was widespread. Silk producers and merchants continued to search for ways to improve the quality of local silk products and prevent the production and circulation of low-quality inexpensive raw silk. At the same time, a group of dedicated advocates of direct trade also continued to insist that the government provide support to encourage the growth of direct sales between Japanese producers and foreign consumers as a way of removing what they believed were the evils of the treaty port trade. The Meiji government, for its part, had also begun to encourage change in the industry. Although it had maintained a policy of non-intervention during the United Silk Storing Company incident, after 1881 government agencies began to play a more active role in trying to reform the silk industry. The new attempts at reform would trigger more disputes.

During the latter half of the 1870s the Meiji government had generally refused to regulate the silk industry.[813] Toward the end of the decade, however, the government began to introduce a series of policies designed to encourage the growth of domestic industry indirectly through the creation of mutual advancement societies (*kyōshinkai*), agricultural fairs, and industry related events. Matsukata Masayoshi who was the head of the Agricultural

[813] Kamiyama Kazuo, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai: sanshigyō kumiai chūōbu to Nagano-ken torishimarijo no fungi o chushin ni shite," *Shigaku Zasshi*, vol. 83, no. 9 (August, 1974), 29.

Promotion Bureau in the Ministry of the Home Affairs (hereafter MOHA) in the late 1870s, championed this approach. Beginning in 1879 Matsukata started voicing his dissatisfaction with Meiji government investment in model factories and pilot programs in agriculture by arguing that these state sponsored initiatives had a poor record of success. Instead, Matsukata urged the Meiji government to adopt economic policies which indirectly supported economic growth by encouraging the autonomous development of private industry.[814]

The new Ministry of Agriculture and Commerce (hereafter MAC), founded in 1881, adopted Matsukata' strategy. The ministry was supposed to rationalize the administration of economic policy and reduce government expenses by putting under one roof the supervision of various agricultural, commercial, and industrial programs which had previously been split between various different ministries.[815] Nevertheless, the establishment of MAC also marked the beginning of a new era in economic policy. Guided by the philosophy of Matsukata, MAC began to encourage industry wide meetings and the formation of industry associations to facilitate autonomous action by private industry with the government playing a supporting role.[816]

As part of the new emphasis on encouraging industry associations, the government called for the creation of a Silk Manufacturer's Advisory Council (*Seishi Shijunkai*) in May,

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[814] Ibid., 28.

[815] Ōkuma Shigenobu and Itō Hirobumi, "Nōshōmushō Setsuritsu no Kengi," *Keizai Kōsō*, *Nihon Shisō Taikei* vol. 8 eds. Nakamura Masanori, Ishii Kanji, and Kazuga Yutakain (Tōkyō: Iwanami Shoten, 2000), 103-104.

[816] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai," 28.

1883.[817] The government invited twenty seven businessmen involved in the silk trade from around the country to participate in talks with government officials about how to improve silk production and increase silk exports.[818] Included were advocates of direct trade such as Hoshino Chōtarō and Asabuki Eiji, prominent silk producers such as Sanno Rihachi and Ogiwara Shigejurō, and export merchants such as Mogi Sobee and Hara Zenjirō.[819] The bulk of those invited were inevitably persons whose names were especially prominent in the silk trade either because of their involvement in the direct trade movement or because they had worked closely with provincial authorities or the central government in the development of their business.[820] Hoping that the council would serve as a launching pad for the formation of a voluntary industry association, the government invited those figures it hoped would serve as guiding forces in the effort to organize the industry.[821]

As soon as the council began its proceedings, local silk producers immediately issued a series of demands for strong government regulation and support for the silk industry. Ogiwara Shigejirō and Katō Hikoshichirō, silk producers from Gunma and Miyagi prefectures respectively, urged the introduction of the legal regulation of silk production to prevent the manufacture of low quality goods. Silk producers from Gifu demanded the creation of a silk inspection station in Yokohama to prevent poor quality silks from being

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[817] Unno Fukuju, "Sanshigyō, chagyō kumiai no seiritsu," in *Yokohama Shishi*, ed. Yokohama Sōmukyoku Shishi Henshūshitsu, vol. 3 part 1 (Yokohama: Yokohama-shi, 1958), 799.

[818] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai," 30.

[819] Unno, "Sanshigyō, chagyō kumiai no seiritsu," 799-800.

[820] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai," 30.

[821] Ibid.

exported.[822] Several members also called for the establishment of both regional and national associations to promote communication and information sharing within the industry.[823] Others pressed for renewed state support for direct trade through a new state-sponsored direct trade company and more generous financing from the Yokohama Specie Bank for local silk producers in the countryside.[824] Despite the strong desire among many of the council members for stronger regulation and state support, the council closed its hearings without taking further action.[825]

Even though it failed to effect any changes in government policy toward the silk industry, the Silk Manufacturer's Advisory Council did encourage the formation of silk industry associations. Once council members returned to their home districts, many of them became leaders in efforts to organize local silk producers into voluntary associations.[826] A group of silk producers founded a national association, the Japan Silk Association (*Dai-Nihon Sanshi Kyōkai*), in May of 1884 to coordinate the activities of the local industry associations. Members elected Kawase Hideji, a former MOF bureaucrat and a staunch advocate of direct trade, as its head.[827] The selection of Kawase as the head of the national

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[822] Unno, "Sanshigyō, chagyō kumiai no seiritsu," 802.

