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INDEMNITY CONSIDERATION IN JAPANESE FINANCIAL POLICY AFTER SINO-JAPANESE WAR OF 1894–95

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1. INTRODUCTION—FOCUS OF PROBLEMS AND OUR STANDPOINT

The Sino-Japanese Peace Treaty signed in Shimonoseki on April 17,1895, included a provision that the Empire of China should pay indemnity amounting to 200,000,000 taels to Japan. Besides, China agreed later to pay 30,000,000 taels for Japan's relinquishment on May 5, 1895, of the Liaotung Peninsula which was ceded to Japan by the Treaty, but forced on April 23, 1895, by Russia, Germany and France to return. Thus, on May 8, 1895, the Japanese government under the second Ito Cabinet exchanged a ratification instrument with China; in July it started negotiating with China so that the total of 230,000,000 taels should be paid in British currency, namely, £ 37,836,127. At last, with the signing of a protocol in London in October, 1895, the negotiation came to an end in favor of Japan.

Accordingly, having obtained the loan from European countries (mainly Great Britain, Germany, France and Russia), China paid the 200,000,000 taels in four installments: £ 8,225,245 in October, 1895; the same amount in May, 1896; £ 2,741,748 in May, 1897; the rest in May, 1898. All the interests upon these four installments were also incorporated into the principal by means of the provisions of the Treaty. Meanwhile, China paid all of the 30,000,000 taels in pound sterling for the Liaotung Peninsula in November, 1895. Then, the total sum of indemnity including various investment reached an equivalent of 364,509,656 yen, which was equal to about three times the annual national budget in those days, or to about 3.8 times the annual current revenue in the fiscal year 1895. Indeed incalculable was the importance of an influence on Japanese capitalism of such a fact that the sum of indemnity was so immense and moreover it was paid in pound sterling. For instance, we can see a markedly significant role played in the establishment of Japanese capitalism from the well-known switch of Japan over to a gold-standard country by the monetary law enacted in March and enforced in October, 1897, which was made possible by the indemnity from China.

This study is to reexamine the relations between the indemnity and development of Japanese capitalism in the light of some decision-making processes with a historically great importance in the economic policy, or politics. It is because such vast indemnity that amounted to about three times the annual national budget in those days would make, as a result, in the working out of a plan for using them, are decisively important political task. Then, we are called on to look into when and how the plan was decided, what class had the greatest interest, what characteristics the determining body had, and so on.

2. THE CONTROVERSY ON INDEMNITY ASSIGNMENT FROM THE BOURGEOISIE'S SIDE

Whereas April 17, 1895, is the date of signing of the Sino-Japanese Peace Treaty, the demand for indemnity from China constituted one of Japan's fundamental terms for it. It was in October, 1894, that Great Britain sounded out on Japan's opinion about making peace with China and Japan reacted to it immediately, agreeing to start peace talks. It took much time, however, for the Japanese government to come up with a definitive figure of indemnity. Then, 300 million taels was made public for the first time in the Peace Treaty Draft dated April 1, 1895, the figure having been considered, as a matter of fact, as uncertain, depending on the development of the peace talks. So, until the amount became firm, a plan for how to use the indemnity did not come to the fore on the part of the government.

Outside of the government, on the other hand, among members of political parties and businessmen, the utilization of indemnity came into question from a rather early time on because a variety of conceptions and opinions were published in newspapers and journals. The first among them would be a tentative draft of utilization of indemnity presented by Taketomi in an article entitled "The Increasing Burden to the People" and contributed to *Kokumin no Tomo* (People's Friend), No. 250, issued on April 13, 1895, prior to the signing of the Peace Treaty. He was a member of the Constitutional Progressive Party and one of the authorities on financial affairs of the Party (Director of the Bureau of Commerce and Industry, the Ministry of Agriculture and Commerce, and Finance Minister later).

According to his estimate, on the supposition that China would pay 30 to 50 million yen annually as indemnity in installments for a long time to come, the first project should be the repayment of war bonds, pension allowances for the fallen soldiers and the invalids, reward annuities for persons of distinguished war services, and then the following projects should be financed: (1) To construct "two or three universities"; (2) To hold a world exposition to inform peoples of the world of the real conditions in Japan as

a victor; (3) To construct an edifice in commemoration of a triumphal return; (4) To construct the Diet building. At the end, Taketomi proposed issuing national debts on mortgage of the annuity from the indemnities for repairing railways, rivers and harbors. Worth noticing in what he argued here is that the annual revenue from the monopoly of tabacco and the amended taxation on liquors would be sufficient to cover an increase in national finance in the postwar time which was understood as an inevitable result of various projects necessitated by the military expansionism; for instance, the establishment of steel foundries, the extension of navigation, protection of shipping, sailor training, and so on, as shown by an increase of 22 million yen in the first fiscal year over the preceding year. Appropriation of indemnity for items allowing military expansion never occurred to his mind from the beginning. To Taketomi indemnity should be appropriated mainly for such temporary expenditure items as helpful to pursue a policy to accommodate to the postwar state of affairs, war commemoration projects, and so on.

Taketomi's opinion seems representative of the concept entertained by the Constitutional Progressive Party concerning ways to go about the indemnity, for soon Shigenobu Ohkuma, the President of the Constitutional Progressive Party, also expressed his opinion, similar to Taketomi's, to a reporter of *Tokyo Keizai Zasshi* (Tokyo Economic Journal). The following is Ohkuma's words: "Since indemnity is an extra income by nature, I hesitate to divert them to the current expenses because the current revenue should not cover permanent outlays for several divisions of army located in the newly obtained territories such as a part of Mukdin Province and the Pescadoves Islands of Formosa, for a large number of warships in the new territorial waters, and for the defense of land and sea against the enemy." As to the utilization of the indemnity Ohkuma, who made an excuse for it as a sudden idea, presented the following plan, estimating the amount of indemnity at 280 million yen in Japanese currency: first, 100 million yen on expenses to purchase foreign bonds (saving in the National Treasury as extra funds), 30 million yen on repayment of war bonds borrowed from the Bank of Japan, and on expenses which will cover a world exposition, fundamental properties of imperial and other universities, fundamental properties of municipalities, and so on. They, Taketomi and Ohkuma, somewhat different from each other in approach, agreed basically. But let us add a difference between the two, which is worth noticing: to Taketomi the repayment of war bonds is the first thing to do, while to Ohkuma war bonds at the value of 80 million yen are better to be left unredeemed; otherwise, are better to be repayed not once but little by little.

Shigenobu Ohkuma's talk with the reporter was published in Apirl,

1895, immediately after the signing of the Peace Treaty; next May, *Tokyo Nichinichi Shinbun* (Tokyo Daily Newspaper) said in its editorial, "Indemnity amounting to 300 million yen will be destined to dry up in three or four years as a result of the continuing excessive imports; so, our vital and pressing task is to expand foreign trade by promoting commerce and industry in this country as well as to expand the military. Thus, the most needed now is to expand the credit of the Bank of Japan on a solid foundation of gold reserve through the influx of foreign capital." At a social meeting of bankers concerned, June 27 1895, Tatsuo Yamamoto, Director of Business Bureau of the Bank of Japan, made public a policy to raise a loan of the Bank of Japan from the standpoint of "enterprising spirit"; he made indirect comments on the Agriculture and Commerce Ministry's view warning of a panic as well as controlling speculative activities. Consequently, with the Bank of Japan's reduction in official discount rate on July 12 the postwar economy entered the phase of prosperity. The editorial article of *Tokyo Nichinichi Shinbun* (Tokyo Daily Newspaper) is worth noticing because of its appeal to the measure to be taken by the Bank of Japan from the early time and also concerning its insistence on military expansion and export promotion as an inseparable political tactic. In June *Tokyo Keizai Zasshi* (Tokyo Economic Journal) discussed the issue of indemnity in the editorial entitled "The Summary of the Postwar Fiscal Programme."[13] About this time the government started discussing the concrete utilization programme of the indemnity, which we will take up later. Let us continue to follow up, for a while, the plan and the discussion outside the government.

