

From the leaders of the Meiji Restoration

Shigenobu Ōkuma

Shigenobu Ōkuma founded the First National Bank and the basic credit policies of the Japanese Ministry of Finance. He transformed the Japanese feudal system into a modern banking system, using a credit policy directly modeled upon Alexander Hamilton's first National Bank of the United States.

After the British assassination of Ōkubo, Ōkuma, who was no technocrat economist but a universal mind and a patriot, took over as the leader of Japan's Meiji faction. In 1881, he forced the creation of a Parliament and the creation of a modern Constitution for Japan.

In his "Proposal Concerning the Abolition of the Fief System by the Issuance of Government Securities," dated March 20, 1876, Ōkuma proposed to turn all remaining samurai into industrialists by issuing them government securities for use in investments:

The feudal system for nobles and warriors dates back a long time. . . . Warriors who were especially talented were given a stipend or other annual award by the state. These samurai were to occupy themselves solely with military service, with no need to go into agriculture, industry, or mercantile professions. With the establishment of the feudal system, this fief-right came to be hereditary, and for the past several centuries a large amount of the government's rice crop has been used up in these allowances . . . which is truly a misfortune for the nation. . . . For the government to spend its revenues on them without getting any real use from them not only harms the nation but causes the samurai to doubt the government. . . . The people complain vehemently, and their minds are very disturbed. . . .

As the samurai have already surrendered political power to the new regime . . . it is due time that contracts concluded during the feudal era be canceled. . . . Since the annual revenue of the government is meant to be used for the nation's public purposes, especially at the present time when many many offices are to be equipped at once . . . useful state enterprises must be established and encouraged by making full use of economic measures in accordance with the national ability to do so. This is the basic principle of national economy. Despite this fact the government has always been in want of capital . . . because the government has divided

the revenue into three portions, and a third of it has been used for the payment of feudal fiefs and stipends. . . .

The first thing to be done is to regard all the fiefs and stipends of nobles, *samurai*, and even commoners, as debts of the government. In order to redeem these all within thirty years, government securities should be issued and, whether the fiefs were hereditary, lifetime, or for a limited term, the securities are to be limited according to the acts attached herewith. . . . An interest rate should be given annually of perhaps five, six, or seven percent according to par value, and the capital sum should be repaid (by the government) in the sixth year, as far as the means of the government allow. . . .

At that time, it is obvious that upon receiving all at once an enormous amount of money equivalent to several years payment . . . those who wish to pursue their own livelihood can go into the appropriate enterprise. . . . Even those who cannot make up their minds will take into account that there is now a limit to their funds, and in the end plan some way to support themselves. In this way the accumulated customs of several hundred years will all at once be changed, terminating the abuse of providing for a useless group with valuable assets, and succeeding instead in making a useless group occupy itself in useful occupations.

In addition, at present there are many bankruptcies among our major merchants and businessmen, causing the circulation of currency to slow nationally, and drying up the source of capital. At this time, if the above measures were put into effect, these evils would be readily remedied, simply by issuing government securities for approximately 150 million yen or more. [In the 1870s, the yen was equal to one U.S. silver dollar, so this was a huge sum—ed.] It would serve in a positive way to create better currency circulation, and would kill two birds with one stone. I therefore humbly propose the above along with a draft of the decree, the acts concerned, and other materials attached herewith.

Toshimichi Ōkubo

Toshimichi Ōkubo created the Ministry of the Interior and set up the Industrial Promotion Board (Kangyo Ryo), precursor of today's Ministry of International Trade and Industry (MITI).

His main writings deal with 1) industrialization and the building of government model factories; 2) promoting exports and improving their quality; 3) development and construction of a merchant marine; 4) expansion of government credits to industry; and 5) increasing agricultural productivity, improving education, and fostering land reclamation.

His praise of England's "protectionism" here is half diplomacy and half tongue-in-cheek, for Ōkubo was not only clearly an American protectionist, but he describes dirigist laws promulgated in England during the Tudor Renaissance of the sixteenth century, long before Britain was occupied by Venice and became the free trade capital of the world.