[823] Ibid., 803.

[824] Ibid.

[825] Ibid., 804.

[826] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai," 31.

[827] Unno, "Sanshigyō, chagyō kumiai no seiritsu," 805.

organization suggested that direct trade advocates had a strong position in the new organization.

Not surprisingly, soon after his election as head of the Japan Silk Association, Kawase began to urge the government to regulate the silk industry and provide greater support for direct trade ventures. In June, 1884, he submitted a proposal, *Advice Concerning the Protection and Improvement of Manufactured Silk* (*Nihon Seishi Kairyō no Ken ni tsuki Gohogo Iken*), which argued for the reform of the silk trade and the promotion of direct trade.[828] Kawase admitted that direct trade was fraught with difficulty and involved greater risks than "Yokohama selling" (*Yokohama-uri*), but urged the government to provide security to direct traders. Accordingly, the government should establish a system of insurance to protect direct traders and direct trading firms from bankruptcy.[829] Officers in the Japan Silk Association also began to lobby for the creation of a central industry association endowed with legal powers to regulate the silk industry and coordinate the activities of local industry associations.[830]

Kawase repeated his call for uniform regulation of the industry and the creation of a strong central association at a meeting of silk producers in June, 1885. At the meeting held in Tōkyō as part of a government organized agricultural fair, he urged greater cooperation between producers in setting nationwide standards for silk production. In addition, local silk industry associations should lobby the government to establish clear regulations to govern the

[828] Ibid., 805.

[829] Ibid.

[830] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai,"30.

local silk industry associations on the model of Gifu prefecture's silk industry association.[831] At the meeting, Hoshino Chōtarō and Hayami Kensō, a trusted expert on the silk industry, emphasized the need for greater cooperation between silk producers in order to expand silk exports.[832]

The demands for stronger rules to govern industry associations and measures to encourage coordination between local industry associations led a group of silk producers, headed by Hoshino, to submit a formal proposal to the government. The *Advice Concerning the Promulgation of Ordinances for Silkworms and Silk* (*Ikusan Sanshi Jōrei Gohaifu no gi ni tsuki Kengensho*), complained of a lack of clear direction in prefectural governments' attempts to regulate the silk industry.[833] The proposal requested the government assist in the establishment of silk inspection facilities in all prefectures, and establish a national organization to serve as a headquarters for the local associations.[834]

In response, the government enacted regulations for local silk associations and encouraged the creation of a stronger central industry association. In November, 1885, MAC published the *Regulations for Silk Associations* (*Sanshi Kumiai Junsoku*).[835] The *Regulations* ordered prefectural and city governments to form silk producer associations in their districts

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[831] Unno, "Sanshigyō, chagyō kumiai no seiritsu," 806.

[832] Ibid.

[833] Ibid.

[834] Ibid., 807.

[835] Ibid., 807.

to regulate the production and sale of silk cocoons and raw silk.[836] These local associations were to work to improve the quality of locally produced silk cocoons and raw silk though ensuring uniform standards in the production and sorting of all raw silk and cocoons. One could not package or sell raw silk or cocoons without properly identifying the producer and the association to which the producer belonged. Each local association was to appoint officers to manage the association's business and hire inspectors who would monitor silk production.[837] A local headquarters (*torishimarijo*) would be established in the pertinent prefectural capital to supervise the local silk associations.[838]

The *Regulations* also anticipated the creation of a "central office" charged with the vaguely defined mission of "bringing the local headquarters into communication [with each other]"[839] Representatives of the various prefectural headquarters would appoint officers of the central office and set its budget.[840] These clauses in the *Regulations* would ultimately prove to be Achilles heel of the whole system of silk producer associations.

In order to establish the central office MAC called for a meeting of 42 representatives from the silk producing regions of the country to discuss the details of the central office's

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[836] "Regulations for Silk Producers' Guilds," *Japan Weekly Mail* (Yokohama), 14 November, 1885 (reprint: Tōkyō: Edition Synapse, 2006), 479.

[837] Ibid.

[838] Ibid.

[839] Ibid.

[840] Ibid.

organization.[841] To prepare for the meeting MAC appointed Kawase Hideji, Asabuki Eiji, and Miyazaki Yūkei as members of a special committee to draw up a proposal for the creation of the central association.[842] Because all three men had participated in the direct trade movement, one would have expected them to advocate the creation of a powerful organization which would promote direct silk exports.

Their draft proposal did indeed recommend a strong central silk industry organization. It would not only create policy for the improvement of the silk industry and oversee the activities of local organizations, it would also establish and manage a warehouse and inspection station in Yokohama which would store and inspect all silk destined for export abroad.[843] The proposal also recommended that the central association find ways to improve trade financing for exporters. The proposal signaled the intent of direct trade advocates to use a strong central association as a platform for the promotion of direct trade.

Unfortunately for advocates of direct trade, the desire for a strong central association was not shared by all silk producers. The proposal to create a central warehouse and inspection station became the main object of controversy in the talks to create a central association. Opponents of the idea contended that a silk inspection station in Yokohama would needlessly complicate commercial exchanges and impose hidden costs on silk exporters. An inspection system would require the hiring and training of a large number of inspectors and entail high labor costs. A common warehouse would require a large outlay of

[841] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai,"32.