The following is a summary of the editorial of *Tokyo Keizai Zasshi* (Tokyo Economic Journal) dated June 15, 1895: 1) Military expansion, the most preferred among the indemnity utilization projects, if in excessive, would be almost impossible because of the heavy cost of maintenance of expanded armaments; 2) There is no objection to appropriate indemnities for the railway construction, but, first of all, to make civilian funds abundant by the repayment of war bonds with a part of indemnities is the most effective and suitable for developing new projects of railways and so on, as well as for reducing annual expenditure, a consequent result of military expansion; 3) Protective projects relying on indemnities should not be projected so that the indemnities should be prevented from being wasted. The protective projects would be a policy to promote navigation and shipbuilding, but is not clear at all. Anyway, the editorial, compared with Tokimasa Taketomi and Shigenobu Ohkuma's opinions, is characterized by the following two points; 1) The appropriation of indemnity for military expansion is justifiable to some extent, although the excess of the amount should be warned against; 2) The appropriation of indemnity for the repayment of war bonds is

insisted on positively.

From the discussion introduced later, we can see that the appropriation of some indemnity for military expansion which neither Ohkuma nor Taketomi thought of, became a very popular idea at this time, reflecting the new situation after *the Triple Intervention* and the spread of the notion in favor of military expansion among those who look on Russia as a potential enemy. As to the issue about refunding the war bond with the indemnity, let us leave it later in connection with the main point of the discussion about utilization of indemnities.

On the day that *Tokyo Keizai Zasshi* (Tokyo Economic Journal) carried the editorial Saburo Ozaki (Ex-Director of the Bureau of Legislation : a member of the House of Peers in those days) gave a lecture to the Economists Association entitled "The Fiscal Policy Hereafter, where he announced a concrete indemnity utilization plan in detail, described the specific amounts of money by expenditure items. The content is given in Table 1. The total amount of indemnity is calculated to be about 330 million yen, including interests ; 39% of the total is appropriated for military expansion expenses, and 24% for expenses covering repayment of war bonds. The noticeable points here are that all of the war bonds are to be repayed with indemnity and that only one third of indemnity is appropriated for military expansion expenses. He said, "The deficit of military expansion expenses would be made up for with the temporary income, for example, national defense loans." His plan is similar in essence to the foregoing editorial, which suggested repayment of war bonds with indemnity warning against the excess in an appropriation for military expansion.

TABLE 1. MITSUYOSHI OZAKI'S INDEMNITY UTILIZATION PROGRAM

(in 1,000 yen)

War Bond Repayment.	80,000
Reimbursement of Loans from the Bank of Japan.	36,000
War Bonds, Interests of Loans from the Bank of Japan.	8,000
Expenses for Formosa. (Including a Part of Warship Repairing Expenses)	30,000
Emergency Military Expenses. (Reimbursement for the Surplus of the National Treasury)	22,000
Pension for the Distinguished Services in War, Annuity for Soldiers, Funds for the Allowance to the Fallen in Battle.	20,000
Supplement of Weihaiwei Occupation Costs.	4,500
Military Expansion Expenses.	131375
Total	331,875

Source : No. 781, *Tokyo Keizai Zasshi.*

One of the reasons supporting repayment of war bonds is that expenses needed for the Sino-Japanese War were covered by public loans by "patriotic chivalry." The view, considering the date of the editorial, June 15, 1895, was to change with the subsequent development of the postwar economy. For despite the signing of the Peace Treaty earlier, Japan was forced later to restore the Liaotung Peninsula to China by the Triple Intervention and business in Japan was still depressed, which was the main reason for repayment of war bonds.

The economy was, as mentioned before, soon improved by the raising of loans and the reduction of official discount rate by the Bank of Japan, which anticipated an inflow of indemnity money; obviously after August the economy entered the phase of prosperity, whereupon the question about repayment of war bonds became an important one among people in the private sector in connection with later discussions on how to use indemnities.

Tameyuki Amano said in an article entitled "the Indemnity Problem," which he contributed to the first edition of *Tokyo Keizai Shimpo* (The Oriental Economist) in November, 1895, as follows: "I agree almost fully to the opinion that a half and more of indemnities should be appropriated for armaments and the remainder for other uses, for example, (1) purchasing foreign loans and (2) repaying domestic public loans, the latter bringing great profits leading to capital repletion and industrial promotion, which is most needed at this time."

Toyojiro Kotegawa showed a conservative attitude toward the question of repayment of war bonds in his article entitled "the Indemnity Problem," which was carried in the same Journal (Vols. 2 and 3) as follows: "Objecting to an excessive military expansion, as a matter of immediate attention, I argue that too large emergency expenses on armaments, due to the unbearable cost of maintenance, should be moderated through the sufficient consideration to be given to proportions of other expenditures .... Though nobody objects to repayment of war bonds with indemnity, I am far from agreeing to repayment of war bonds, disregarding the period of deferment is set at naught for the purpose of animating the depressed market. Should the government need a solid financial foundation, it should not make an effort to carry out a war bond contract. With the lapse of time its redemption will become possible by examining the market situations. To strengthen the financial foundation it should not make an effort now to execute the contract hurriedly, but the full payment of war bonds will become possible for the first time upon examination of the market situation at the expiration of the term of deferment.

The editorial of *Jiji Shinpo* (Current Journal) in the same month adopted the following negative attitude: "The Japanese government, which already

received indemnity of 80 million taels from the Empire of China, would anyhow decide on various uses of the indemnity at the coming diet session, and it is our present request that the resultant decision does not disturb the domestic economy. Some insist on the use of indemnities for public loans in order that the money market may be animated and commercial and industrial development be improved, which is entirely based on a misunderstanding of the current state of economy. The present dull money market represented by a sharp rise in prices and extremely low interest rates; for instance, even a public loan to bear interest at 5% with face value at 100 yen is valued at more than 103 yen now, various kinds of projects are increasing in number, and business is in the prosperous state, all of which prove affluence in capital. Much more expansion of capital through the import of an untimely large amount of money brings about ruin, just as a drunken man is forced to drink more wine. Many projects include those related to naval expansion, urgent business at present, which is afoot with ordering of warships and purchase of canons and other armaments as well as construction of railways of Hokkaido and Nakasendo, making the Tokaido line double-track, installment of the nationwide network of telephones, and so no; therefore, indemnities should be diverted first to these projects."

The foregoing describes the background of the thoughts favoring the repayment of war bonds after August, 1895, at which time the economy was prosperous, which was rather different from the state in June; so it is natural that thoughts antagonizing the repayment of war bonds came about later in the year. Eiichi Shibusawa, President of the Tokyo Chamber of Commerce, was one of the antagonists; he said to a reporter of *Tokyo Keizai Shinpo* (The Oriental Economist) then (about November), "I am the last to support repayment of war bonds with indemnity." Meanwhile, Michinari Suenobu of Meiji Life Insurance Company, one of the businessmen in the same period was against Shibusawa's opinion. He said, "As national property indemnity money is far from safe even a day as it is in such a remote place; it may well be transferred to Japan immediately; now that indemnities of 100 million yen and more have been transferred here, the government does not need to think of any other good idea than repaying national debts by dividing them twice according to an ordinary way." The thoughts supporting the the repayment of war bonds including the aforementioned argument of Tameyuki Amano continued to exist firmly.

A description has been given so far of proposals and opinions expressed in newspapers and journals in those days concerning how to utilize indemnity from China. Discussions devoted thereto are characterized by the following two points: The argument in favor of using a large portion of

indemnities to expand armaments, which was forbidden before and after the decision on acquisition of indemnity, the portion being 39% and 50% according to Ozaki Saburo and Tameyuki Amano, respectively; the argument opposing it came to the fore as an important point of disputes concerning the question of what to do with the indemnities.

Meanwhile, the second point is that the opposition to using the indemnities for expanding armaments indicated the degree of concern of the bourgeoisie who expected a direct effect of indemnities on the national economy.