Ōkubo founded the Tomioka Silk Mill in 1872, the first state-owned factory in Japan, with the assistance of Phillippe Brunat, a textile expert sent to Tokyo by the French government to train Japanese engineers and workers in mechanical reeling and other textile machinery construction and operation.

Proposal of Toshimichi Ōkubo, "Concerning Industrial Enterprises for Increasing Production," May 1874:

Generally speaking, a country's strength depends on the wealth or poverty of its people, and the latter is closely related to the volume of national production. The volume of production originates in the industriousness of the people, but if we go back to the true source of that strength, we find that no industry has ever been independent of the guidance and encouragement of the government and its officials. If I may say so, imperial prosperity grew between 1868 and 1873, and the evil customs and old abuses which had for some hundreds of years been deeply entrenched, were thoroughly eradicated, with not a trace left. . . . Since that time, the various strong points of other countries have been studied widely . . . and rapid progress has been made in civilization.

Nothing is more urgent for the government at this time, than the promotion of industry and trade, the provision of the essentials for the population. By essentials, I mean the means of production. Without such productive assets at hand, everyone, high or low, scrambles for his means of subsistence, leaving no time to care for anything else. . . . Looking at the present situation, we see that . . . the people still lack the essentials for producing prosperity, and the government's encouragement of industry is inadequate. Those who are responsible for the people should ponder this carefully, then establish methods for procuring everything necessary for the maintenance of the population, from the profits of industrial products, to the conveniences of land and water transport routes . . . and make this the core of the government's policies.

To cite an example, England is but a very tiny country. But being an island, possessing bays and ports and mineral resources, the government considered it their greatest duty to take advantage of these and use them to their fullest. The king and his subjects all have tried to use the advantages of the world's waterways to foster their domestic industries. They courageously passed a novel, special Navigation Act, which banned any imports of foreign goods, unless brought on British ships, and prohibited the use of foreign ships for transportation of goods between the country's ports. One purpose was to increase the number of British ships and to have the people become well-trained in navigation.

Another reason was to block in this way the haphazard intrusion of foreign goods, so as to protect and foster domestic industries. It has been many years since the measure was



Yukichi Fukuzawa, leader of the Meiroku Society and mastermind of the Meiji Restoration (see page 57).

taken, and now the number of ships has greatly increased. . . . Since then their industries have grown extremely prosperous and domestic products are now more than sufficient to meet domestic demands. At this point, they have removed the prohibition and allowed free trade.

There are many similar examples in other foreign countries of the governments properly protecting the people and encouraging their own industries. . . . We should not necessarily imitate slavishly what England has done. . . .

It is the duty of the ministers of the central government to lead and inspire our docile people to industriousness, and the endurance of hardships, in order to create industrialization. I request your Reverence to determine a policy, study the natural blessings of our country, and investigate which products are to be increased, and what kind of industries are to be encouraged and concentrated upon. The policy should be to initiate industrial enterprises for increasing production, by setting a standard appropriate to the people's temperament, and their level of knowledge. In this way no one will be indolent, none will be left without a fitting place to work; in this way the people would enjoy immense prosperity. If the people enjoy such prosperity the country will grow rich and powerful as a result. . . .

Encouraging industries for export

Proposal of Toshimichi Ōkubo, "Concerning the Need for Encouraging Industries for Export," 1875:

The natural resources of a nation are first developed by agriculture, and then by industries. However, if manufactured goods were bought and consumed only by the few, how could we promote agriculture and encourage industry? That which mediates between agriculture and manufacturing on one side, and consumers on the other and distributes the goods, is commerce. . . . Thus to promote agriculture and industry, we must expand the distributive system of commerce, so that there will be no bottlenecks.