[842] Ibid.

[843] Ibid.

capital to insure against fire and theft.[844] Silk exporters would have to raise prices in order to bear these costs. Inspections would require exporters to unwrap carefully packaged silk to subject it to inspection and then repackage it after inspection, a process which would impose additional costs on silk exporters.[845]

Strong objections from opponents led to more modest plans for a central silk industry association. Participants in the meeting abandoned the idea of establishing a central silk warehouse and inspection system, the centerpiece component for advocates of a strong association, in favor of establishing a "research bureau" (*chōsajo*) with a vaguely defined mission. The organization's overall mission would be to serve merely as a coordinating body for local silk producer associations.[846] The result of these changes was the creation of the Central Office of Silk Associations (*Sanshigyō Kumiai Chūōbu*) which now replaced the Japan Silk Association as the nation-wide silk industry association.[847] Unfortunately for the advocates of direct trade, the new organization was no more powerful than the Japan Silk Association and would accomplish little to promote direct trade.

Right from the very moment of opening its doors on June 1, 1886, the young association provoked controversy. Initially a dispute arose over the association's research bureau. After opening for business, one of the Central Silk Association's first acts was to issue an order to the local associations requiring them to send all silk destined for export abroad to the association's research bureau along with all relevant paperwork, so that the

[844] Ibid.

[845] Ibid.

[846] Ibid., 31-32.

[847] Unno,"Sanshigyō, chagyō kumiai no seiritsu," 807.

research bureau could monitor exports. The inspectors in the research bureau were merely to take a count of the total number of bales of silk and make a preliminary check to ensure all outgoing silk bore the proper seals of local associations.[848] In theory, this procedure would facilitate the gathering of information on silk exports and introduce some minimally intrusive inspections to prevent the export of counterfeit goods. The inspection order would also generate revenue to cover the Central Office's operating costs, because all exporters would have to pay a small fee for the privilege of having their silk "investigated."[849] Mogi Sobee and Ono Mitsukage, two prominent export merchants who had contributed to the planning for the Central Office, protested the order by announcing their refusal to cooperate.[850] The refusal of these representatives of the Yokohama export merchants to join the central association signaled broader opposition from the export merchant community which feared the order would add unnecessary costs and inconveniences to their silk trading activities.

More broadly, the order also sparked an immediate uproar which split many local silk associations into factions supporting and opposing of the Central Office. Nagano's silk association reported in late July that its members were so divided that they could not reach a consensus over whether or not to comply with the order.[851] Differences of opinion stemmed from fundamental disagreements over the purpose of the silk producer associations. These conflicts were evident in the debate that erupted, when Nagano prefecture announced plans to form a prefectural silk association headquarters in accordance with the 1885 *Regulations*.

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[848] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai,"42.

[849] Ibid.

[850] Unno,"Sanshigyō, chagyō kumiai no seiritsu," 811.

[851] Ibid.

Silk producers from areas where the silk industry was less developed looked to the prefectural headquarters to subsidize the activities of their local silk industry associations, establish a training center, and hire traveling silk experts to teach improved silk production techniques.[852] Silk producers in less advanced silk producing regions who were mostly small-scale producers who utilized rudimentary hand operated silk reeling machinery tended to favor a strong Central Office capable of providing additional technical assistance and perhaps provide opportunities to gain higher prices for their silks through engaging in direct trade.

Silk producers from more advanced areas demanded that the Nagano association headquarters play a much more limited role. They balked at the idea of having the association headquarters subsidize the activities of local associations because this aid would require the transfer of funds from more well-funded local associations in advanced silk producing areas to the local associations in less advanced areas. In addition, creating a training center and investing in educational programs would tend to most benefit less advanced silk producing regions.[853] For producers in the advanced silk producing regions who typically owned mechanized silk filatures, a strong Central Office was not necessarily desirable. Owners of mechanized silk filatures were already capable of producing high quality silk which could command a high price in the domestic market. Inspection of silk cargoes, technical assistance, and direct trade were all issues of minor concern for these producers.

Opponents of the Central Silk Association's actions also suspected that the new order was little more than an attempt create a silk inspection system that had been rejected in earlier discussions about the role silk industry associations were to play in the silk industry.

[852] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai,"36.

[853] Ibid.

The vice director of Nagano's association, Satō Hachi, travelled to Tōkyō in July to discuss the issue with the leaders of the leaders of the Central Silk Association Office. Satō objected to the order by arguing that if the Central Silk Association was going to require producers to send silk to its research bureau, the association would have to assume responsibility for warehousing the silk. According to Satō, warehousing silk constituted a commercial activity which was beyond the defined powers of the Central Silk Association. The association countered that since its research bureau would not hold the silk for any significant length of time, the association would not be engaging in the receipt and warehousing of silk.[854]

Finally, growing specialization and structural changes in the silk industry were beginning to cause the silk industry to fragment into groups with competing interests. In the 1870s there were still a number of silk producers who bred and raised their own silkworms, and then boiled and reeled the silkworm's cocoons to produce silk. It was not inconceivable for a peasant family to produce its own silk on a small scale basis. In the 1880s, however, the extension of railroads and telegraph networks and the development of a mechanized reeling industry encouraged specialization. Increasingly peasant households focused solely on raising silk worms and then selling the cocoons to mechanized reelers. Silkworm breeding to supply peasant families with silkworm eggs to rear also emerged as a separate business. The end result of these structural changes was a more fragmented silk industry where the interests of silkworm breeders, silkworm cultivators, and silk reelers began to diverge.