The first war bond totalling, 30 million yen out of 50 million yen which was the legal amount was raised according to "the war bond regulations" of the extraordinary imperial ordinance dated August 16, 1894. Then, the second war bond was raised according to the 25th Article of the law dated October 24, 1894, the legal and the capital amount having been 100 million yen and 500 million yen, respectively.

TABLE 2. SUBSCRIPTION TO WAR BONDS

	The First Time (The Amount of Bonds) 30,000,000 yen		The Second Time (The Amount of Bonds) 30,000,000 yen	
	The Number of Bond Subscriptions	Amount	The Number of Bond Subscriptions	Amount
Government Offices	38	425,550	94	631,400
Banks & Companies	720	34,747,050	1,019	37,955,750
Unions of Cities, Towns & Villages	1,124	678	1,418	621,500
Schools	100	43,200	111 111	30,900 30,900
Hospitals	2	400	0	7,550
Shrines & Temples	141	702,100	238	847,000
Individuals	116,890	40,456,850	170,163	50,197,800
Foreigners	0	0	3	9,400
Total	119,015	76,375,828	173,051	90,301,800

Source: The Financial Management Bureau of the Finance Ministry, "*An Outline of History of National Debts*, Vol. 2, pp. 533–534. As for the war bonds firstly subscribed, the total entered herein differs from the official total, 77,002,650 yen.

The condition of both war bonds was that they are unredeemable for the first five years and redeemable subsequently within the 50 years, the interest rate being 5%. The amount was so unprecedentedly large that the government had to ask prefects and governors, bankers, and people to subscribe for bonds by the name of patriotic chivalry. Despite that how to use the indemnities became an issue of topical interest in the newspapers

and journals, little data are available about those who acquired the bonds. Hard as it is to make a survey of them, we can learn from Table 2 that subscribers were mostly banks and companies and rather wealthy individuals, because concerning the first war bond subscribers were chosen on the basis of the amount of bonds they ordered in case in which the total amount ordered surpassed the amount to be issued.

What we can say from this situation of the possession of war bonds is that it is no wonder that the bourgeoisie expected the repayment of war bonds for prompt redemption, which constitutes a solid foundation for the proponents of repayment of the war bonds. Then, what is a foundation for the antagonists? Their stand was undoubtedly influenced by business improvement after August, 1895; so, it is characterized by their having no special plan on using indemnity. Even a plan for going about the indemnities in the editorial of *Jiji Shinpo* (Current Journal) is no better than a common-sense project. We can find it easy to read the bourgeoisie's demand for repayment of the war bonds but difficult to read the class-interests of the bourgeoisie not in favor of the repayment.

Indeed, it would be one-sided to explain all the above-mentioned arguments and plans only in relation with interests of capital the bourgeoisie. Then, why shouldn't we investigate the bourgeoisie's demand from the point of view of the Chamber of Commerce, which exemplified the business sector in those days? It was in the fourth meeting of the National Association of the Chambers of Commerce held, beginning September 25 (closed on September 29), that the association showed its first concern about the use of the indemnities from China. During the session on the second day, the Tokyo Chamber of Commerce presented the following bill: For the adjustment of the postwar economy and the promotion of national prosperity, each Chamber of Commerce should undertake the following:

1) To investigate the postwar economic condition and decide the future policy;
1) To set up the practical opinions to work out the above policy, and submit a proposal and a petition to the authorities, or otherwise make it public to the world;
1) To consult with the Chamber of Commerce and ask for their approval if necessary.

As to the reason for proposing the bill Eiichi Shibusawa said, "The postwar economy calls for the utmost care; the imposition of taxes upon people, a new source of taxation, is indispensable especially to military expansion in the future; at the same time, it goes without saying that the development of the nation is indispensable, too. Therefore, be careful not to take a mistaken step in the adjustment of the postwar economy, and since the

ill disposal of indemnities brings about a cataclysm in the economy, it is important to turn people's attention away from armaments to the cultivation of national capacity, which is the responsibility of the Chamber of Commerce. This is the reason why the Chamber of Commerce presented the bill." The bill was approved as worth trying, which, considering the background in connection with Shibusawa's reason, suggests that the Chamber of Commerce tacitly agreed to incorporate into the bill method of using the indemnities "to cultivate national economic capacity" as well as to expand the military in "the statement" upon examination of the real condition of the postwar economy, agreement to the future policy, and then submission of a recommendation and a petition to the government.

The next item which came up for a debate at the meeting of the Association was "the presentation of the statement concerning a method of dealing with indemnity of 300 million yen to the government and the House of Peers and the House of Representatives," which the Chamber of Commerce in Chita opposed. The reason for proposing was "to prevent the government from adopting a wrong future financial policy by examining the past and the present situation, since the government's plan for using indemnities has not a small influence upon ordinary people, especially on those of us who are in the business related to commerce and industry." This is the first formal discussion on the disposal of indemnities as an item on the agenda. Some denied the adoption of the Chamber of Commerce in Chita's proposal, especially as a separated item of the agenda because in essence the Tokyo Chamber of Commerce's argument also included the examination of the Chamber of Commerce's policy as mentioned before, but the proposal of the Chamber of Commerce in Chita was approved after all.

Other than the matters described above nothing is known to us as to the association's own policy, which must have been formulated from the discussions concerning the two items included in the agenda, and as to the petition the association came around to. It is worth disclosing indeed what proposal and petition the Chamber of Commerce tried to work out on how to go about indemnities, but it seems hardly practicable, for no article of this kind is found in newspapers and journals in those days at all. If so, the reason is either of the following two : the Association, which had earlier a strong interest in going about indemnity, came to lose the interest quickly or the Association failed to coordinate opinions of the participants in the end.

Next, let us look into what plan the government, the main determiner of it, had on utilization of indemnity in connection with different ways in looking at how to deal with the indemnity as mentioned so far.

1) *Tokyo Keizai Zasshi* (Tokyo Economic Journal), No. 773, (April 20, 1895), "*Sengo no Zaisei ni Kansuru Ohkumahaku no Iken* (Mr. Ohkuma's Opinion on the Postwar Finance)."
2) *Tokyo Nichinichi Shinbun* (Tokyo Daily Newspaper), May 12, 1895, "*Kongo no Keizaikai* (The Future Economic World)."
3) *Tokyo Keizai Zasshi*, No. 778 (June 15, 1895).
4) Ibid., No. 781 (July 6, 1895) Saburo Ozaki, "*Kongo no Zaiseisaku* (The Future Financial Policy)."
5) As to war bonds needed to provide war expenses at the outbreak of "the Sino-Japanese War," the amount of bonds firstly issued was 30,000,000 yen and the amount issued secondly was 50,000,000 yen, bringing the total bonds issued to 80,000,000 yen. Subsequently bonds were issued twice, thirdly and fourthly, which we will refer to later.
6) The Financial Management Bureau of the Finance Ministry, *Kokusai Enkaku Ryaku* (An Outline of History of National Debts), Vol. 2, p. 537.
7) Tameyuki Amano, "*Shokin Mondai* (Indemnity Problem)," (*Toyo Keizai Shinpo* (*The Oriental Economist*), Vol. 1, November 15, 1895).
8) Toyojiro Kotegawa, "*Shokin Mondai*," 1), 2) (*Toyo Keizai Shinpo*, Vol. 2-3, November 25 to December 5, 1895), Toyojiro Kotegawa was then the Executive of the Twenty-Ninth Bank.
9) *Jiji Shinpo* (Current Journal) November 24, 1895, an editorial, "*Shokin no Shimatsu* (The Disposal of Indemnities)."
10) *Toyo Keizai Shinpo*, Vol. 3 (December 5, 1895) "*Shibusawa Eiichi no Naigai Keizaisaku* (Eiichi Shibusawa's Domestic and Foreign Economic Policy)."
11) Michinari Suenobe, "*Koteishihon o ronshite Shokinshobun ni Oyobu* (As to Indemnity Disposal Through the Discussion of Fixed Capital)," (*Toyo Keizai Shinpo*, Vol. 3, December 5, 1895).
12) Aforementioned *Kokusai Enkaku Ryaku*, Vol. 2, p. 537.
13) Nortification No. 32 on August 17, 1895. This policy was slightly changed at the second subscription should have an influence on the money market and lest "a little rich man's" sincerity should be disregarded, being left out of the allotee list. See the aforementioned *Kokusai Enkaku Ryaku*, Vol. 2, pp. 544-545.
14) *Shibusawa Eiichi Denki Shiryo* (Eiichi Shibusawa Biography), Vol. 22, p. 32.
15) Ibid., p. 33. Emphasis added.
16) Ibid., p. 33. The Chairman of the Association *Masayoshi Okuda*'s proposal.
17) Ibid., p. 37.
18) The editor of *Shibusawa Eiichi Denki Shiryo*, Vol. 22 writes down at the end of the proceedings in the consideration presented by the Chamber of Commerce in Chita: "We do not have enough data to prove whether the Chamber of Commerce presented to the government a concrete plan for indemnity disposal or not.
19) *Shibusawa Eiichi Denki Shiryo* Vol. 21, p. 293.
20) As mentioned above, Shibusawa was against repayment of public loans with indemnity as of November 1895. But even if he was so, it cannot be said that he adhered to this stand at the opening time of "the Chamber of Commerce Association" (September 1895). A markedly upward trend of business from September to November made Shibusawa oppose the repayment.