Since the opening of ports in the country, trade with foreign countries has been mostly in the hands of foreign merchants, so that our merchants have not been free from domination by them. There are certainly a few who, starting out as very small merchants, have become involved in large-scale trading in Yokohama, but they rise and fall, one after another, and yet not one can possibly compete with foreign merchants, nor stay in the market.

One of the reasons is that they are not accustomed to trade with foreign countries. Another is that they have only such small capital, that they cannot survive for long. If they are not accustomed to trade with foreign countries, their outlook is inevitably narrow. If they do not possess sufficient funds, how can they think about long-term business? They, therefore, are apt to engage in narrowminded small tricks, or obtain good fortune by chance. As a result they are unable to escape domination by foreign merchants, and finally lose their entire fortune. . . .

If this continues, how can we some day have merchants who can sufficiently compete with foreign traders? We have recently been importing foreign goods, more than we export our own goods, so that the national power is in an endless process of losing, and our nation may, in the end, fall into bankruptcy if this trend continues.

Since 1868 the Imperial Court has realized this, and established an Office of Trade to promote commerce, and made government loans to several companies. But these have mostly failed to prosper in their business, and their willingness to improve is almost nil, so that the Ministry of Finance last year ordered them to repay the public funds loaned them.

Because our silkworm eggs and silk were the two products most desired abroad, the government established a system of standards, to suppress those of bad quality, and award those of high quality, for there were many of poor quality and many fakes. The government also introduced a reeling machine at the Tomioka Silk Mill, to raise the standards of the workers and protect and encourage the silk industry. But these measures were the objects of many complaints from foreigners, and the government was forced to abandon the project.

The cooperation of government and merchants, however, awoke the population to the necessity and convenience of such cooperative undertakings. As a result, hundreds of such companies have been established, and flourish today. The Tomioka Silk Mill has not yet been able to make ends meet,

but has served the purpose of enhancing the fame of our silk industry abroad, raising the quality of silk at home, and stimulating other private companies to set up reeling machines. . . .

[Ōkubo describes the recent bankruptcy collapse of the foreign-owned Onogumi silk traders near Tokyo, due to a "quick profit" mentality, which had caused mass unemployment in the Yokohama port area and a panic by Japan's private lenders, who were afraid to make loans for less than 40% annual interest rates—ed.] Thus the Onogumi affair affects not only the locale of its main office and branches but the entire country. The resulting financial collapse has now become the greatest obstacle to our foreign trade.

Our plan now consists in having our merchants ship, and sell, our exports by themselves, directly to foreign countries, freeing themselves from the control of foreign traders. The urgency for opening to our merchants a means to sell abroad is clear, but the current great financial difficulties make it most difficult to persuade them. If we hesitate, however, and lose this chance to expand in the American market, there will be no other such chance.

Thus it is that the government should now take the appropriate initiative for a while, to find a mechanism to sell our goods abroad, expanding this step by step, so that [this new mechanism] . . . shows its profit to our merchants. Of course, the government itself must not be involved in business. Hence, it must persuade a few companies to do so, loan them the capital to set up an agency in Yokohama, and let this agency contact companies in foreign countries to sell our goods. If this business progresses well, the government should encourage it to set up branches in foreign countries to expand. . . .

There are two problems commonly raised here. One is that since 1868, few companies for which the government has provided the investment funds have functioned well. The other is that such a project might conflict with the interests of private merchants in Yokohama, creating in the future a conflict between government and private profits. Having taken all this into consideration I assert, however, that whether an enterprise succeeds or not, is far more dependent upon *how* it is conducted, and the quality of men conducting it, than upon whether the capital comes from government or from private companies. . . .

One must invent the most careful and scrupulous ways to prevent conflict of interest. The government must clearly define the conduct of such businesses, and set all accounts and money transactions under the supervision of government officials. . . . Then, when in the future a stage is reached in which the business becomes so profitable that other companies become envious, the government should, since its plan will have been accomplished, then entrust the business to the private sector. I also therefore submit to you here, an outline of the means, methods, the amount of legal capital, and the aim of such an enterprise.