An example of this development was the controversy over "secondary inspections" that local silk associations carried out on cocoons from other localities. Nagano's silkworm breeders were encountering protectionist measures implemented by other prefectures' silk producer associations. On June 30th, 1886, less than a month since the launch of the Central

[854] Ibid., 43.

Silk Association, the local silk producers' association in Gunma informed its counterpart in Nagano that it would subject all silkworm eggs imported from Nagano to careful inspection, even though [855] all silkworm eggs produced in Nagano were already subject to inspection by the prefecture's own local silk associations.[856] An investigation by Nagano's prefectural government into the matter revealed that local silk producer associations in Ibaraki, Saitama, Kanagawa, Niigata, Gifu, and Yamanashi prefectures were also ordering the inspection of silkworm eggs imported from Nagano. The aim was to protect nascent silkworm breeding industries in those regions.[857]

In the 1870s, Nagano's silkworm breeders were the largest source of silkworm egg cards used to raise silkworms and produce cocoons for silk producers in Nagano and many of the surrounding prefectures. In the 1880s, however, new competition arose as silkworm breeding had spread in Gunma, Yamanashi, Saitama, and other regions. At the same time, the creation of local silk producers associations and regulation of the industry provided a perfect tool for local prefectural governments to protect their own silk industries. Using the excuse of attempting to prevent the spread of silkworm diseases, local producer associations could tie up silk from other regions in inspection rooms and frustrate the attempts of merchants from Nagano to bring in silkworm eggs. Nagano silkworm merchants also had to pay a fee

[855] Ibid.

[856] Ōi Takao, "Sanshūgyō no Hatten," in *Nagano-Kenshi*, *Tsūshi-hen*, ed. Nagano-Ken, vol. 7 part 1, (Nagano-shi: Nagano-ken, 1986), 280.

[857] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai," 43.

for the inspections. These inspection fees acted as a tariff on Nagano produced silkworms and served boost the incomes of local silk producer associations in other prefectures.[858]

Nagano's silkworm breeders naturally objected to having their silkworm eggs subjected to secondary inspections. Nagano silk producers were partially successful in lobbying local governments in other prefectures to order the re-inspections to stop, but ultimately they appealed to the Central Silk Association to settle the matter. The Central Office, however, refused to get involved. [859]

Hence, the Central Office came under fire for both being too assertive in requiring inspection of silk for export by the research bureau and being too passive for not preventing the secondary inspection of silkworm eggs. On September 14, the Nagano silk producers' association headquarters called for a general meeting of representatives from local producers' associations in the prefecture to debate how the headquarters should react to the recent actions of the Central Office. At the meeting angry silk producers condemned the Central Office and voted both to declare that Nagano would withdraw from the Central Office and to call for the abolition of the Central Office itself.[860]

The Nagano association headquarters did not immediately make good on its members' decision to withdraw from the Central Silk Office. First the Nagano headquarters dispatched two representatives, Kurashima Shōhei and Shimazu Tadasada, to negotiate with the Central

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[858] Ibid.

[859] Ibid., 43-44.

[860] Ibid., 44-45.

Silk Association.[861] They demanded that the Central Office eliminate its research bureau, reduce the number of its employees, change its funding formula, and move its offices to Yokohama.[862] When the Central Office rejected these demands, the Nagano association headquarters announced it was withdrawing from the Central Silk Association.[863]

The representatives of the Nagano association headquarters explained the reasons for leaving the Central Office in a brief notice.[864] Kurashima and Shimazu's main criticism of the organization was that it was largely a useless body which brought no substantial benefits to silk producers. The Central Office's attempts to inspect silk exports were, the two men argued, little more than a joke. Since export merchants refused to participate in the Central Office, the majority of exported silk did not show up in the Central Office's records. Those statistics reported only a meager amount of silk exported by direct trade firms that supported the Central Office and complied with its regulations. To add insult to injury, silk producers had to pay fees to the Central Association to carry out this worthless investigation.[865] According to Kurashima and Shimazu the Central Office's other activities were equally worthless. Although the Central Office published statistics on various aspects of the silk industry, Kurashima and Shimazu argued the statistics published typically covered

[861] Ibid., 45.

[862] Ibid., 46.

[863] Ibid., 46.

[864] Kurashima Shōhei and Shimazu Tadasada, "Sanshigyō chūō-bu rengō renmei taisa chūisho," in *Nagano-kenshi: kindai shiryōhen*, ed. in Nagano-ken, vol. 5 part 1, *sangyō seisaku sangyō dantai* (Nagano-shi, Nagano-ken, 1980), 735.