21) "Domestic public Loans" mean war bonds in the above-mentioned Tokyo Chamber of Commerce statement, mentioning "the policy to repay domestic public loans with a large part of indemnities. The sentence indicates the policy to repay war bonds of 80,000,000 yen with a large part of indemnities (including an indemnity for Japan's relinquishment of the Liaotung Peninsula, 119,000,000 yen). The total amount of domestic loans at the end of 1895 was 370,000,000 yen, which was equal to the definite amount of indemnities in the Peace Treaty. But it is not considered as reasonable by common sense that all of the indemnities was to be appropriated for repayment of the entire domestic public loans. Here we mention it to remove misunderstanding.

3. CONCEPT OF POLICY WITHIN THE GOVERNMENT

As confirmed so far, beginning May, 1895, which followed the month of the signing of the Peace Treaty, the government set about formulating a plan for utilizing indemnity.

The first historical description of such plans among publications up to date dealing with how to use indemnities from China is found in "the statement" dated August 15, 1895, of Finance Minister Masayoshi Matsukata, which he presented to Prime Minister Hirobumi Ito. In it Matsukata expressed his fundamental concept of "the postwar financial policy after Sino-Japanese War." In November of the same year Kunitake Watanabe, succeeding Matsukata as Finance Minister, upon his reignation following the presentation of the statement, also submitted "the financial statement" concerning another plan for utilizing indemnity, which was a little different but basically followed Matsukata's concept for the most part.

The government's plans were not limited to the foregoing. In actuality, a fairly different plan in its contents had been examined and worked out inside the Finance Ministry before. From Documents of the two collections called "the Matsukatas" and "the Matsuos", and owned by the office of Financial History, the Finance Ministry, it is known that in the Budget Bureau of the Finance Ministry, three plans were elaborated minutely on utilization of indemnities. Different from each other in contents, they were drafted in the following order : (A) "possibility of the payment of indemnity" (the first draft) ; (B) "tentative division plan" (the second draft) ; (C) "tentative utilization plan" (the third draft). Drafts (A) and (B) are found in "the documents of the Matsuos" and Draft (C) in "the documents of the Matsukatas." Shigeyoshi Matsuo was the then Head of the Budget Bureau of the Finance Ministry, while the then paymasters were Yoshiro Sakatani (Director of Budget and Settlement), Muneyoshi Yamaguchi (Director of Superintendency) and Torajiro Nomura (Director of the National Treasury). Sakatani was, above all, the most important planner of them.

Next, let us follow the change of the plan for utilization of indemnities

from the Budget Bureau of the Finance Ministry to the Finance Ministry, to Finance Ministers Masayoshi Matsukata and Kunitake Watanabe.

The first draft of the Budget Bureau was handwritten cursively in brush. The second is the copy in the printed style of the first with some amendments. The third is the copy of the second with an annexed paper; therefore, it is the same in essence as the second draft except some amendments, the last sentence of which, added at the end of the draft, is worth noticing: "In addition to expenditure items in the table, there are some other projects requiring a huge amount of expenses for establishing an agricultural and industrial bank and a steel mill as well as expanding a sea traffic; consequently a discussion will come up about whether to reduce expenditure items or to look for another source of revenue." But the table indicates only the prospect.

But a noteworthy fact here is a difference between Finance Minister Matsukata's draft dated August 15, 1895, and the third draft of the Budget Bureau dated May, 1895. The difference is great especially in expenditure items and amount appropriated for each item of them, which proves that the government's (and the Finance Ministry's) plan for utilization of indemnity underwent a great change during the four months from May to August. Let us find out the historical meaning of the change by examining both Matsukata's and Watanabe's draft.

Table 3 gives all of the estimated and the actual expenditures together with a plan on each item. Drawing on the table, let us start with a comparison between the first and the second draft of the Budget Bureau.

They are the same in the total amount of indemnity, 200,000,000 taels or 280,000,000 yen in Japanese currency; in the second draft some expenditure items are eliminated, such as expenses for establishing a telegraph service line connecting Kagoshima, Okinawa, and Formosa and for whereas purchasing a cable ship, whereas new expenses of 10,000,000 yen are added instead to the second draft for railway construction in Formosa. As for the second draft, as a result, an increase in expenditures equal to a difference between the eliminated and the newly added sum is balanced by a decrease in "the amount of appropriation for the shortage of war expenses," which made the total expenditure the same between the first and the second draft. It means that this amount originating from extraordinary war expenses" in Matsukata's and Watanabe's draft is the same as the above. By the transfer of the telegraph establishing expenses to temporary war expenses, the telegraph establishing expenses are eliminated from the second draft. The change of expenditure items, comparing with each expenditure, has no important effect on a indemnity expenditure plan. The adoption of Matsukata's draft by rejecting the Budget Bureau's draft means the change of the government's

policy.

The first difference between Matsukata's draft and the Budget Bureau's second draft is found in military expenses, for which the former appropriates a smaller sum, both relatively and absolutely, than the latter. The proportion

TABLE 3. THE CHANGE OF INDEMNITY UTILIZATION DRAFTS

Item	The First Draft of the Budget Bureau[1)]	The Second Draft of the Budget Bureau[2)]	Item
The Army Battery & Other Expansion Expenses.	36,519,139	36,519,139	The Army Expansion Expenses.
The Navy Expansion Expenses.	155,400,861	155,400,861	The Navy Expansion Expenses.
Establishing Expenses for a Fortressed Part between Kagoshima & Okinawa.	1,660,000	1,660,000	
Telegraph Service Establishment Expenses from Kagoshima, Okinawa to Formosa.	3,120,000		
A Ship Purchasing Expenses for Establishing Cable.	615,000		
Establishing Expenses for a Naval Station in Formosa.	4,500,000	4,500,000	
Formosa Flood Control Expenses.	5,000,000	5,000,000	
Formosa Local Railway Construction Expenses.		10,000,000	
Temporary Grants for Campaigners.	14,044,000	14,044,000	
			Steel Iron Industry Establishing Expenses.
			An Emergency Fund.
			An Agricultural Bank Capital Assistance.
The Amount of Appropriation for the Shortage of War Expenses.	59,141,000	52,876,000	War Expenses Redemption.
Total	280,000,000	280,000,000	Total

Source:

1 The Budget Bureau of the Finance Ministry, "Expectation or Reparation Payment," (The Matsuos' Document), May of 1985.

2 Ibid., "The Distribution Draft of Indemnity obtainable from the Empire of China," The Matsuos' Document), May of 1895.

of military expansion expenses to the total is 68.5% in the latter and 60% in the former. A comparison of the ratio of expenses for the Army to expenses for the Navy discloses, however, that the army expansion expenses are larger in the former than in the latter, which is a noticeable point, too.