[865] Ibid.

information that was either already commonly known or trivial.[866] For example, gaining recent statistics on the monthly increase in mulberry planting was hardly likely to be helpful to most silk producers.[867]

The notice also complained about the Central Silk Office's inaction in dealing with the secondary inspection dispute. One of the Office's key missions was to coordinate policies among local silk producer associations, noted the Nagano representatives, but when a real dispute had arisen the Office had failed to mediate. Silk producer associations in other areas were abusing regulations in order to protect their own local industries and levy, in effect, a protective tariff by demanding re-inspection of silkworms from other regions. The Central Office had proved unable to solve the problem.[868]

In addition to angering members of the Nagano Silk Association, the new requirement for inspection of silk exports by the research bureau prompted the export merchants into action. They encouraged provincial silk producers and dealers to ignore the Central Office's new rules by shipping silk directly to export merchants. Complaining that the Central Office was overstepping its authority, they asked MAC to intervene to maintain freedom of trade in the silk business.[869]

A similar opposition movement flared up in Fukushima. There a prominent silk producer, Sano Rihachi, had worked with local officials to create a silk sellers' cooperative

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[866] Ibid., 736.

[867] Ibid.

[868] Ibid., 735-735.

[869] Unno, "Sanshigyō, chagyō kumiai no seiritsu," 812-813.

for the prefecture.[870] The cooperative would have all silk producers in the prefecture bring their silk to a central warehouse which would handle the sorting and sale of the silk. By selling their silk through a single company, local producers would gain a measure of independence from local silk dealers and avoid paying local merchants commission fees.[871] Several silk dealers in the area protested, because they would lose their business, while small scale producers were concerned about losing the freedom to sell their silk freely.[872] Believing the Central Office was behind the plan for the restrictive rules the prefectural association introduced, silk producers and dealers announced their opposition to the Central Office.

Even in Gunma prefecture where Hoshino and his allies dominated the local silk industry association, a rancorous debate broke out about the role of the Central Silk Association. Hoshino Chōtarō and direct trade advocates represented the "expansionist" faction which argued for stronger rules and regulations to govern the silk industry. On the other side, a group of "reductionists" demanded that the Central Office should scale back its operations and scrap the new rules requiring the "investigation" of silk cargoes.

In an effort to stave off the complete collapse of the Central Office, its leaders decided to use its annual meeting in March, 1887, as a platform to smooth over the emerging divides in the industry.[873] Representatives of the local silk industry associations discussed changes in the Central Silk Association's structure and mission. At the meeting, the Nagano and Yokohama local silk associations agreed to rejoin the Central Silk Association, in return

[870] Ibid., 813-814.

[871] Ibid., 814.

[872] Ibid., 816.

[873] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai,"46.

for the abolition of the association's research bureau, a major reduction in the association's budget, and a restructuring of the association to give a greater voice to representatives of local silk associations from Nagano, Yokohama and Fukushima.[874] After these changes, the Central Silk Association's activities were essentially limited to publishing a monthly newsletter.[875]

If advocates of tighter regulation by a powerful central association had lost their battle, some were unwilling to give up their dream. They made one last effort to realize their ambitions. This time, however, they did not aim to change the national organization, but instead sought to convince the government to rewrite the rules of governing the local silk associations. In February, 1888, the representative of the Yamanashi prefecture silk associations proposed new rules to control the silk industry.[876] In particular, he wanted regulations to force all silk producers to join local associations and he wanted uniformity in the regulations of local associations.[877] Since MAC had to approve the changes in the regulations, the ministry, under the leadership of Inoue Kaoru, convened a conference of silk producers and merchants in October, 1888, to discuss possible reforms.

Although Inoue was a staunch advocate of the idea of "self-government" and an economic liberal by inclination, the tone of his speech suggested that he hoped to persuade the participants at the meeting to agree to stronger regulation. Inoue invited the assembled guests to express their candid opinions regarding the utility of silk associations, but reminded

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[874] Ibid.

[875] Ibid., 47.

[876] Ibid.

[877] Ibid.

them that their trade was vital to the nation's future. He hinted that France's recent conquests in Southeast Asia would mean Japan's silk producers would soon face more competition from Southeast Asian produced silk in the French market. He complained that it was nearly impossible to obtain silk of a uniform and consistent quality in Japan and those who engaged in sericulture often took up the trade "rashly" without a clear understanding of how to cultivate quality silk. While stopping short of either advocating or opposing stronger regulations, Inoue implied that the domestic silk trade needed to be more rationally organized and supervised.[878]

Subsequent debate between silk producers and merchants in the MAC conference displayed a clear split between three different factions. One group demanded complete freedom of trade and the abolition of all rules and regulations governing the local silk associations. The second group argued for the status quo with just minor changes to the rules. A third group insisted on new rules which would strengthen the regulation of industry associations.[879] Many members recognized the unfeasibility of total uniformity of regulations because they needed to take into account different conditions in different regions.

Inoue's response was ambivalent. In line with his opening remarks, he stated that "reducing government interference and leaving [regulation] up to the regions is theoretically most preferable…but it is not yet time to entrust things to local government…the regulations should stay in place with some revision." Yet the following day Inoue appeared to completely reverse his previous decision by indicating that any government interference

[878] "Notes,"*Japan Weekly Mail* (Yokohama), 27 October, 1888 (reprint, *The Japan Weekly Mail*, vol. 43, Tōkyō: Edition Synapse, 2006), 387.

[879] Kamiyama, "Meiji zenki ni okeru dōgyōsha soshikika seisaku no tenkai,"47.

would be futile unless members of the silk industry could agree on general policies. He then recommended replacing all of the current rules.[880]

After the conference, MAC weakened the rules governing local associations. The changes introduced by MAC, however, did little to stem the tide of opposition to the Central Silk Office. While supporters of regulation had attempted to enlist MAC's support, the effort failed, as the rebellion against regulation and local industry associations flared back up.

Resistance to the local silk industry association, for example, had been growing in Nagano. In addition to grievances of silk breeders over attempts by local silk industry associations in other prefectures to use regulations as a protectionist weapon to prevent the inflow of Nagano produced silkworm eggs, managers of mechanized silk filatures were also finding regulations burdensome. Rules designed to restrict the movement of labor and prevent silk reelers from poaching skilled labor from one another hampered the ability of larger producers to procure workers. Some of the larger mechanized silk producers in the Suwa district of Nagano now banded together to demand the abolition of the local silk industry association. The large manufacturers complained that it was largely staffed by overpaid and incompetent bureaucrats, that inspection of silk by the local association was little more than a revenue raising device which did little to prevent low quality silk from entering the market, and that the silk industry organization simply could not represent the very different needs and interests of what was, in fact, a diverse industry.[881] Opposition to local industry organizations and regulation from large-scale mechanized reelers was a sign of the changing nature of the business in the 1880s. Increasingly, large scale reelers were

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[880] Ibid., 48.

[881] Ibid.

succeeding in establishing direct contacts with the Yokohama export merchants and eliminating the intermediation of local silk dealers. These large-scale silk reelers were now more confident in their own ability to produce high quality silk and were not interested in inviting a new intermediary organization to complicate their business.[882]

At the same time, silk worm breeders began a campaign to eliminate both the Central Office and all national rules governing silk associations all together. In March of 1888, silk breeders in the Koken district of Nagano prefecture invited prominent liberal economists and journalists Taguchi Ukichi and Ban Naonosuke as guest speakers in what was billed as a "Gathering of Shinshū Silk Industry Tradesmen." The two men gave speeches calling for the abolition of both the Central Silk Association and all rules governing the operation of local industry associations.[883] At the same gathering silkworm breeders proposed the division of the local silk industry association into separate groups for silkworm breeders, sericulturists, and silk reelers.[884]

Dissatisfaction with industry regulations and industry associations reached a fever pitch at the annual meeting of the Central Silk Association in February, 1889. During discussion of the association's projected budget, one of the representatives from the Nagano silk industry abruptly proposed that the members of the association vote to dissolve both the association and the rules governing associations. After several days of debate, an overwhelming majority of the association's members voted to abolish the organization. The

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[882] Ibid., 49.

[883] Ibid.

[884] Ibid.

final vote was 45 in favor of abolishing the association versus a mere 3 votes against dissolution.[885]

The abolition of the Central Silk Association spelled the effective end of an almost decade long fight to organize and regulate the industry. Although MAC declared that the Central Silk Association was not empowered to abolish itself, the ministry did nothing to force the rebellious silk tradesmen to revive the organization. Without a central association, the national rules governing local silk associations essentially became a dead letter.[886] The collapse of local associations soon followed. In April, 1889, Nagano prefecture accepted a proposal submitted by local silk producers to abolish both the local silk association and the prefectural rules governing the silk trade. The old regulations were replaced with a new set of regulations designed only to regulate the activities of voluntary associations.[887]

In the wake of the fall of the Central Silk Association, advocates of silk regulation now moved to form their own voluntary association. Hoshino Chōtarō and likeminded silk producers created the Central Silk Industry Association (*Sanshigyō Chūō Kyōkai*) in 1891and the Association for the Promotion of the Silk Industry (*Sanshigyō Shinkōkai*) in 1892.[888] Both organizations sought to bring members of the silk industry together in a unified body, but both organizations were voluntary and largely composed of Hoshino's allies.[889]

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[885] Ibid., 50.

[886] Ibid.

[887] Ibid.

[888] Unno,"Sanshigyō, chagyō kumiai no seiritsu," 819.

[889] Ibid.

The dissolution of the Central Silk Association marked the end of a distinctive era in Japan's commercial policy. In 1889 the government promulgated a new constitution and announced plans to create an elected legislative body, the Diet, which would henceforth exercise the power to make laws and assume control over taxation and government spending. The creation of the Diet did not end all of the authoritarian aspects of the early Meiji state, but it did make an elected legislative body the center of policymaking. From 1890 onward economic policy would become even more intimately intertwined with politics. The creation of the Diet would change the direct trade movement dramatically. No longer would Hoshino Chōtaro and advocates of direct trade simply be lobbying government ministers. Instead they would be addressing a wider group of law makers representing the elite upper-crust of the Japanese public in an arena where they were forced to compete with other conflicting interests. All interest groups now had to attempt to justify themselves in terms of the greater national welfare and find ways to appeal to other groups that may not share their own concerns.

In another sense, the collapse of the Central Silk Association also marked the end of the road for advocates of direct trade. With the collapse of direct trade firms, the elimination of the Yokohama Specie Bank cargo loan program, the failure of the cooperative movement, and the dissolution of any hopes of using the Meiji government's push to create producer associations and regulate the silk industry to revive the support for direct trade policies, direct trade advocates had faced nothing but setbacks. Having exhausted all avenues of direct appeals to the central authorities, the movement toward direct trade in the private sector came to center on a small circle of dedicated ideologues, such as such as Hoshino Chōtarō.