(ESTIMATED INDEMNITY EXPENDITURES BY ITEMS) (Unit; yen)

Matsukata's Draft[3]	Watanabe's Draft[4]	Item	Actual Expenditure[5]
50,000,000	70,000,000	The Army Expansion Expenses.	56,789,638
130,000,000	130,000,000	The Navy Expansion Expenses.	139,259,387
		Supplementary Money to Formosa Expenses (the 1898 General Account Supplement)	12,000,000
5,000,000	5,000,000	Steel Iron Mill Establishing Expenses.	579,762
		Supplementary Fund for a Warship and a Torpedo-Boat.	30,000,000
50,000,000	50,000,000	An Accident Fund.	10,000,000
10,000,000	10,000,000	An Educational Fund.	10,000,000
		Insert to the Imperial House Money.	20,000,000
		Insert the 1897 Emergency War Expenses and the Section of Transportation & Communication Expenses to General Account.	3,214,484
55,000,000	35,000,000	Insert Emergency War Expenses to Special Account.	78,957,164
300,000,000	300,000,000	Total	360,809,438

3 Masayoshi Matsukata, "Proposition of the Plan of the Future Finance," (Edited by Hirobumi Ito, "Financial Data of the Secret Confidential Document," Vol. 2, August of 1895).

4 Kunitake Watanabe, "Financial Statement," (Ibid.), November of 1895.

5 "Meiji Financial History," Vol. 2.

The second difference is found in the addition and elimination of expenditure items in the former; added are expenses for establishing a steel mill, the emergency fund and expenses for capital assistance to an agricultural bank, whereas eliminated are the expenditure items for Formosa and grants for campaigners. Then, what do these changes mean?

The Budget Bureau stood by the point that expenditure items should be limited to those directly related to the victory, just as it is said in the introduction, "I prefer the appropriation for such expenses as future military expansion expenses and temporary grants to campaigners." This is the reason why the expenses for Formosa are looked on as an important expenditure item among others. As seen in the previous chapter, Tokimasa Taketomi, a member of the Constitutional Progressive Party, agreed to the appropriation of indemnities for projects related to the victory. "But disagree to the appropriation of reparations for military expansion, which constitutes an obvious difference from the stand taken by the Budget Bureau, which ranks expenses for military expansion at the top of "the special expenditure items."

It can be said the policy of the Budget Bureau changed slightly while the third draft was being worked out for utilization of indemnity, which the Bureau presented to Finance Minister Matsukata. There are some grounds for the third draft, for, the draft says, "this, a rough outline of the draft for utilization of indemnities, is subject to revision concerning expenditure items using indemnities, such as the construction of 'an agricultural and industrial bank,' 'a steel mill,' and so on." The Bureau must have forecast the adoption of Matsukata's draft at the time it presented the draft to Matsukata.

Elimination of the expenses for Formosa from the Budget Bureau's draft means the transfer of the expenses for Formosa to the general account, while elimination of temporary grants for campaigners results in the change of the delivery method of the grants. In this connection *Jiji Shinpo* (Current Journal) refers to the insurance of a bond in its editorial entitled "Temporary Grants for Campaigners and a War Bond," saying "The government has come to decide to issue a certificate of a war bond at a nominal value, instead of paying cash to a soldier and a civilian employee in the military service who served in the Sino-Japanese War offering meritorious services." The circumstances would have been so. Elimination of temporary grants would have probably been settled rather firmly when Matsukata was working on his draft. Even in Matsukata's draft 60% of reparations is appropriated for military expansion expenses; we should not disregard, whatever amount they may be, the fact that the expenditure items for Formosa and temporary grants for campaigners were eliminated and, instead, two expenditure items

were added, namely, the one for the construction of a steel mill and the other for capital assistance to an agricultural bank. The change, in a word, is due to a serious consideration paid to the economic policy (the policy to promote the manufacturing industry) so that the postwar economy should be reestablished. According to Matsukata, "the development of national power in proportion to increasing national expenditure" is the essential point of the postwar financial plan, and therefore" financial assistance to an agricultural bank" is fit for his purpose. Meanwhile, establishment of "a steel mill" was, needless to say, linked to do the policy of promoting the manufacturing industry.

It was Yoshiro Sakatani who drafted the text of Matsukata's financial statement submitted on August 14, 1895. The day before it, Matsukata made a speech on the topic "The Wartime and the Postwar Economy" at the General Autumn Meeting of the Political Economy Association of the *Senshu* University. He said in his speech, "It will have a fairly important influence on Japan's future finance and economy how we will use indemnities from China which will paid in eight installments over the subsequent 35 years from now on and what the way will be to transfer indemnity money to Japan. Moreover, a tax should be raised so that economic development should not be delayed by military expansion and productivity should be increased at the same time." The plan for utilizing indemnity in Matsukata's statement was nothing but a product of "postwar management" of Japan by the Finance Ministry represented by Director Yoshiro Sakatani of the Budget Bureau.

Earlier on March 17, 1895, when the assurance of the Japanese victory was becoming firm and the tide was most likely to turn in favor of restoration of peace, Prime Minister Hirobumi Ito appointed Matsukata to the post of Finance Minister, replacing Kunitake Watanabe, whom he appointed to be Communication Minister, in his partial reshuffle of Cabinet members so that Matsukata should devote himself to drafting a postwar financial plan. Thus, planning on "postwar management" of Japan began at the Imperial Headquarters in Hiroshima with Matsukata as the principal mover; he immediately called Yoshiro Sakatani to his lodging and ordered him to start working on a concrete draft. According to Sakatani's diary, he left Tokyo to Hiroshima, accompanying the Finance Minister Kunitake Watanabe, Private Secretary Hayakawa and his suite by the order of the Imperial Headquarters and arrived in Hiroshima on the afternoon of March 17, and next day on March 18, after the transfer of business of Finance Minister, Sakatani called on Matsukata; from then on his visit to Matsukata lasted almost every day until April 6. As Matsukata moved to Kyoto on April 20, Sakatani followed him there on April 27 and his daily visit to Matsukata

began again and continued until May 17. Talks between the two during this period were, needless to say, devoted to elaborating on both the Finance Ministry's concept of "postwar management" of Japan and the concrete draft about how to use indemnities. The changing process from the first to the third draft of the Finance Ministry and further to Matsukata's draft dated August 15, 1895, would indicate obviously that the draft underwent the process of getting matured in the formation of the concept of the Finance Ministry's "postwar management" aimed at promoting the manufacturing industry, the mainstay of which is related to military expansion.

Well, Matsukata's policy (also the Budget Bureau's) toward the utilization of reparations was followed basically by Kunitake Watanabe's "financial opinion," too. The only difference between the two is the amount of military expansion expenses, namely, 70,000,000 yen in Watanabe's and 50,000,000 yen in Matsukata's draft. The reason is, though not clear enough yet, that the moment Watanabe presented his "financial statement" to the Cabinet conference in November, 1895, he also presented thereto the 1896 budget plan, which covered military expansion expenses. Attached to this plan was a draft memorial to the Throne concerning expenses for military expansion which was jointly signed by the War Minister and the Chief of General Staff, together with an Army expansion plan, originating from the General Staff Office, and an explanatory statement. In addition, Director Yoshiro Sakatani of the Budget Bureau and Gentaro Kodama, Secretary of the Army, frequently had visited each other; so Kodama's influence upon Watanabe's draft cannot be disregarded. But the actual expenditure for military expansion based on Watanabe's draft was, as is obviously observed in Table 3, almost the same as that based on Matsukata's draft; so, it can be said that Matsukata's draft was adopted for the most part by Watanabe. Even in Matsukata's draft, expansion expenses for the Army still increased in spite of a decrease in the expenses for the Navy, which indicates the strong power of the Army led by Aritomo Yamagata. The adoption of Matsukata's draft by Watanabe indicated the attitude of the Finance Ministry toward the Army, which insisted on military expansion strongly.

Thus far we looked into the process by which a plan for utilizing the Sino-Japanese War indemnity underwent elaboration; consequently, it was proved that Watanabe's fundamental policy followed for the most part Matsukata's "financial statement" dated August 15, 1895. The decisive difference between the two follows: 1) In Watanabe's plan 60% of indemnity, which was smaller, relatively and absolutely, than that of the Budget Bureau's draft, was appropriated for military expansion; 2) There was no plan for repaying war bonds with indemnity, which nobody thought of at all from the beginning of making a draft.

Then, was the government's plan for utilizing indemnity opposed to the interest of the bourgeoisie?

Let us examine this question in the next chapter, in which we will investigate the actual expenditure and investment of indemnity according to the plan, and then prove the response of the bourgeoisie.

1) Since 30,000,000 yen of indemnities for the relinquishment of the Liaotung Peninsula to the Empire of China by the Triple Intervention was determined according to "the Mukdin Peninsula Return Treaty" signed on November 8, 1895, the indemnities cannot be added at the time of compilation of the draft of "the Budget Bureau" of the Finance Ministry.
2) *Jiji Shinpo* (Current Journal) dated October 4, 1895.
3) In the article of *Sakatani Yoshiro Nikki* (The Diary of Yoshiro Sakatani) on August 14, 1895, there is a description, "I made a draft of the future finance for the Court." The Court is, needless to say, Masayoshi Matsukata.
4) Yoshiro Sakatani, "*Senji oyobi Sengo Keizai* (The Wartime and the Postwar Economy)" *Tokyo Keizai Zasshi* No. 798 (November 2, 1895).
5) The above-mentioned *Sakatani Yoshiro Nikki*. For readers' information, in the diary of October 29, there is a description, "I came back home at 1 a. m. because of the investigation of the Army Expansion expenses."

4. PROCESS OF ENFORCEMENT OF THE PLAN AND THE BOURGEOISIE

The "postwar management" of Japan following the Sino-Japanese War started to make its way with the execution of the 1896's budget approved on March 4, 1896, in the Ninth Session of the Diet. According to the budget, the annual revenue amounted to 173,980,000 yen or so and the annual expenditure to 152,180,000 yen or so, the increment being 35% and 42% respectively over the preceding year. "The increase in expenditure came about mainly from special projects aimed at facilitating the "postwar management" of Japan. They were, for instance, the expansion of the Army and the Navy; the improvement and expansion of the railway and the telephone system; the establishment of an iron mill." Expenses for them which were called emergency expenses were to be paid by a public loan and indemnities; a subsequent increase in working expenses for them was to be covered by increasing taxes. The government had never alluded to the land tax so as to shirk the resistance of the party in power, but proposed an increase in revenue by increasing taxes through insertion of a business tax into a national tax, establishment of a registration duty, imposition of a brewery tax as well as increasing an income from leaf tobacco monopoly etc. The proposal passed the Diet after all.

This budget appropriated 19,916,234 yen for the army and 22,964,774

yen for the Navy to allow military expansion; the combined sum was equal to the outlay in the first year of a continued series of military expansion beginning in 1896 with 43,322,234 yen and ending in 1902 with 94,776,245 yen. Following the first-term military expansion program, term I of the Army and Navy, the second-term program term II was established in 1897 to extend from 1897 to 1905. Thus, the military spending by the Army and the Navy totaled 313,241,333 yen for these years, 62.6% of which was made up for by transferring part of the indemnity from the special account, as is shown in Table 3 by the figure 196,058,025 yen out of the indemnities. The appropriation for military expansion is almost the same in amount as stated in Matsukata's draft, while the proportion of the appropriation to the total amount decreased to 54% of Matsukata's figure, because the total amount of indemnity increased over the amount estimated by him on account of an addition which originated from an indemnity paid by China for Japan's relinquishment of the Liaotung Peninsula.

This addition and some income from indemnity investment brought about a change in the program of utilizing indemnity, though the details are not clear. Then, it is most likely that this indemnity led to an increase of 24 million yen or so in the special account to be set aside for emergency military expenses after the transfer of money thereto, which was decided in December, 1895, with the subsequent approval by the Ninth Session of the Diet. For, even if Matsukata's draft was scheduled to be fully put into practice, the indemnity resulted in such a large capital margin as 45 million yen.

Noteworthy is it that two new items are entered in the column of actual expenditure in Table 3: supplementary expenses to Formosa and expenses for the Imperial Houses, which are not found in Matsukata's draft. Whereas the former may be understood as a revival of the items on Formosa in the Budget Bureau's draft, it is fairly certain that the two items owe their entry to such a change in Matsukata's draft that the amount for establishing an iron and steel plant is reduced to one third and all the amount for financial assistance to an agricultural bank is eliminated.

Then, what is the meaning of this change? It is our thought in the preceding chapter that an indication of Matsukata's draft in which he decreased military expansion expenses and added two new items concerning an iron and steel plant and an agricultural bank is that the Finance Ministry had a concept to think much of the promotion of the manufacturing industry as a policy to pursue the "postwar management" of Japan after the Sino-Japanese War. Then, do the foregoing changes in Matsukata's draft mean the declining and rarefying of the manufacturing industry, the promotion of which was designed by the "postwar management"?

It is not true, to speak of a conclusion first. The appropriation of part

of indemnities for the two items in Matsukata's draft, formulated piror to compilation of the 1896's budget, indicates that he underscored the realization of the two items in disregard of financial sources like a public loan and a tax increase. That is the reason why the characteristics of the Finance Ministry's concept of "postwar management" can also be found in Matsukata's draft. Thanks to a successful coalition maneuvering between the government headed by Ito Hirobumi and the Liberal Party, the 1896's budget bill passed the Ninth Session of the Diet making the related spending possible. And now that the "postwar management" was fairly in progress, the budgetary consideration to the items in point in Matsukata's draft should no longer be necessary except one ninth the amount stated in his draft. Despite that actual expenditure from indemnities showed the drastic reduction and the full elimination as mentioned above, almost the same amounts were secured by other funds for these two items.

TABLE 4 YAHATA GOVERNMENT IRON AND STEEL PLANT ESTABLISHING EXPENSES (the 1896's Budget)

1896	579,762
1897	1,741,621
1898	1,189,415
1899	584,995
Total	4,095,793

Source: "Meiji Financial History," Vol. 3, p. 861.

Shown in Table 4 are expenses needed to establish the Government Yahata Iron and Steel Plant in the 1896's budget, with the issuance of a law concerning its organization on March 29, 1896, in which expenses only in the first year were covered by indemnities and those in other years by business bonds according to "business bonds regulations" dated March 30, 1896 (the first issue was in March, 1897). Out of the total expenses 55% accounts for machine shop expenses, 24% civil engineering and construction expenses, and the rest steel products made on an experimental basis and various supplies. The total was nearly the same as that of Matsukata's draft.

Financial assistance was given to the agricultural and industrial bank according to "the agricultural and industrial bank assistance law" and "the agricultural and industrial bank law" issued together on April 20, 1896. Earlier in 1890 Matsukata gave some consideration to establishing "an agricultural bank" (later the agricultural and industrial bank) as well as "an industrial bank" (later the hypothec bank) in this country with a view to

lending local peasants money on land mortgage with low interest rates using a certain amount of government subsidies every year for the first five or six years after the establishment of them, which is the reason why financial assistance to the agricultural bank was eliminated later. When it was decided to establish both the agricultural and industrial bank and the hypothec bank, according to the two foregoing laws, however, it was decided simultaneously to deliver the guarantee and government capital investment ranging from one third of invested capital up to 300,000 yen per bank to the prefectural government in each business district of the agricultural and industrial bank. By 1908 the bank finished delivering the specific portion of the guarantee and government capital investment to prefectural governments in all of the districts except Okinawa, to which the bank delivered the fee last in 1910. The guarantee and government capital investment totaled 8,278,620 yen, which was nearly equal to 10,000,000 yen, the figure in Matsukata's draft.

Thus, the fact that the similar amounts to those in Matsukata's draft, whose source was drawn on indemnity, were appropriated from the general account for the establishment of the Government Yahata Iron Mill and for financial assistance to the agricultural and industrial bank indicates that Matsukata's draft of August, 1895, gave a basic direction to the "postwar management," which started from the 1896's budget.