Conclusion

The story of the direct trade movement from its birth to its untimely death provides a window through which one can glimpse the nature of economic policy-making in Meiji Japan and an important moment in the development of the modern Japanese state and society. Viewed in a certain light, the picture that emerges from a careful examination of the impact of shifts in commercial policy and the direct trade movement on Japan's all-important silk industry is dismal. The history of the commercial practices and policies pursued by both bureaucrats and businessmen from 1868 to the mid-1880s is marked less by brilliant successes of either the state or market, and more by continuous setbacks, trips down blind alleys, and failure. Important decisions evolved in an *ad-hoc* and haphazard fashion. In some instances, a few well connected businessmen or intellectual figures with the right connections could easily sway government officials to change their policies. In addition, a romantic nationalism and desire to obtain equality with the Western powers in trade clouded the judgment of leaders in business and government in leading them to pursue an unrealistic policy of promoting direct trade.

A more positive assessment, however, is also possible. Despite setbacks a young and inexperienced regime was active and flexible when it came to finding an effective commercial policy. Officials constantly sought out new opportunities to improve the position of the nation's exports and felt little shame in making policy reversals when necessary. Government officials were receptive to new ideas from businessmen and intellectuals and were willing to work with those in the private sector to create new institutions and experiment with bold new policies. Concerns about foreign threats to the nation's independence infused officials and businessmen with a sense of urgency and purpose. For those in business and government who participated in the direct trade movement and even for those who did not, the goals of commercial policies went beyond commerce to become part of an effort to ensure the survival of the nation itself. In the midst of many setbacks, failures, and struggles, small achievements laid the foundation for future economic success. The creation of the Yokohama Specie Bank and its transformation from a "silver bank" to a trade bank which dominated currency exchanges necessary to maintain Japan's foreign trade is one example of this process.

These two differing views are not necessarily incompatible. Arguably, a state that takes an active role in the economy and is flexible in its policy responses to economic problems is by definition one that may oftentimes act in an *ad-hoc* and haphazard fashion. As the Austrian economist Joseph Schumpeter noted, capitalist economies are always experiencing "creative destruction," and economic conditions are constantly changing. This volatility held doubly true for the early Meiji period when the Japanese economy experienced rapid change stemming from the abolition of Tokugawa era restrictions on economic activity, increasing integration of the various regions of the country into a single national market, and adjustments accompanying deeper commercial ties with the outside world. This era of dramatic change created a constant flurry of activity on the part of government officials who were trying to react to new developments in the economy. In attempting to navigate their way through an era of radical change, these officials had no choice but to adopt a flexible and improvisational attitude toward economic policy.

What enabled this state to play an active role in the economy while maintaining a flexible stance on commercial policy? The answer is twofold. Meiji leaders believed they were living in a brutally Darwinian world. They perceived that Japan had entered into a merciless arena of imperial and economic competition where only the strong would survive. The state and business had to adapt to the new order or face extinction as an independent polity. This sense of crisis encouraged both activism but also pragmatism. Officials felt compelled to intervene in the economy, but if certain commercial or economic policies failed to yield results they were eventually abandoned.

At the beginning of the Meiji era survival meant creating a relatively stable national economy and ensuring the central government had sufficient revenue to establish its authority over the country and thwart potential foreign predators. In the first few years of the Meiji period direct trade with foreign countries was primarily a way of generating revenue for the Meiji government and gaining much needed hard currency to pay back foreign loans that had been incurred by the Tokugawa regime and the various daimyō prior to the Meiji period and the bonds the Meiji government had floated in London to fund the construction of Japan's first railway. Fiscal concerns drove economic policy and the direct trade ventures sponsored by the government aimed to obtain currency abroad.

By the mid-1870s, with consistent foreign trade deficits and domestic inflation plaguing Japan, direct trade attracted support as a method of stabilizing the currency. For Ōkuma Shigenobu and Maeda Masana, direct trade was the only short term way to increase the inflow of specie into Japan in order to strengthen the yen. For Maeda Masana direct trade was also the only way to save traditional Japanese rural industries which he believed were suffering under the control of foreign merchants. Only through direct trade could Japanese producers break free of foreign control and avoid total collapse.

After the United Silk Storing Company Incident, government policy took a radical turn away from the fiscally expansive policies of Ōkuma Shigenobu. Yet this transformation happened not because the Meiji leadership had a change of heart over the direction of economic policy, but rather because officials had to adapt to survive. This pragmatic approach was manifest in Matsukata's attitude toward the cargo loan program at the Yokohama Specie Bank. Far from abolishing these subsidies for exporters, Matsukata continued them. It was only once they proved ineffective that he abandoned them in favor of lending to foreigners; in turn, those loans to foreign firms only continued because the program proved to be profitable for the bank and brought in specie which allowed a return to a convertible currency.

Similarly, Japanese entrepreneurs in the Meiji believed they faced a battle for survival in a rapidly changing economic environment. With the opening of the ports in 1858 Japan began a painful process of full integration into a larger world economy which entailed tremendous economic change. Entrepreneurs struggled to discern and profit from the waves of economic change and protect their livelihoods and prosperity. One example of such an entrepreneur is Hoshino Chōtarō, a man who wagered his family's declining fortune on the silk business. For Hoshino direct trade was a long shot last hope to keep his business afloat that just happened to work in his case. Hoshino's lifelong commitment to the promotion of direct trade was, in some respects, a largely irrational attempt to cling onto a successful strategy that had proved to work once before.