Matsukata's and Watanabe's emergency fund, 50,000,000 yen, was divided into three categories: warship and torpedo boat replacement fund, accident fund, and educational fund, as indicated in Table 3. It was formulated according to "the statement (dated February 8, 1899)" of Masayoshi Matsukata, Finance Minister of the Second Yamagata Cabinet. The first one, 30,000,000 yen, was to be appropriated for purchasing foreign public bonds exchangeable into gold coins at any time, and the other two for purchasing domestic bonds and earning a profit, but "in case of emergency, by an extraordinary Imperial ordinance, the torpedo boat replacement fund was the first to be appropriated for a war fund and then public bonds of the accident and educational fund were to be sold to the Bank of Japan or to be appropriated for war bonds." Since the interest of the educational fund was to be appropriated for ordinary educational expenses, Matsukata's approval of a partial appropriation for the emergency fund indicates that the government partially incorporated the proposition of both Houses in the Ninth Session of the Diet in the new policy.

By the way, the accident and the educational fund and 20,000,000 yen in cash which was inserted to the propert of the Imperial Houses in December, 1898, were all raised by domestic loans. The government subrogated public bonds which had been owned by a indemnity section of the Finance Ministry and bought from the market as a countermeasure of a panic in

1898. In short, prior to the establishment of the property of the Imperial Houses as well as the accident and the educational fund, the government enforced such a policy as corresponded seemingly to the bourgeoisie's demand for using the surplus cash of indemnities in the special account to purchase public loans, as already mentioned in Chapter 2. It means to adjust financially the emergency policy of utilizing indemnity through the establishment of the property of Imperial Houses, as well as the accident and the educational fund. Then, how do we relate a public loan purchasing policy to the program of utilizing indemnity and the operation process in relation to the bourgeoisie's demand.

We have already proved that in the Fourth Meeting of the Chamber of Commerce Association in September, 1895, the question about handling indemnities came to be discussed and it was decided that a request concerning indemnities (proposition and petition) presented to the government. If the request was made actually, we can assume that the main subject of it was repay war bonds with indemnities. A ground for supposition is found in the sentences of the statement attached to the proposition of the Chamber of Commerce in Tokyo dated December 28, 1897. But it is very questionable whether the Chamber of Commerce in Tokyo and the Chamber of Commerce Association stood by the viewpoint that the first thing to build up the national power of Japan in the postwar period was to enrich private capital by repayment of war bonds. Indeed, at the time of September, 1895, both the Chamber of Commerce in Tokyo and the Association showed a strong interest in how to use indemnities. But the Chamber of Commerce in Tokyo did not mention it at all in "the proposition on the postwar economy" dated March 12, 1896, presented to Prime Minister Hirobumi Ito.

The proposition did not refer to the way of going about indemnities at all; it was in "the financial adjustment opinion" dated December, 1897 that the Chamber of Commerce in Tokyo referred to the question of indemnities for the first time.

The substantial difference between propositions made on March, 1896, and December, 1897, has a definitely close relation with the business trend in the postwar period following the Sino-Japanese War. The argument against repaying war bonds came about at the time of business recovery after August, 1895, as mentioned in Chapter 2; in March, 1896, business was so much improved and boom for venturing on businesses and for speculations became alive that it was no longer necessary to repay public loans. November, 1895, saw Eiichi Shibusawa to be one of the proponents of this argument. The situation has changed obviously, however, in December, 1897. A decrease in gold reserve in the Bank of Japan owing to excessive imports and an increase in demand for loans to found enterprises went hand in

hand to raise interest rates, stiffen the market and decline stock prices; in the end of 1897 the boom cooled down and a slump of the cotton market in November and December, 1897,[14] brought about a partial panic in the cotton spinning. The proposition and statement made in December, 1897, say, "The more administrative expenditure expanded, the more difficult the government finance and the economic condition became, which caused the unnecessary expansion of a financial plan after 1896." Thus the circumstances gave rise to a demand for cutting war expenditure and introducing financial reforms and to a reproach against the government on its postwar financial policy as well as raising expertations of business recovery through the repayment of domestic loans with foreign loans amounting to 200,000,000 yen. On May 16, 1898 — during the first depression in the postwar period after the Sino-Japanese War and immediately after the full payment of indemnity — the Chamber of Commerce in Tokyo adopted "a proposition for smooth working of private capital," demanding that the government should "repay some of domestic loans with indemnities."

Obviously the Chamber of Commerce's degree of the concern in how to use indemnities was much influenced by the business trend. The bourgeoisie's demand was only for the repayment of public loans; as to a variety of utilization of indemnity, the bourgeoisie had not worked out any special plan, and therefore their demand for the repayment of public loans itself, much influenced by the business trend, can be understood as a temporary one in the depression period.

Not a little contrary to the prearranged program of utilizing indemnity, this sort of demand was indispensable factor of the "postwar management" of Japan after the Sino-Japanese War. Thus, the stabilization of the money market through a policy of relieving business from depression was called for in the promotion of the "postwar management," whose main financial resources were public loans. According to the Diet decision to purchase hypothec debenture bonds and public loans of 5,000,000 yen and 35,000,000 yen, respectively, with surplus money of the indemnity special account on April 13, 1898, the government set about relieving the depression. For the relief of the hypothec bank in charge of cotton spinners in the Osaka district, the government subscribed for hypothec debenture bonds valued at 3,639,960 yen and purchased public loans valued at 38,707,770 yen over five times for April to October, 1898, saying, "The money market is extremely stringent."[17] Also, for the necessity of raising the prices of domestic loans to collect foreign loans in London in June, 1899, the government purchased public loans valued at 1,989,000 yen to keep the market price of public loans constant from April on in the same year. Some of the purchased public loans, except for the sales to the Bank of Japan and the Deposit Bureau

of the Finance Ministry, were inserted to the property of the Imperial Houses and some to the educational and the accident fund within the limit of the emergency fund of Matsukata's draft.

The bourgeoisie, once their requirements for purchasing of public loans were satisfied, had no other requirements toward utilization of indemnity. Even if they had some requirements, it does not mean they agreed fully to the "postwar management" including the program of utilizing indemnity. On the establishment of national and business taxes, except for a land tax, which was aimed at securing the Party's support, the Chamber of Commerce started a countermovement immediately. At an extraordinary meeting of the Chamber of Commerce Association held in November, 1896, the proposition to the Finance Ministry and the Imperial Diet, was adopted demanding for the revision of business tax law, the modification of the tax basis and the lowering of tax rates; next year, in 1897, a demand for total abolition of a business tax and, instead, establishment of a land tax became more clamorous.

It is undeniable that the movement included the bourgeoisie's criticism on the government for its "postwar management" program. But as pointed out previously, a demand for the reduction or the abolition of a business tax and the establishment of a land tax also expresses the weak standpoint of the bourgeoisie who cannot attack openly the government for its policy of "postwar management." For, the more urgent their demand for armament reduction may become, the stronger objection not only to a business tax but also to a land tax, which constitutes the government's "postwar management" policy, may become.

The bourgeoisie's response to the government's program of utilizing indemnity had a contradiction. They were indifferent to an objection to military expansion because not a full but a certain amount of indemnity was considered as inevitable. Their insistance was to curtail a certain amount of reparations and to appropriate the remaining indemnities for repayment of public loans so that the postwar economy was developed and national power was promoted. But military expansion and repayment of public loans were not alternative but in the same dimension actually. The purpose of repaying public loans was not to bring about the development of the postwar economy and the reinforcement of national power, but to float business and to help serve as countermeasure for a panic. The demand for repayment will disappear when business is prosperous. Actually they did not demand repayment of public loans strongly, for the Bank of Japan reinforsed loans and reduced an official discount rate when the prosperous days came about in the postwar economy. At the first postwar panic, the demand revived again and the "postwar management" plan then had enough room to satisfy

the demand to some extent. This level of the bourgeoisie's demand, externally objecting to a full appropriation for military expansion, suggests that they had no intention to object really to the government's "postwar management," its main project being the military expansion programs, including the program of utilizing indemnities, which means programs were consistent fundamentally with their interest.

After April, 1900, following the period of business convalescence leading to 1899, the postwar economy entered the period of depression again. The Ninth Meeting of the National Chamber of Commerce Association held on May 16 adopted "the statement of the national economic policy." On May 5 a party of representatives led by Eiichi Shibusawa, President of the Association, bringing the statement along, called on and had an interview with Aritomo Yamagata (Prime Minister then), Masayoshi Matsukata (Finance Minister then), Kohsuke Sone (Agriculture and Commerce Minister then) and Akimasa Yoshikawa (Communication Minister then). The content of the statement was :

Considering from the present association with foreign countries, we have no doubt about government business toward armaments, but the government makes too much haste of the accomplishment of government work, so that the government tends to control private business, which is one of the reasons of the present economic crisis. As a means to reform the government policy and promote private business, we demand the government for the policy of sixteen items. After they gave full explanation of individual items demanded in the statement, they asked each Minister concerned his thought.

Not referring to the details of the exchange of opinions here, we quote only the noteworthy points about a discussion between Kakugoro Inoue (President of Hokkaido Coal Mine and Steamship Company), a member of the party, and Matsukata. Inoue said, "What do you think of the retrenchment of administrative expenditure? The purport of our statement is not concerned with administrative finance but with economy. Even if we demand that administrative expenditure should be cut back, we doubt any room is left for it." Matsukata responded, "You are right. We always mind it, but we don't find it easy to curtail the administrative expenditure," and continued, "Let me give you advice. Look at this note." Showing him the representation submitted by members of both Houses to the Fourteenth Session of the Diet, which asked for government assistance and protection, Matsukata disputed Inoue's point, saying, "The amount demanded by members of both Houses for an increase in Treasury expenditure totaled 10,000, 000 yen. If satisfy individual demands, the maintenance of the National Treasury will become extremely difficult. Mr. Inoue, you are one of many

persons who are asking us to pay a huge amount of administrative expenditure. I wonder why you want only us to reduce administrative expenditure."[24] There is no evidence indicating that Inoue counterattacked him.

The Chamber of Commerce Association's statement itself receded in contents concerning the point of approving military expansion and not demanding a financial adjustment; it also had such a weak point as was rebuted by Matsukata immediately. Inoue's silence symbolizes the character of the bourgeoisie in Japan, a backward capitalist country, which rested on the foundation of a positive governmental policy including military expansion, while refusing an increase in tax burden. It is hard to say that military expansion was basically opposed to the bourgeoisie's objection to the government's program of utilizing indemnities when it pushed forward the "postwar management" of Japan through the promotion of the manufacturing industry, which was linked directly with the bourgeoisie's interest. The fact that the bourgeoisie came up with no program of their own concerning how to use indemnity and that what they were interested in was to have public loans repaid by indemnity indicates not the immaturity of the bourgeoisie class but the common interest between the bourgeoisie and the government which worked out the program of utilizing indemnities that is tantamount of the the "postwar management" program. This is the reason why the demand of the Chamber of Commerce fell back and Inoue had to hold his toungue when Matsukata disputed his point.

Judging from the foregoing, we cannot disregard a significant meaning behind the decision-making process concerning how to utilize indemnities from the Budget Bureau's first draft of May, 1895, to Matsukata's draft of August, 1895. For this process gave an account of the changing process of the "postwar management", its aim having been mainly to pursue military expansion at first and then shifted to the promotion of the manufacturing industry as an inevitable factor. It was temporarily and apparently opposed to the bourgeoisie's demand but, in actuality, not opposed to their interest fundamentally in the execution of the policy. In dealing with the bourgeoisie who made a demand, from their own interest, only in the form of expecting an immediate favorable effect of the policy, the main body of policy decision and execution went ahead accommodating themselves to a change in situation obviously. By reason of a foresight as to the situation, the relative originality in the idea of the main body was outstanding and its decision and policy were basically consistent with the interest of the bourgeoisie ("the bourgeoisie mostly look like the bourgeoisie"). The main body — the bureaucracy of the Finance Ministry with Matsukata at the top and a group of bureaucracy representative of Finance Ministry bureaucracy — would be fairly different from absolutistic bureaucracy.

1) *Sengo Zaisei Shimatsu Hohkoku* (The Postwar Financial Circumstances Report) (Masayoshi Matsukata, 1900) p. 19.
2) As to the circumstance, see Junnosuke Masumi, *Nippon Seitoshi Ron* (The History of Japanese Parties) Vol. 2, Tokyo University Press., 1966, pp. 247–261.
3) See the book compiled by Hiroto Saegusa and Ken-ichi Iida, *Nippon Kindai Seitetsu Gijutsu Hattatsushi* (Development of Japanese Modern Iron Technology), Tokyo Economic Journal Company, 1657, Table 13 (p. 171).
4) Masayoshi Matsukata, "*Nippon Kogyoginko, Dohsanginko oyobi Nohgyoginko Setsuritsu no Sohsetsumei* (The Whole Explanation of the Purpose to Establish Japanese Industrial Bank, A Property Bank, and An Agricultural Bank)" (1890); *Nippon Kangyoginko Hohsoan Kankei Shiryo* (The Relevalent Data of Japan Hypothec Bank Law) (The History of Japan Hypothec Bank, Series 1), pp. 199–226.
5) Ibid., p. 225.
6), 7) Masayuki Sugimoto *Zenkoku Nohkohginko Hattatsushi* (Development History of the Agricultural and Industrial Banks in Japan), 1924, p. 236.
8), 9) *Meiji Zaiseishi* (Meiji Financial History), Vol. 2, p. 272.
10) On January 15, 1896, the House of Representative approved, with a partial amendment, of a proposition to appropriate a part of indemnities for the ordinary education presented by six members excluding Yukimoto Kudo. The purport of the proposition is "to appropriate one tenth of indemnities for the ordinary educational expenses and to allot it to municipalities as capital of school maintaining expenses," and "one tenth was amended to "about one tenth" after the commitment of the special committee. Taguchi Ukichi objected to this proposition, saying, "It should be decided whether indemnities are appropriated for war expenses or repayment of public loans and for supplementing a part of the sum needed to pay annual interest." (So far, see "*Dainippon Teikoku Gikaishi*" Imperial Diet Journal, Vol. 3, pp. 1432–1434, 1508–1511). Only this point that the House of Representative requested; it can be said that they did not request any demand directly based on a landlord's interest which is opposable to the bourgeoisie's demand. In addition, the House of Peers approved of the proposition with the same purport (the amount and the rates not expressed clearly) on January 18, 1896.
11) *Sibusawa Eiichi Denki Shiryo* (The Biography of Eiichi Shibusawa), Vol. 21, pp. 15–17.
12) Ibid., p. 17.
13) See the present writer's *Meiji Kyokohshi Josetsu* (An Introduction to Meiji Panic History), pp. 72–73.
14) Ibid., pp. 90–92, 100–102.
15) *Shibusawa Eiichi Denki Shiryo*, Vol. 21 p. 288.
16) Ibid., p. 307.
17) So far, see *Meiji Zaiseishi*, Vol. 2, pp. 628–642.
18) Ibid., pp. 641–642.
19) See Junji Banno's *Meiji Kenpo Taisei no Kakuritsu* (The Establishment of Meiji Constitution Structure), Tokyo University Press, 1971, pp. 108–110.
20) Ibid., pp. 111–113.
21) As to the progress so far, see the above-mentioned writer's book, p. 122.
22) *Shibusawa Eiichi Denki Shiryo*, Vol. 22, pp. 641–643.

23) As to the content of the conference, see "The Note of the Interview," of *Shibusawa Eiichi Denki Shiryo* Vol. 22, pp. 697–793.

24) *Shibusawa Eiichi Denki Shiryo*, Vol. 22, pp. 701–703.

25) Shozo Maejima, "Bourgeoisie no Seijiteki Shinshutsu (The Entry of the Bourgeoisie into the Political Sphere of the Community)" (Iwanami *Japanese History*, Modern Times, Vol. 4, Iwanami Publishing Co., 1962.

26) See the Notes, p. 131 (20).