Similarly the cooperative movement in the silk industry was a campaign by silk producers in less advanced silk producing areas motivated by a desire to survive and thrive in a changing economy. Small scale silk producers banded together to share common facilities to export their silks abroad and earn a higher rate of profit. They also worked together to attempt to improve the quality of locally produced silks to prevent low quality goods from being exported and ensure the continued demand for Japanese produced silks abroad.

Direct trading firms were also bold experiments for entrepreneurs to succeed in the new economy. The Mitsui house founded the Mitsui Trade Company as part of an attempt to re-invent itself and guarantee its continued prosperity in a new era. Although one might assume this was merely part of a shrewd pursuit of profit, Mitsui opened its new unit at a time of profound crisis when it appeared the family's business was on the brink of collapse. The success of the Mitsui Trade Company was, much like Hoshino's direct trade ventures, an adaptation that happened to work.

Other direct trading companies were also efforts to adapt and prosper in a new era of international trade, but were less successful. Companies like the Trade Company (Bōeki Kaisha) or the Fusō Trading Company were founded by ambitious businessmen with foreign experience or education in modern management techniques on the premise that their superior training and experience would give their firms an edge when it came to engaging in foreign trade. These executives anticipated, too, rich profits were waiting for the taking once a Japanese firm was able to engage in direct trade.

The observation that the actions of Meiji businessmen and entrepreneurs resulted from a deep sense of urgency and worries about survival also helps us to understand the ideological underpinnings of economic policy making in the early Meiji period and the worldview of direct trade advocates in particular. Meiji leaders and businessmen believed themselves to be engaged in a life and death competition with the Western powers where the very existence of Japan as an independent polity was at stake. In commercial policy direct trade advocates viewed the predominance of foreign merchant firms in Japan's overseas trade as harmful to the future health and continued independence of the state itself. Only the restoration of Japan's "commercial rights," the control over the nation's trade which all independent countries claimed, would assure Japan's independence. Only the existence of such a mentality can explain the case of the United Silk Storing incident where a mundane commercial dispute between Japanese and foreign merchants developed into a national crisis.

If Japanese economic policy can be characterized as activist, yet haphazard, and flexible, yet pragmatic, the economic policy making process itself was unorganized and chaotic. A relative lack of firmly established institutions and procedures prevented the Meiji government from undertaking the coherent and focused planning of economic development that Chalmers Johnson argued was the hallmark of the "plan-rational," "developmental state." On the other hand, the relative lack of established institutions or procedures for forging economic policy might have had the advantage of allowing officials and bureaucrats to maintain flexibility in their approach to economic policy. Because input from outsiders with the right connections could easily influence government officials and policies, officials could implement ideas from businessmen without having to go through a process of negotiation with other interest groups. In short, it was a period in which bold experimentation was possible to an unusual extent. This ability to experiment helped Meiji leaders discover effective economic policies.

If the story of commercial policy and the direct trade movement teaches us anything about the character of the Meiji Japan, it is that the Meiji state was simultaneously autocratic, pluralistic, and porous. With a small circle of oligarchs essentially ruling by fiat, ostensibly in the Emperor's name, the Meiji government prior to 1890 was not a democracy. It was, however, a pluralistic state that tolerated different interests and ideas and competition between them. This pluralism or openness to different ideas allowed economic experimentation to occur and helped lead to economic successes. The Meiji state was also porous in the sense that it yielded readily to influence from the private sector. Well-connected businessmen, intellectuals, or journalists were able to shape the direction of government policy through direct appeals to prominent government officials. Masuda was able to convince the government to subsidize a scheme that would allow the Mitsui Trading Company to export coal to Shanghai. In a similar vein, Fukuzawa Yukichi was able to convince Ōkuma Shigenobu to back the creation of the privately owned Yokohama Specie Bank and abandon preliminary plans to create a government owned trade bank. Again this circumstance lent flexibility to economic policy that the times required.

Decisions on economic policy were subject to developments beyond the control of entrepreneurs, such as shifts in the market. The growth of the American silk industry in the late nineteenth century made Hoshino's dreams of direct trade possible and began a long process of change in Japan's silk industry to fully exploit the new American demand. Sudden changes in fiscal policy could cause officials and businessmen to discard trade policies. As Matsukata's deflationary policies made generous state subsidies for industry more difficult in the early 1880s, other officials abandoned support for direct trade and throttled the private momentum for direct trade.

To argue that the process of economic policy making in early Meiji Japan was chaotic does not imply that it was ineffective. Even if the economic policy making never achieved anything resembling steady incremental improvements or some sort of institutional learning, the process of competition and contestation played a positive role in the Meiji state's economic successes. Contestation and competition required both the state and the private sector to remain adaptable and flexible in their approach to economic problems. Since no ideological camp or interest group ever triumphed for long in debates over economic policy, it often took the most pragmatic middle road. Constant contestation and competition also helped in creating effective economic policies, not through an orderly process of trial-and-error refinement, but rather through a blind hit-and-miss approach which generated many failures and a few successes.

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